

SERVICE CORPORATION INTERNATIONAL

Form DEF 14A

April 18, 2005

OMB APPROVAL

OMB Number: 3235-0059  
Expires: February 28, 2006  
Estimated  
average burden  
hours per  
response 12.75

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

**Service Corporation International**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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**Service Corporation International**  
Proxy Statement and 2005 Annual Meeting Notice  
2005 Annual Meeting  
**Date:** Thursday, May 12, 2005  
**Time:** 10:00 a.m. Houston time  
**Place:** Newmark Group Auditorium  
American Funeral Service Training Center  
415 Barren Springs Drive  
Houston, Texas 77090

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Service Corporation International  
1929 Allen Parkway, P.O. Box 130548

Houston, Texas 77219-0548

April 18, 2005

Dear Shareholder,

As the owner of shares of Service Corporation International, please accept my invitation to attend the Company's Annual Meeting. It is scheduled for Thursday, May 12, 2005, at 10:00 a.m. Houston time in the auditorium of the American Funeral Service Training Center, 415 Barren Springs Drive, Houston, Texas. During the meeting, we will report on how our Company performed for its shareholders during 2004 and share with you our plans for the future. You will have an opportunity to ask questions, express your views, and meet members of SCI's executive team and Board of Directors.

As we approach this year's annual meeting, I would like to pay special tribute to Jack Finkelstein and James H. Greer, two valued members of our Board of Directors who are retiring as their latest terms of service come to a close. Jack Finkelstein has been associated with SCI from the earliest days of our founding, and his friendship and guidance have been invaluable to the Company's growth and development. Jim Greer has been a respected member of the Board since 1978, and we have benefited greatly from his ongoing wisdom and counsel. I know that their colleagues on the Board join me in thanking them for their many years of participation, and we wish them well in all of their future endeavors. I would also like to add my deep personal appreciation for the contribution of B.D. Hunter who, although he has retired from the Board, will stay involved with SCI on a consulting basis. Bud has been involved with the Company in numerous capacities since the 1960s, has served on the Board since the 1980s, and has provided invaluable support and expertise over the past few years in the role of Vice Chairman. We will continue to rely on his vision and talent as we move forward.

On behalf of the Board and our employees, I would like to express our appreciation for your continuing support. I look forward to greeting in person all shareholders who are able to attend our annual meeting.

Sincerely,

R. L. Waltrip

Chairman of the Board

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Service Corporation International  
1929 Allen Parkway, P.O. Box 130548  
Houston, Texas 77219-0548

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**May 12, 2005**

To Our Shareholders:

The Annual Meeting of Shareholders of Service Corporation International ( SCI or the Company ) will be held in the Newmark Group Auditorium, American Funeral Service Training Center, 415 Barren Springs Drive, Houston, Texas at 10:00 a.m. Houston time on May 12, 2005 for the following purposes:

1. To elect four nominees to the Board of Directors.
2. To approve the appointment of PricewaterhouseCoopers LLP as SCI 's independent accountants for the 2005 fiscal year.
3. To transact such other business that may properly come before the meeting.

Only shareholders of record at the close of business on March 22, 2005 are entitled to notice of and to vote at the Annual Meeting. A majority of the outstanding shares entitled to vote is required for a quorum.

It is important that your shares be represented at the Annual Meeting regardless of the size of your holdings. Whether or not you expect to attend the Annual Meeting in person, **we urge you to vote your shares at your earliest convenience in order to ensure a quorum at the meeting.** You can vote by signing, dating and returning the proxy card in the enclosed stamped envelope for which no additional postage is required if mailed in the United States. Submitting your proxy now will not prevent you from voting your shares at the meeting if you desire to do so, as your proxy is revocable at your option.

By Order of the Board of Directors,  
James M. Shelger  
Senior Vice President, General Counsel and Secretary  
Houston, Texas  
April 18, 2005

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(SERVICE CORPORATION INTERNATIONAL(R) LOGO)

**Service Corporation International**

1929 Allen Parkway

P.O. Box 130548

Houston, Texas 77219-0548

**PROXY STATEMENT**

**Proxy Voting: Questions & Answers**

**Q: Who is entitled to vote?**

**A:** Shareholders of record who held common stock of SCI at the close of business on March 22, 2005 are entitled to vote at the 2005 Annual Meeting. As of the close of business on that date, there were outstanding 310,161,861 shares of SCI common stock, \$1.00 par value ( Common Stock ).

**Q: What are shareholders being asked to vote on?**

**A:** Shareholders are being asked to vote on the following items at the 2005 Annual Meeting:

Election of four nominees to the Board of Directors; and

Approval of PricewaterhouseCoopers LLP as SCI's independent accountants for the fiscal year 2005.

The Company will also transact such other business as may properly come before the meeting. The affirmative vote of a majority of the total shares represented in person or by proxy and entitled to vote at the 2005 Annual Meeting is required for approval of each of the proposals.

**Q: How do I vote my shares?**

**A:** If you held Common Stock as a registered shareholder at the close of business on March 22, 2005, you can either vote by mail or in person at the Annual Meeting.

**Q: What if I want to vote in person at the Annual Meeting?**

**A:** The Notice of Meeting provides details of the date, time and place of the 2005 Annual Meeting, if you wish to vote in person.

**Q: What if I'd rather vote by mail?**

**A:** If you wish to vote by mail, simply sign and date the enclosed proxy and return it in the pre-stamped envelope provided. Each valid proxy received by the close of business on May 11, 2005 will be voted at the Annual Meeting by the persons named on the proxy card and in accordance with your instructions. If you complete and submit a proxy card without giving voting instructions, your shares will be voted as recommended by the Board of Directors.

**Q: How does the Board of Directors recommend voting?**

**A:** The Board of Directors recommends voting:

FOR each of the four nominees to the Board of Directors. Biographical information for each nominee is outlined in this Proxy Statement under Election of Directors ; and

FOR approval of PricewaterhouseCoopers LLP as SCI's independent accountants for the fiscal year 2005.

Although the Board of Directors does not contemplate that any nominee will be unable or unwilling to serve, if such a situation arises, the proxies that do not withhold authority to vote for directors will be voted for a substitute nominee(s) chosen by the Board.

**Q: If I give my proxy, how will my stock be voted on other business brought up at the Annual Meeting?**

**A:** By submitting your proxy card, you authorize the persons named on the proxy card to use their discretion in voting on any other matter properly brought before the Annual Meeting. At the date hereof, SCI does not know of any other business to be considered at the Annual Meeting.

**Q: Why is it important to send in my proxy card so that it is received on or before May 11, 2005?**

**A:** The Company cannot conduct business at the Annual Meeting unless a quorum is present. A quorum will only be present if a majority of the outstanding shares of SCI common stock as of March 22, 2005 is present at the meeting in person or by proxy. It is for this reason that we urge you to send in your completed proxy card(s) as soon as possible, so that your shares can be voted even if you cannot attend the meeting.

**Q: Can I revoke my proxy once I have given it?**

**A:** Yes. The enclosed proxy, even though executed and returned, may be revoked any time prior to the time that it is voted at the Annual Meeting by a later-dated proxy or by written notice of revocation filed with the Secretary, James M. Shelger. Alternatively, you can attend the Annual Meeting, revoke your proxy in person, and vote at the meeting itself.

**Q: How will the votes be counted?**

**A:** Each properly executed proxy received in time for the 2005 Annual Meeting will be voted as specified therein, or if a shareholder does not specify how the shares represented by his or her proxy are to be voted, such shares shall be voted for the nominees listed therein (or for other nominees as provided above), and for approval of the selection of PricewaterhouseCoopers LLP as the Company's independent accountants. Holders of SCI common stock are entitled to one vote per share on each matter considered at the Annual Meeting. In the election of directors, a shareholder has the right to vote the number of his or her shares for as many persons as there are to be elected as directors. Shareholders do not have the right to cumulate votes in the election of directors. Abstentions are counted towards the calculation of a quorum. An abstention has the same effect as a vote against a proposal, or in the case of the election of directors, as shares to which voting power has been withheld.

**Q: What if my SCI shares are held through a bank or broker?**

**A:** If your shares are held through a broker or bank, you will receive voting instructions from your bank or broker describing how to vote your stock. A "broker non-vote" refers to a proxy that votes on one matter, but indicates that the holder does not have the authority to vote on other matters. Broker non-votes will have the following effects at our Annual Meeting: for purposes of determining whether a quorum is present, a broker non-vote is deemed to be present at the meeting; for purposes of the election of directors and other matters to be voted on at the meeting, a broker non-vote will not be counted.

**Q: How does a shareholder communicate with the Board of Directors, committees or individual directors?**

**A:** Any shareholder may communicate with the Board of Directors, any committee of the Board, the non-management directors as a group or any director, by sending written communications addressed to the Board of Directors of Service Corporation International, a Board committee or such individual director or directors, c/o Corporate Secretary, Service Corporation International, 1929 Allen Parkway, Houston, TX 77019. All communications will be compiled by the Secretary of the Company and submitted to the Board of Directors (or other addressee) at the next regular Board meeting.

**Q: What is the Company's Web address?**

**A:** The SCI home page is [www.sci-corp.com](http://www.sci-corp.com). At the website, the following information is available for viewing. This information is also available in print to any shareholder who requests it.

Bylaws of SCI

Charters of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee





Corporate Governance Guidelines

Principles of Conduct and Ethics for the Board of Directors

Code of Conduct and Ethics for Officers and Employees

This Proxy Statement, the Notice of Annual Meeting of Shareholders and the enclosed proxy card are first being mailed to shareholders beginning on or about April 18, 2005.

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### ELECTION OF DIRECTORS

After the 2005 Annual Meeting, the Board of Directors will consist of eleven members and will be divided into three classes, each with a staggered term of three years. Messrs. Jack Finkelstein and James H. Greer are retiring from the Board at the 2005 Annual Meeting and Mr. B. D. Hunter retired from the Board in February 2005. At this year's Annual Meeting, shareholders will be asked to elect four directors to the Board. These Directors will be elected for three-year terms expiring in 2008. Set forth below are profiles for each of the four candidates nominated by the Nominating and Corporate Governance Committee of the Board of Directors for election by shareholders at this year's Annual Meeting.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE FOLLOWING NOMINEES.**

#### **Thomas L. Ryan**

*Age: 39                      Director Since: 2004 Term Expires:  
2008*

Mr. Ryan is President and Chief Executive Officer of SCI. He joined the Company in June 1996 and subsequently served in a variety of financial management roles until November 2000, when he was promoted to Chief Executive Officer of European Operations based in Paris, France. In July, 2002, Mr. Ryan was appointed President and Chief Operating Officer. In February 2005, he was promoted to Chief Executive Officer. Prior to joining SCI, Mr. Ryan was a certified public accountant with Coopers & Lybrand L.L.P. for more than eight years. Mr. Ryan holds a Bachelor of Business Administration degree from the University of Texas- Austin, is a member of the Young Presidents' Organization and maintains his accreditation as a certified public accountant.

*SCI Common Shares Beneficially Owned<sup>(1)</sup>: 743,097 <sup>(2)</sup>  
Other Directorships Currently Held: None*

#### **S. Malcolm Gillis**

*Age: 64                      Director Since: 2004 Term Expires:  
2008*

Malcolm Gillis, Ph.D., is a University Professor and former President of Rice University, a position he held from 1993 to June 2004. He is an internationally respected academician and widely published author in the field of economics with major experience in fiscal reform and environmental policy. Dr. Gillis has held professorships at Harvard and Duke Universities, and has served as a consultant to numerous U.S. agencies and foreign governments. Additionally, he has held memberships in many national and international committees, boards, and advisory councils. He holds Bachelor's and Master's degrees from the University of Florida and a Doctorate from the University of Illinois.

*SCI Common Shares Beneficially Owned: 9,798  
Other Directorships Currently Held: Introgen Therapeutics, Inc.*

(1) Details are provided in the footnotes to the table of director and officer shareholdings listed under Voting Securities and Principal Holders .

(2) Includes 543,332 shares which may be acquired by Mr. Ryan upon exercise of stock options exercisable within 60 days of March 22, 2005.

**Clifton H. Morris, Jr.**

*Age: 69                      Director Since: 1990 Term Expires:  
2008*

Mr. Morris has been Executive Chairman of AmeriCredit Corp. (financing of automotive vehicles) since July 2000, previously having served as Chief Executive Officer and President of that company. Previously, he served as Chief Financial Officer of Cash America International, prior to which he owned his own public accounting firm. He is a certified public accountant with 42 years of certification, a Lifetime Member of the Texas Society of Certified Public Accountants and an Honorary Member of the American Institute of Certified Public Accountants. Mr. Morris was instrumental in the early formulation and initial public offerings of SCI, Cash America International and AmeriCredit Corp., all of which are now listed on the New York Stock Exchange. From 1966 to 1971, he served as a Vice President in treasury or financial positions at SCI, returning to serve on the Company's Board of Directors in 1990. Mr. Morris was named 2001 Business Executive of the Year by the Fort Worth Business Hall of Fame. He is also an avid community volunteer, having served on the Community Foundation of North Texas, Fort Worth Chamber of Commerce and Fort Worth Country Day School.

*SCI Common Shares Beneficially Owned<sup>(1)</sup>: 94,283  
Other Directorships Currently Held: None*

**W. Blair Waltrip**

*Age: 50                      Director Since: 1986 Term Expires:  
2008*

Mr. Waltrip held various positions with SCI from 1977 to 2000, including serving as vice president of corporate development, senior vice president of funeral operations, executive vice president of SCI's real estate division, Chairman and CEO of Service Corporation International (Canada) Limited (a subsidiary taken public on The Toronto Stock Exchange) and Executive Vice President of SCI. Mr. Waltrip's experience has provided him with knowledge of almost all aspects of the Company and its industry with specific expertise in North American funeral/cemetery operations and real estate management. Since leaving SCI in 2000, Mr. Waltrip has been an independent investor, primarily engaged in overseeing family and trust investments. Mr. Waltrip is the son of SCI's founder, R. L. Waltrip.

*SCI Common Shares Beneficially Owned<sup>(1)</sup>: 2,526,258 <sup>(2)</sup>  
Other Directorships Currently Held: Sanders Morris Harris Group Inc.*

<sup>(1)</sup> Details are provided in the footnotes to the table of director and officer shareholdings listed under Voting Securities and Principal Holders .

<sup>(2)</sup> Includes 410,000 shares which may be acquired by Mr. W. Blair Waltrip upon exercise of stock options exercisable within 60 days of March 22, 2005.



**The following are profiles of the other continuing directors currently serving on the Board of SCI:**

**R. L. Waltrip**

*Age: 74*

*Director Since: 1962 Term Expires:*

*2006*

Mr. Waltrip is the founder and Chairman of the Board of SCI. 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 1960s, achieving cost efficiencies by pooling their resources. Since that time, he has grown SCI to a network of more than 1,600 funeral service locations, cemeteries and crematoria now operating in five countries. Mr. Waltrip took SCI public in 1969. He has provided leadership to the Company for over 40 years.

*SCI Common Shares Beneficially Owned<sup>(1)</sup>: 10,138,684 <sup>(2)</sup>*

*Other Directorships Currently Held: None*

**Alan R. Buckwalter, III**

*Age: 58*

*Director Since: 2003 Term Expires:*

*2007*

Mr. Buckwalter retired in 2003 as Chairman of J.P. Morgan Chase Bank, South Region after a career of over 30 years in banking that involved management of corporate, commercial, capital markets, international, private banking and retail departments. He served as head of the Banking Division and Leveraged Finance Unit within the Banking and Corporate Finance Group of Chemical Bank and Chairman and CEO of Chase Bank of Texas. Mr. Buckwalter has attended executive management programs at Harvard Business School and the Stanford Executive Program at Stanford University. He is also an avid community volunteer, serving on the Boards of Texas Medical Center, the American Red Cross (Houston chapter), St. Luke's Episcopal Health System and Baylor College of Medicine.

*SCI Common Shares Beneficially Owned<sup>(1)</sup>: 35,743*

*Other Directorships Currently Held: Plains Exploration and Production Company and BCM Technologies, Inc.*

**Anthony L. Coelho**

*Age: 62*

*Director Since: 1991 Term Expires:*

*2006*

Mr. Coelho was a member of the U.S. House of Representatives from 1978 to 1989. After leaving Congress, he joined Wertheim Schroder & Company, an investment banking firm in New York and became President and CEO of Wertheim Schroder Financial Services. From October 1995 to September 1997, he served as Chairman and

CEO of ETC w/tci, an education and training technology company that he established and subsequently sold. He served as general chairman of the presidential campaign of former Vice President Al Gore from April 1999 until June 2000. Since 1997, Mr. Coelho has worked independently as a business and political consultant. Mr. Coelho also served as Chairman of the President's Committee on Employment of People with Disabilities from 1994 to 2001.

*SCI Common Shares Beneficially Owned<sup>(1)</sup>: 82,797*

*Other Directorships Currently Held: Cyberonics, Inc. and Universal Access Global Holdings Inc.*

<sup>(1)</sup> Details are provided in the footnotes to the table of director and officer shareholdings listed under Voting Securities and Principal Holders .

<sup>(2)</sup> Includes 8,487,003 shares which may be acquired by Mr. R. L. Waltrip upon exercise of stock options exercisable within 60 days of March 22, 2005.



**A.J. Foyt, Jr.**

Age: 70                      Director Since: 1974 Term Expires:  
2006

Mr. Foyt achieved prominence as a racing driver who was the first four-time winner of the Indianapolis 500. His racing career spanned four decades and three continents North America, Europe and Australia. Since his retirement from racing in 1994, Mr. Foyt has engaged in a variety of commercial and entrepreneurial ventures. He is the President and owner of A. J. Foyt Enterprises, Inc. (assembly, exhibition and competition with high-speed engines and racing vehicles), and has owned and operated car dealerships that bear his name. He has also been involved in a number of commercial real estate investment and development projects, and has served as a director of a Texas bank.

*SCI Common Shares Beneficially Owned<sup>(1)</sup>: 119,684*  
*Other Directorships Currently Held: None*

**Victor L. Lund**

Age: 57                      Director Since: 2000 Term Expires:  
2007

From May 2002 to December 2004, Mr. Lund served as Chairman of the Board of Mariner Healthcare, Inc. From 1999 to 2002, he served as Vice Chairman of the Board of Albertsons, Inc. prior to which he had a 22-year career with American Stores Company in various positions, including Chairman of the Board and Chief Executive Officer, Chief Financial Officer and corporate controller. Prior to that time, Mr. Lund was a practicing audit CPA for five years, held a CPA license and received the highest score on the CPA exam in the State of Utah in the year that he was licensed. He also holds an MBA and a BA in Accounting.

*SCI Common Shares Beneficially Owned<sup>(1)</sup>: 60,599*  
*Other Directorships Currently Held: Borders Group Inc., Del Monte Foods Company and NCR Corporation*

**John W. Mecom, Jr.**

Age: 65                      Director Since: 1983 Term Expires:  
2007

Mr. Mecom has been involved in the purchase, management and sale of business interests in a variety of industries. He has owned and managed over 500,000 acres of surface and mineral interests throughout the U.S. He has been involved in the purchase, renovation, management and sale of luxury hotels in the U.S., Peru and Mexico. He purchased the New Orleans Saints NFL team in 1967 and sold his interest in 1985. He is currently Chairman of the John W. Mecom Company, principal owner of John

Gardiner's Tennis Ranch and Chairman of the Board and principal owner of Rhino Pak (a contract blender and packer for the petroleum industry).

*SCI Common Shares Beneficially Owned<sup>(1)</sup>: 50,255*  
*Other Directorships Currently Held: None*

**Edward E. Williams**

*Age: 59*                      *Director Since: 1991 Term Expires:*  
*2006*

Dr. Williams holds the Henry Gardiner Symonds Chair (an endowed professorship) and is Director of the Entrepreneurship Program at the Jesse H. Jones Graduate School of Management at Rice University, where he teaches classes on entrepreneurship, value creation, venture capital investing, business valuations, leveraged buyouts and the acquisition of existing concerns. He has been involved in starting, buying and selling several hundred companies. Dr. Williams has been named by Business Week as the Number Two Entrepreneurship Professor in the United States. Dr. Williams holds a PhD with specialization in Finance, Accounting and Economics. He has taught finance, accounting, economics and entrepreneurship at the graduate level, has written numerous articles in finance, accounting, economics and entrepreneurship journals, has taught courses in financial statement analysis and continues to do academic research in his areas of specialty. He is the author or co-author of over 40 articles and nine books on business planning, entrepreneurship, investment analysis, accounting and finance.

*SCI Common Shares Beneficially Owned<sup>(1)</sup>: 220,415*  
*Other Directorships Currently Held: EQUUS II Incorporated*

<sup>(1)</sup> Details are provided in the footnotes to the table of director and officer shareholdings listed under Voting Securities and Principal Holders .

### **Board Composition and Meetings**

The Board of SCI is comprised of a majority of independent directors. The Audit, Compensation and Nominating and Corporate Governance Committees of the Board are all comprised entirely of directors who are independent within the meaning of Securities and Exchange Commission regulations and the listing standards of the New York Stock Exchange. The Board of Directors held six meetings in 2004. Each Board member attended at least 75% of the total number of meetings of the Board and Board committees on which he served. Although the Board does not have a policy on director attendance at annual meetings, thirteen Board members attended the Company's 2004 Annual Meeting of Shareholders.

#### *Consideration of Director Nominees*

The Nominating and Corporate Governance Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and shareholders. The Committee may also retain a third-party executive search firm to identify candidates. A shareholder who wishes to recommend a prospective nominee for the Board should notify the Company's Corporate Secretary in writing with whatever supporting material the shareholder considers appropriate. To be considered, the written recommendation from a shareholder must be received by the Company's Corporate Secretary at least 120 calendar days prior to the date of the Company's Proxy Statement for the prior year's Annual Meeting of Shareholders.

Once the Nominating and Corporate Governance Committee has identified a prospective nominee, the Committee will consider the available information concerning the nominee, including the Committee's own knowledge of the prospective nominee, and may seek additional information or an interview. If the Committee determines that further consideration is warranted, the Committee will then evaluate the prospective nominee against the standards and qualifications set out in the Company's Corporate Governance Guidelines, including:

- the prospective nominee's integrity, character and accountability;

- the prospective nominee's ability to provide wise and thoughtful counsel on a broad range of issues;

- the prospective nominee's financial literacy and ability to read and understand financial statements and other indices of financial performance;

- the prospective nominee's ability to work effectively as part of a team with mature confidence;

- the prospective nominee's ability to provide counsel to management in developing creative solutions and in identifying innovative opportunities; and

- the commitment of the prospective nominee to prepare for and attend meetings and to be accessible to management and other directors.

The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee expertise and the evaluations of other prospective nominees. After completing this process, the Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Committee.

*Director Independence*

In August 2003, the Board adopted its Corporate Governance Guidelines. The Guidelines incorporate the director independence standards of the New York Stock Exchange. The portion of the Guidelines addressing director independence is as follows:

3.1 Board Independence

The majority of the Board of Directors of SCI will be comprised of independent directors, meaning directors who have no material relationship with SCI (either directly or as a partner, shareholder, or officer of an organization that has a material relationship with SCI). In addition, the Audit, Compensation, and Nominating and Corporate Governance Committees of SCI will be comprised entirely of independent directors.

The Nominating and Corporate Governance Committee of SCI will review the independence of SCI's directors on an ongoing basis to ensure that Board and Board committee composition is consistent with these principles and with the rules of the New York Stock Exchange and/or other applicable rules.

Pursuant to the Guidelines, the Board undertook a review of director independence in February 2005. For this review, the Board considered the findings and recommendations of the Nominating and Corporate Governance Committee. The Board and the Committee considered transactions and relationships between each director or any member of his immediate family and the Company and its subsidiaries and affiliates, including those reported under Certain Transactions below.

As a result of this review, the Board affirmatively determined that all of the directors are independent of the Company and its management under the standards set forth in the Guidelines, with the exception of R. L. Waltrip, Thomas L. Ryan and W. Blair Waltrip. Messrs. R. L. Waltrip and Ryan are considered inside directors because of their employment as senior executives of the Company. Mr. W. Blair Waltrip is considered a non-independent director because he is the son of an executive officer, Mr. R. L. Waltrip.

**Board Committees**

**Name of Committee  
and Members**

**Functions of the Committee**

***Audit Committee***

Victor L. Lund (Chair)  
Alan R. Buckwalter, III  
Jack Finkelstein  
S. Malcolm Gillis  
Edward E. Williams

Assists the Board of Directors in fulfilling its oversight responsibilities to ensure the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent accountant's qualifications, independence and performance and the performance of the Company's internal audit functions.

Reviews the annual audited financial statements with SCI management and the independent accountants, including items noted under

Management's Discussion and Analysis of Financial Condition and Results of Operations and any major issues regarding accounting principles and practices. This includes a review of analysis by management and by the independent accountants of any significant financial reporting issues and judgments made in the preparation of the financial statements, including the effect of alternative GAAP methods.

Reviews SCI's quarterly financial statements with management and the independent accountants prior to the release of quarterly earnings and the filing of quarterly reports with the SEC, including the results of the independent accountants' reviews of the quarterly financial statements.

***Meetings In 2004***

Nine



**Board Committees (cont d)**

**Name of Committee  
and Members**

**Functions of the Committee**

***Audit Committee (Cont d)***

Reviews with management and the independent accountants the effect of any major changes to SCI's accounting principles and practices, as well as the impact of any regulatory and accounting initiatives on SCI's financial statements.

Oversees and reviews the performance and effectiveness of SCI's internal audit function.

Reviews the qualifications, independence and performance of the independent accountants annually and recommends the appointment or re-appointment of the independent accountants. The Audit Committee is directly responsible for the engagement, compensation and replacement, if appropriate, of the independent accountants.

Meets regularly with the independent accountants without SCI management present. Reviews with the independent accountants any audit problems or difficulties and management's responses to address these issues.

Meets with SCI management at least quarterly to review any matters the Audit Committee believes should be discussed.

Meets with SCI management and the independent accountants to review SCI's significant financial risks and steps management has taken to monitor and control such exposures.

Reviews with the Company's legal counsel any legal matters that could have a significant impact on the Company's financial statements.

Reviews and discusses summary reports from SCI's Careline, a toll-free number available to Company employees and customers to make anonymous reports of any complaints or issues regarding infringements of ethical or professional practice by any SCI employee regarding financial matters; discusses with SCI management actions taken in response to any significant issues arising from these summaries.

Beginning with fiscal year 2004, in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, the Audit Committee also reviews reports relative to the effectiveness of SCI's internal control over financial reporting, including obtaining and reviewing a report by the independent accountants regarding management's assertions on the effectiveness of SCI's internal control over financial reporting. The Audit Committee reviews any material issues raised by the most recent assessment of the effectiveness of SCI's internal control over financial

reporting or by any inquiry or investigation within the past five years,  
and any steps taken to deal with such issues.

**Board Committees (cont d)**

<b>Name of Committee and Members</b>	<b>Functions of the Committee</b>
<i>Nominating and Corporate Governance Committee</i>	<p>Oversees the composition of the Board of Directors of SCI and the Board committees, including the process for identifying and recruiting new candidates for the Board, developing a re-nomination review process for current Board members and considering nominees recommended by shareholders in accordance with the Company's bylaws.</p>
Anthony L. Coelho (Chair) Alan R. Buckwalter, III Victor L. Lund Clifton H. Morris, Jr. Edward E. Williams	<p>Makes recommendations to the full Board with respect to the nomination of candidates for Board membership and committee assignments for Board members, including the chairmanships of the Board committees.</p>
<i>Meetings In 2004</i> Six	<p>Provides leadership to the Board in the development of corporate governance principles and practices, including the development of Corporate Governance Guidelines and a Code of Business Conduct and Ethics.</p>
	<p>In conjunction with the full Board, oversees CEO succession planning and reviews succession plans for other SCI executives, including the development of both short-term (emergency) and long-term CEO succession plans, and leadership development planning. Monitors progress against these plans and reports to the full Board on this issue at least annually.</p>
	<p>Develops and leads the annual Board evaluation of the performance of the CEO and presents the results of this evaluation to the full Board for discussion and approval.</p>
	<p>With outside assistance, when needed, makes recommendations to the full Board with respect to compensation for Board members.</p>
	<p>Oversees the development of orientation programs for new Board members in conjunction with SCI's Chairman.</p>
	<p>Oversees continuing education sessions for SCI directors. This includes monitoring various director education courses offered by universities and other institutions, making recommendations to the Board as to which of these might be most useful to attend, and developing other education initiatives that may be practical and useful to Board members, including development of a program for Board member visits to SCI sites and facilities.</p>
	<p>Oversees and implements the annual process for assessment of the performance of SCI's Board as a whole and of the Nominating and</p>



Corporate Governance Committee, and coordinates the annual performance assessment of the Audit, Compensation and Investment Committees.

The Committee Chair presides at executive sessions of non-management directors held during every SCI Board meeting.

**Board Committees (cont d)**

<b>Name of Committee and Members</b>	<b>Functions of the Committee</b>
<p><b><i>Investment Committee</i></b></p> <p>Edward E. Williams (Chair) Jack Finkelstein S. Malcolm Gillis John W. Mecom, Jr. W. Blair Waltrip</p>	<p>Establishes guidelines and polices for the investment of trust funds held by independent trusts (the Trusts ). The Trusts consist of funds collected by SCI relating to preneed funeral sales, to preneed cemetery merchandise and services sales and to cemetery perpetual care collections, in accordance with applicable state laws. These funds are then deposited with a financial institution ( Trustee ) qualified to do business within that state s jurisdiction.</p>
<p><b><i>Meetings In 2004</i></b></p> <p>Five</p>	<p>Oversees the Trustees and whether the Trusts assets are prudently and effectively managed by the Trustees. The Investment Committee may replace a Trustee if it determines that the Trustee is not acting in the best interest of the Trust.</p> <p>Works in conjunction with the Investment Operating Committee of SCI, a committee comprised of senior SCI officers, which supports the Investment Committee by providing day-to-day oversight of the Trust funds. The Investment Committee s policies are implemented through the Investment Operating Committee of SCI.</p> <p>Appoints an investment consultant who reports directly to the Investment Operating Committee of SCI and the Trustees. The investment consultant screens and monitors performance of the mutual funds and investment managers; and makes recommendations to the Investment Operating Committee and Trustees relative to the engagement of mutual fund and/or investment managers. The investment consultant reviews the investment portfolios with the Investment Committee at least once a quarter. The information is then forwarded to the Trustees for their review.</p> <p>By law, the Trustees are ultimately responsible for all investment decisions. However, the Investment Committee recommends investment policies and guidelines, and the Investment Operating Committee recommends mutual fund and investment manager changes to the Trustees based on the advice of the investment consultant.</p>
<p><b><i>Compensation Committee</i></b></p> <p>Alan R. Buckwalter, III (Chair) Anthony L. Coelho James H. Greer John W. Mecom, Jr.</p>	<p>Oversees the compensation program for SCI s executive officers with a view to ensuring that such program attracts, motivates and retains executive personnel and relates directly to objectives of the Company and stockholders as well as the operating performance of the Company.</p> <p>Sets compensation for the CEO of SCI, and reviews and approves compensation for all other SCI executive officers, including base salaries, short and long-term incentive compensation plans and awards</p>

***Meetings In 2004***

Five

and certain benefits.

Oversees the design and implementation of incentive compensation and equity- based plans, including stock option and restricted stock awards. Conducts regular reviews of incentive compensation and equity-based plans, so as to create appropriate incentives for the achievement of individual and Company performance goals.

**Board Committees (cont d)**

**Name of Committee  
and Members**

**Functions of the Committee**

***Compensation Committee (Cont d)***

Determines appropriate individual and Company performance measures, including goals and objectives, to be used in reviewing performance for the purposes of setting compensation for the CEO and other executive officers as well as appropriate peer group companies to review for comparative purposes with respect to compensation decisions.

Presents recommendations to the Board with respect to any executive employment contracts for SCI's officers, including the Chairman and the CEO.

Retains, as appropriate, compensation consultants to assist the Committee in fulfilling its responsibilities. The consultants report directly to the Committee, which has sole authority to approve the terms of their engagement, including their fees.

***Executive Committee***

Has authority to exercise many of the powers of the full Board between Board meetings.

Robert L. Waltrip (Chair)  
Anthony L. Coelho  
Victor L. Lund  
Clifton H. Morris, Jr.  
Thomas L. Ryan

Is available to meet in circumstances where it is impractical to call a meeting of the full Board and there is urgency for Board discussion and decision-making on a specific issue.

***Meetings In 2004***

None

## **Director Compensation**

In May 2003, the Board of Directors acted upon the recommendation of the Nominating and Corporate Governance Committee and eliminated the payment of director fees to employee directors. For 2004, directors who are not employees (outside directors) received the fees discussed below.

### *Annual Retainer*

All outside directors receive an annual retainer of \$70,000, which is paid either in Common Stock of SCI or, at each director's option, deferred Common Stock equivalents. Common Stock is issued once a year on the date of the Annual Meeting of Shareholders, such that the amount of Common Stock or Common Stock equivalents issued on that day is equivalent to the cash value of the annual retainer. Accordingly, each outside director received 9,798 shares of Common Stock or deferred Common Stock equivalents in May 2004.

### *Meeting Fees*

In addition to the Annual Retainer, all outside directors receive \$10,000 for each Board meeting attended and receive a further attendance fee for each Committee meeting attended as follows: Audit Committee Chair \$6,000, each other committee chair \$5,000, Audit Committee members \$4,000, and each other committee member \$3,000. Directors may elect to defer all or any of these fees.

### *Directors' Retirement Plan*

Effective January 1, 2001, the Non-Employee Directors' Retirement Plan was amended such that only years of service prior to 2001 will be considered for vesting purposes. Non-employee directors who served on the Board prior to that time and were participants in the plan are entitled to receive annual retirement benefits of \$42,500 per year for ten years, subject to a vesting schedule, based on their years of Board service. Retirement benefits vest in 25% increments at the end of five, eight, eleven and fifteen years of credited service, except that the benefits vest completely in the event of death while the participant is still a member of the Board or in the event of a change of control of SCI (as defined in the plan).

### *Use of Company Aircraft*

Each outside director is allowed to make personal use of two aircraft leased by the Company under cancelable operating leases for a maximum of 25 flight hours per year. The director must reimburse the Company for any such usage at an hourly rate pursuant to a time-sharing agreement governed by Federal Aviation Regulations. The Company also values such usage on the basis of IRS guidelines. To the extent that the IRS valuation exceeds the amount reimbursed to the Company by the director, the difference is treated as income imputed to the director, which for 2004 amounted to: \$38,130 for Mr. Buckwalter, \$10,955 for Mr. Coelho, \$2,152 for Mr. Foyt, \$14,135 for Mr. Greer, \$9,858 for Mr. Lund, \$15,555 for Mr. Mecom, \$6,863 for Mr. Morris and \$12,220 for Mr. W. Blair Waltrip.

**PERFORMANCE GRAPH**

The following graph presents the Company's cumulative shareholder return over the period from December 31, 1999 to December 31, 2004. The Common Stock of the Company is compared to the S&P 500 Index and to a peer group selected by the Company (the Peer Group). The graph assumes \$100 is invested on December 31, 1999 in the Common Stock of the Company, the S&P 500 Index and the Peer Group Index. Investment is weighted on the basis of market capitalization. Total return data assumes the reinvestment of dividends.

*The data source for the following graph is Standard & Poor's.*

**Comparison of Cumulative Shareholder Return****1999-2004****TOTAL SHAREHOLDER RETURNS**

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
SCI	100.00	25.23	71.93	47.86	77.69	107.39
S&P 500 Index	100.00	90.90	80.09	62.39	80.29	89.03
Peer Group Index	100.00	135.53	170.63	142.90	185.21	189.74

The Peer Group is comprised of Alderwoods Group, Inc., Carriage Services Inc., Hillenbrand Industries, Inc., Matthews International Corp., Rock of Ages Corporation and Stewart Enterprises, Inc. Alderwoods Group, Inc. is included from January 1, 2002, when it emerged from bankruptcy.

## REPORT OF THE COMPENSATION COMMITTEE

### Compensation Philosophy and Objectives

SCI's compensation philosophy, and that of the Compensation Committee, is that all compensation programs should serve to:

link pay and performance; and

attract, motivate, reward and retain the broad-based management talent required to achieve corporate objectives. Components of the compensation program for SCI executives include base salaries, annual performance-based incentives and long-term incentives, details of which are outlined below. In 2004, SCI's executive compensation program focused on cash-based incentive awards linked to key performance measures and equity-based incentives linked to share price growth and implementation of strategic Company objectives.

### Base Salaries

Base salaries of executive officers listed in the summary compensation table in this proxy statement (the "Named Executive Officers") were not increased in 2004 other than in situations where an officer's base salary was judged to need adjustment to move closer to market levels. The two Named Executive Officers receiving such an adjustment were Messrs. Ryan and Webb.

#### *Comparison Group*

Base salaries of SCI's Named Executive Officers, as well as other officers, were reviewed by means of comparisons with published survey data representing companies of similar size to SCI (by revenues) across various industries (the "Comparison Group"). Regression analysis was used to derive compensation data from over 700 participating companies in the published survey. The Comparison Group used for compensation review purposes differs from the peer group used in the Performance Graph in this proxy statement. This is because the peer group companies all operate within SCI's industry but are either much smaller than SCI or are conglomerates with varied business units, making direct comparisons for compensation purposes impractical. While there is some overlap between these groups, there has been no attempt to link them.

#### *Findings*

Based on this review, it was determined that the current salary levels of incumbent Named Executive Officers fall between the 50th and 75th percentile levels of salaries of the Comparison Group. As this level of pay is consistent with the Committee's target base salary levels for compensation for all SCI executives, including the Named Executive Officers, we felt that there was no need to adjust current salary levels other than in instances where the executive's base salary needed to be raised to the approximate 50th percentile of the Comparison Group.

#### *Other Factors in Determining Salary Adjustments for Named Executive Officers*

In determining salary increases for the Named Executive Officers, the Committee considers market salary data and annual salary increases for executives with comparable positions within the Comparison Group. In addition, we consider individual performance of the Named Executive Officers. These criteria are assessed in a non-formula fashion and are not weighted.

All of the Named Executive Officers have employment agreements with SCI (see "Executive Employment Agreements"). These agreements provide that the base salaries of the Named Executive Officers cannot be decreased, but give the Committee the sole discretion to determine any salary increases.

## **Annual Performance-Based Incentive Compensation**

### *Philosophy*

Annual incentive opportunities are linked to the achievement of key financial and operational objectives for SCI on a consolidated basis. The objective of this policy is to focus SCI's executive officers on objectives that the Committee believes are primary determinants of share price over time.

### *Targets*

Target award levels for 2004 were set at approximately the 50th percentile level of the Comparison Group for the Named Executive Officers as a group. As such, if SCI achieved performance against the key measures at target levels, executive officers would receive incentive awards at this level. Actual awards are proportionately decreased or increased on the basis of SCI's performance relative to the targets, subject to maximum award amounts.

### *Performance Measures*

For 2004, two performance measures were used for the Named Executive Officers: free cash flow and earnings per share, in each case as defined in the plan. Each of these measures was weighted equally at target levels and assessed relative to SCI's 2004 business plan. Performance targets based on these measures were established by the Committee during the first quarter of 2004 for the performance period of January 1 through December 31, 2004. For operating officers, the two performance measures used were operating profit (75% weighting) and free cash flow (25% weighting).

### *Awards*

For 2004, SCI's actual performance on the performance measures was below target for earnings per share and slightly below target for free cash flow. Therefore, the actual bonuses shown in the summary compensation table were below target.

## **Long-Term Incentive Compensation**

In 2004, we modified the long-term incentive compensation program to provide a greater balance and focus for the Named Executive Officers. The program consists of equal value delivered for long-term incentives in the form of stock options, restricted stock and performance units to ensure appropriate focus is given to (i) driving the Company's stock price appreciation, (ii) managing the ongoing operations and strategy implementation and (iii) outperforming the total shareholder return of the Value Line's Diversified Industry Classification, a measurement utilized in our performance units.

To more timely communicate to shareholders the most recent grants to the Named Executive Officers, we have included the February 2005 grants of stock options, restricted stock and/or performance units in the 2004 Summary Compensation Table, the Stock Options Granted table, the Aggregated Option Exercises in Last Fiscal Year and December 31, 2004 Option Values table and the Long-Term Incentive Plan: Performance Units table. The following charts represent the most recent grants in 2005 and 2004 to Named Executive Officers, consistent with the balanced approach to long-term incentive awards as detailed above.



The actual awards for the total 2005 grants ranged from approximately the 40th to the 50th percentile of the Comparison Group. The actual awards for the total 2004 grants were made at approximately the 50th percentile of the Comparison Group.

#### 2005 Grants for 2004 Performance

Name	Stock Options Grant (Shares)	Restricted Stock Grant (Shares)	Performance Units Grant (Units)
R. L. Waltrip	150,200	72,000	562,500
B. D. Hunter*	0	0	0
Thomas L. Ryan	177,000	84,800	662,900
Michael R. Webb	101,900	48,800	381,700
Jeffrey E. Curtiss	48,300	23,100	180,800

\* In anticipation of Mr. Hunter's resignation in February 2005, the Committee elected not to grant him long term incentives. The increased grants for Mr. Ryan, in his role as President and Chief Executive Officer, and Mr. Webb, in his role as Chief Operating Officer, were based on market competitive grants.

#### 2004 Grants for 2003 Performance

Name	Stock Options Grant (Shares)	Restricted Stock Grant (Shares)	Performance Units Grant (Units)
R. L. Waltrip	102,000	88,000	626,000
B. D. Hunter	63,500	55,000	391,500
Thomas L. Ryan	57,500	49,500	352,000
Michael R. Webb	46,000	40,000	283,500
Jeffrey E. Curtiss	25,500	22,000	156,500

The options were granted at exercise prices equal to 100% of the fair market value of SCI Common Stock on the grant date. They vest at a rate of one-third per year and have an eight year term. The restricted stock grants vest at a rate of one-third per year. Our performance unit plan provides for units that are payable in cash at the end of the three year performance period beginning in the year granted. Each performance unit is valued at \$1.00 and the actual payout may vary by a range of up to 200% of the amounts shown in the tables.

#### Retention of Compensation Consultants

From time to time, we work with compensation consultants who assist in the design of various compensation plans and in the review of compensation levels and programs. Any compensation consultants retained for this purpose report directly to the Committee, which has the authority to approve the consultants' fees and any other terms of engagement.

#### Limitation of Tax Deduction for Executive Compensation

Subject to certain exceptions, the Omnibus Budget Reconciliation Act of 1993 ( OBRA ) prohibits publicly traded companies from receiving a tax deduction on compensation paid to Named Executive Officers in excess of \$1,000,000 annually. The Committee has not adopted a specific policy relating to OBRA. We consider the OBRA restrictions

when structuring executive compensation programs. However, we believe that tax deductibility should not be the sole consideration in setting appropriate compensation for SCI's senior management and maintaining management's focus on the goal of increasing shareholder value. As such, we view OBRA as one of a number of factors that we consider in making compensation decisions.

**2004 Chief Executive Officer Compensation**

*Base Salary*

Mr. R. L. Waltrip received no base salary increase in 2004. The slight increase in salary for 2004 reflected in the Summary Compensation Table results from an extra payroll period occurring in 2004.

*Annual Performance-Based Incentive Compensation*

Mr. Waltrip received an annual incentive for 2004 of \$492,860, which was 64.8% of the target established by the Committee. The award was determined using the same factors used to award annual incentives for other Named Executive Officers, as described above. Mr. Waltrip's target annual incentive was set slightly below the 50th percentile of target annual incentives of the Comparison Group.

*Long-Term Incentive Compensation*

In February 2005, Mr. Waltrip received long-term incentive awards for 2004 performance as follows: 72,000 shares of restricted stock, stock options for 150,200 shares and 562,500 performance units. In February 2004, Mr. Waltrip received long-term incentive awards for 2003 performance as follows: 88,000 shares of restricted stock, stock options for 102,000 shares and 626,000 performance units. For each year, his target awards were established at approximately the Comparison Group 50th percentile.

COMPENSATION COMMITTEE

Alan R. Buckwalter, III (Chair)

Anthony L. Coelho

James H. Greer

John W. Mecom, Jr.

**CERTAIN INFORMATION WITH RESPECT TO OFFICERS AND DIRECTORS****Cash Compensation**

The following table sets forth information for the three years ended December 31, 2004 with respect to the Chief Executive Officer and the four other most highly compensated executive officers of the Company. The determination as to which executive officers were most highly compensated was made with reference to the amounts required to be disclosed under the Salary and Bonus columns in the table.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation(4)
		Salary	Bonus	Other Annual Compensation(1)	Awards(5) Stock Award(2)	Securities Restricted Underlying Long-Term Options(3)	Payouts	
R. L. Waltrip Chairman of the Board	2004	\$986,538	\$ 492,860	\$ 65,573	\$498,960	150,200	0	\$428,759
	2003	980,269	1,581,750	230,968	597,520	102,000	0	41,747
	2002	995,000	593,750	240,302	0	0	0	60,552
B. D. Hunter(6) Former Vice Chairman	2004	623,077	311,280	24,525	0	0	0	27,783
	2003	600,461	799,200	9,032	373,450	63,500	0	26,127
	2002	645,000	300,000	19,933	0	0	0	11,220
Thomas L. Ryan President and Chief Executive Officer	2004	541,440	272,370	23,651	587,664	177,000	0	14,058
	2003	440,673	599,400	14,019	336,105	57,500	0	12,402
	2002	305,250	212,500	10,123	0	100,000	0	11,379
Michael R. Webb Executive Vice President and Chief Operating Officer	2004	466,058	233,460	21,199	338,184	101,900	0	18,000
	2003	416,153	566,100	25,900	271,600	46,000	0	15,925
	2002	316,500	200,000	12,457	0	100,000	0	15,527
Jeffrey E. Curtiss Senior Vice President Chief Financial Officer Treasurer	2004	415,385	155,640	16,245	160,083	48,300	0	11,585
	2003	392,308	466,200	14,343	149,380	25,500	0	10,456
	2002	400,000	175,000	27,200	0	0	0	10,235

(1) Figures include executive perquisites and benefits, including, for 2004, \$24,562 for personal use of automobile and \$24,000 for tax and financial planning for Mr. R. L. Waltrip. For each of the other Named Executive Officers, the aggregate of the executive's perquisites and benefits in 2004 did not exceed the lesser of \$50,000 or 10 percent of the total of the executive's annual salary and bonus.

(2) Beginning in this Proxy Statement, we have changed our method for presenting grants of restricted stock and stock options to more timely present these types of compensation. As a result of this change, awards of restricted stock and stock options set forth in the table for 2004, 2003 and 2002 reflect awards granted, respectively, in February 2005, February 2004 and August 2002. The table does not show the following stock option grants of February 2002 for 2001 performance: Mr. Waltrip options for 1,000,000 shares, Mr. Hunter options for 600,000 shares,

Mr. Ryan options for 100,000 shares, Mr. Webb options for 100,000 shares, and Mr. Curtiss options for 250,000 shares.

- (3) At December 31, 2004, the number and value of unvested restricted stock holdings (including restricted stock awards made in February 2005) of the listed executives were as follows: Mr. R. L. Waltrip: 160,000 shares (\$1,192,000); Mr. Hunter 55,000 shares (\$409,750); Mr. Ryan: 134,300 shares (\$1,000,535); Mr. Webb: 88,800 shares (\$661,560); and Mr. Curtiss: 45,100 shares (\$335,995). Dividends paid on SCI common stock will also be paid on restricted shares. The restricted shares vest 1/3 on each anniversary of the grant date and will vest 100% in the event of certain terminations or a change of control (as defined in the Amended 1996 Incentive Plan). Mr. Hunter's 55,000 restricted shares vested 100% upon his resignation on February 9, 2005.
- (4) Consists of the following for 2004: \$410,026 for reimbursement of life insurance premium and related taxes (as described in Other Compensation below), \$2,533 for term life insurance and \$16,200 for Company contributions to the Company's 401(k) plan for Mr. R. L. Waltrip; \$14,583 for term life insurance and \$13,200 for Company contributions to the Company's 401(k) plan for Mr. Hunter; \$858 for term life insurance and \$13,200 for Company contributions to the Company's 401(k) plan for Mr. Ryan; \$1,800 for term life insurance and \$16,200 for Company contributions to the Company's 401(k) plan for Mr. Webb; and \$2,585 for term life insurance and \$9,000 for Company contributions to the Company's 401(k) plan for Mr. Curtiss.

(5) In 2004 and 2005, long-term incentives awarded by the Committee included cash performance units as described on page 22 under the caption Long-Term Incentive Plan: Performance Units. Any payout of such units will not occur until after the respective three year performance periods end.

(6) Mr. Hunter resigned as an officer and director of the Company on February 9, 2005. See the last paragraph under the subcaption Executive Employment Agreements below.

**Stock Options Granted**

The following table sets forth stock options granted in February 2005 for 2004 performance and in February 2004 for 2003 performance.

Name	Grant Date(1)	Number of SCI Shares	Underlying Options	% of Total Options Granted to Employees in Year of Grant	Price Per Share(2)	Expiration Date	Grant Date Present	Value(3)
R. L. Waltrip	02/08/05	150,200		12.87%	\$ 6.900	02/08/13		\$ 620,626
	02/10/04	102,000		15.49%	\$ 6.805	02/10/12		477,299
B.D. Hunter	02/10/04	63,500		9.64%	\$ 6.805	02/10/12		297,142
	02/08/05	177,000		15.16%	\$ 6.900	02/08/13		731,364
Thomas L. Ryan	02/10/04	57,500		8.73%	\$ 6.805	02/10/12		269,066
	02/08/05	101,900		8.73%	\$ 6.900	02/08/13		421,051
Michael R. Webb	02/10/04	46,000		6.98%	\$ 6.805	02/10/12		215,252
	02/08/05	48,300		4.14%	\$ 6.900	02/08/13		199,576
Jeffrey E. Curtiss	02/10/04	25,500		3.87%	\$ 6.805	02/10/12		119,325

(1) The stock options vest one-third on each anniversary of the grant date. Each option will also fully vest upon a change of control of the Company (as defined in the Amended 1996 Incentive Plan).

(2) The exercise price for all grants is the market price at the date of grant.

(3) The present value of the options is based on a present value model known as the Black-Scholes option pricing model. The choice of such valuation method does not reflect any belief by the Company that such a method, or any other valuation method, can accurately assign a value to an option at the grant date. The assumptions used for valuing the 2005 grants are: volatility rate of 63.68%; annual dividend yield of 1.5%; turnover rate of 3%; and risk free interest rate of 4.50%. The assumptions used for valuing the 2004 grants are: volatility rate of 63.82%; annual dividend yield of 0%; turnover rate of 3%; and risk free interest rate of 3.98%.

**Aggregated Option Exercises in Last Fiscal Year and December 31, 2004 Option Values**

Shares	Number of Shares Underlying Unexercised Options at	Value of Unexercised In-The-Money Options at
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Name	Acquired		December 31, 2004		December 31, 2004	
	on	Value	Exercisable	Unexercisable(1)	Exercisable	Unexercisable(1)
	Exercise	Realized				
R. L. Waltrip	0	NA	8,485,169	585,534	\$ 9,180,625	\$ 896,559
B. D. Hunter(2)	0	NA	2,400,000	263,500	6,836,220	496,878
Thomas L. Ryan	0	NA	475,832	316,168	1,415,836	340,682
Michael R. Webb	0	NA	526,832	234,568	1,415,836	298,888
Jeffrey E. Curtiss(3)	0	NA	866,666	157,134	2,476,405	229,193

(1) Includes stock options granted in February 2005.

(2) Mr. Hunter's stock options vested 100% upon his resignation on February 9, 2005.

(3) The options reported above for Mr. Curtiss include an option for 100,000 shares that Mr. Curtiss transferred to trusts for the benefit of certain family members, of which options Mr. Curtiss disclaims beneficial ownership.

**Long-Term Incentive Plan: Performance Units**

The following table shows information regarding cash performance units awarded the Named Executive Officers in February 2005 for 2004 performance, in February 2004 for 2003 performance and in February 2003 for 2002 performance.

Name	Number of Units(1)	Performance Period	Estimated Future Payouts Under Non-Stock Price Based Plan(2)		
			Threshold (\$)	Target (\$)	Maximum (\$)
R. L. Waltrip	562,500	1/1/05-12/31/07	\$ 106,875	\$ 562,500	\$ 1,125,000
	626,000	1/1/04-12/31/06	118,940	626,000	1,252,000
	2,000,000	1/1/03-12/31/05	380,000	2,000,000	3,000,000
B. D. Hunter	391,500	1/1/04-12/31/06	74,385	391,500	783,000
	1,000,000	1/1/03-12/31/05	190,000	1,000,000	2,000,000
Thomas L. Ryan	662,900	1/1/05-12/31/07	125,951	662,900	1,325,800
	352,000	1/1/04-12/31/06	66,880	352,000	704,000
	1,100,000	1/1/03-12/31/05	209,000	1,100,000	2,200,000
Michael R. Webb	381,700	1/1/05-12/31/07	72,523	381,700	763,400
	283,500	1/1/04-12/31/06	53,865	283,500	567,000
	900,000	1/1/03-12/31/05	171,000	900,000	1,800,000
Jeffrey E. Curtiss	180,800	1/1/05-12/31/07	34,352	180,800	361,600
	156,500	1/1/04-12/31/06	29,735	156,500	313,000
	500,000	1/1/03-12/31/05	95,000	500,000	1,000,000

(1) Each unit is valued at \$1.00.

(2) Actual payouts are a function of relative Total Shareholder Return (TSR) of SCI compared to TSR of a comparison group at the end of the three year period. The absolute TSR of SCI must be greater than zero to trigger a payout. If a payout is triggered, the minimum amount payable is set forth in the threshold column. If TSR of SCI is less than 15%, the maximum payout is target level. If TSR of SCI is greater than 15% but less than 30% the maximum payout is 150% of target. If TSR of SCI is 30% or greater the maximum award is 200% of target provided that no individual payout may exceed \$3 million.

**Retirement Plans***SCI Cash Balance Plan*

The SCI Cash Balance Plan is a defined benefit plan which was amended effective January 1, 2001 such that the Company would not make any further contributions under the plan after 2000. Each participant in the plan has an account which, until December 31, 2000, was credited each year that a participant qualified with a Company contribution (based on annual compensation and years of benefit service) and interest. Plan accounts continue to accrue interest and, for 2004, interest for each account was credited at the annual rate of 2.31%.

*Estimated Annual Benefits Payable at Age 65*

Name	Annual Benefit
R. L. Waltrip	\$ 118,852(1)



B. D. Hunter	28,884(1)
Thomas L. Ryan	9,157(2)
Michael R. Webb	21,168(2)
Jeffrey E. Curtiss	0

(1) Currently being paid.

(2) The estimated annual benefit amount assumes no contributions being made to the plan after December 31, 2000 and assumes interest being credited only until age 65.

At retirement or termination, the participant may elect to receive his or her vested benefit as a lump sum distribution, a monthly payout or a rollover to an IRA or other tax qualified plan. Normal Retirement Age is defined in the SCI Cash Balance Plan as (1) the date upon which a member attains age 65 or (2) in the case of an employee who becomes a member of the SCI Cash Balance Plan after the age of 60, it will be the fifth anniversary of the date that such member became a participant.

*Supplemental Executive Retirement Plan for Senior Officers*

In 2000, the Company amended the Supplemental Executive Retirement Plan for Senior Officers ( SERP for Senior Officers ) effective January 1, 2001. Under the amendment, no additional benefits will accrue and no employees shall become eligible to participate in the plan after 2000.

The SERP for Senior Officers is a non-qualified plan which covers executive officers and certain regional operating officers, including the Named Executive Officers. Benefits under the SERP for Senior Officers do not consist of compensation deferred at the election of participants. The amounts of benefits under the plan were previously set by the Compensation Committee from time to time. The Compensation Committee previously set guidelines such that the annual benefits would generally equal a percentage (75% for the CEO and lesser percentages for the other officers) of a participant's 1997 annual base salary and target bonus, with the benefits being reduced to the extent of the participant's benefits under Social Security and the SCI Cash Balance Plan. The participant will be entitled at age 60 to the annual payment of the full amount of his benefit; if his employment terminates earlier than age 60, he will be entitled to the annual payment of the amount of his benefit multiplied by a fraction of which the numerator is the participant's years of service and the denominator is the number of years from the participant's hire date until he reaches age 60.

Benefit payments will be made in the form of 180 monthly installments commencing at the later of severance of employment or the attainment of age 55. Prior to retirement, if a participant dies or in the event of a change of control of the Company (as defined in the SERP for Senior Officers), the Company will promptly pay to each beneficiary or participant a lump sum equal to the present value of the benefit that the participant would have been entitled to receive if he had continued to accrue benefit service from the date of death or the date of the change of control to the date of his 65th birthday. Participants may elect to begin receiving monthly benefits at age 55, while still employed, provided the participant gives written notice at least twelve months prior to the attainment of age 55. Such installments will be reduced for early commencement to reasonably reflect the time value of money.

The table below sets forth benefits for the Named Executive Officers.

**Annual Benefits under SERP for Senior Officers**

	<b>Estimated Annual Benefit at Age 60</b>
R. L. Waltrip	\$ 1,110,773(1)
B. D. Hunter	0
Thomas L. Ryan	18,968
Michael R. Webb	42,725
Jeffrey E. Curtiss	22,977

(1)

This is Mr. R. L. Waltrip's actual benefit which, pursuant to his election, is being paid in the form of monthly installments since January 1, 1995. During 2003, the Company prepaid to Mr. Waltrip the last 36 payments due to him under the plan.

The Compensation Committee is considering the addition of a supplemental retirement and deferred compensation plan for the Named Executive Officers and other officers for the purpose of providing a more competitive compensation package to be used for retention and recruitment of executive level talent. We anticipate that the plan will include annual contributions by the Company as well as allow for individual deferrals.

### **Executive Employment Agreements**

#### *Employment Agreement with the Chairman of the Board*

The Company has an executive employment agreement with Mr. R. L. Waltrip which expires December 31, 2006. The agreement provides for a base salary, which cannot be decreased but may be increased by the Compensation Committee in its sole discretion. As of March 22, 2005, the base salary for Mr. R. L. Waltrip was \$950,000. The terms of the agreement also provide that Mr. R. L. Waltrip shall have the right to participate in bonus and other compensation and benefit arrangements.

In the event of termination of employment due to disability or death, Mr. R. L. Waltrip or his estate will be entitled to receive any accrued and unpaid salary or other compensation, a pro rata portion (based on the portion of the year elapsed at the date of termination) of the highest bonus he received in the preceding three years and continuation of welfare plan benefits for five years. If he is terminated without cause or he voluntarily terminates for specified reasons generally relating to a failure by the Company to honor the terms of the employment agreement ( Good Reason ), he will be entitled to continuation of compensation and certain other benefits for the remaining term of his employment agreement. In the event of a change of control of the Company (as defined in the agreement), Mr. R. L. Waltrip will be entitled to terminate his employment for Good Reason, or without any reason during the 30-day period beginning one year after the change of control (the Window Period ), and receive a lump-sum payment equal to (a) any accrued and unpaid salary or other compensation plus (b) a pro rata portion (based on the portion of the year elapsed at the date of termination) of the highest bonus he received in the preceding three years plus (c) an amount equal to five times his base salary plus his highest recent bonus; further, he will be entitled to continuation of welfare plan benefits for the remaining term of his employment agreement. Upon termination of Mr. R. L. Waltrip's employment, he will be subject to a 10 year non-competition obligation; however, the Company will not be required to make any further payments to Mr. Waltrip for the non-competition obligation. If any payments under the executive employment agreement or under the benefit plans of the Company would subject Mr. R. L. Waltrip to any excise tax under the Internal Revenue Code, he will also be entitled to receive an additional payment in an amount such that, after the payment of all taxes (income and excise), he will be in the same after-tax position as if no excise tax had been imposed.

#### *Other Named Executive Officers*

The Company also has employment agreements with Messrs. Thomas L. Ryan, Michael R. Webb and Jeffrey E. Curtiss. These agreements have current terms expiring December 31, 2005. Annually, the Company may extend each agreement for an additional year unless notice of nonrenewal is given by either party. If such notice of nonrenewal is given by the Company or if notice is not given of the Company's decision to authorize renewal, the employment agreement will not be extended.

These agreements provide for base salaries, which cannot be decreased but may be increased by the Compensation Committee, and the right to participate in bonus and other compensation and benefit arrangements. As of March 22, 2005, the base salaries for Messrs. Ryan, Webb and Curtiss were \$800,000, \$575,000 and \$400,000, respectively. In the event of termination of employment due to disability or death, the executive or his estate will be entitled to receive (i) his salary through the end of his employment term, and (ii) a pro rata portion (based on the portion of the year elapsed at the date of termination) of the bonus the executive would have received if he had remained an employee through his employment term ( Pro Rated Bonus ). In the event of termination by the Company without cause, the executive will be entitled to receive two years salary, Pro Rated Bonus and continuation of health benefits for two years. In the event of a change of control of the Company (as defined in

the agreements), the executive will be entitled to terminate his employment for certain specified reasons during the two years following the change of control, and receive (i) a lump-sum payment equal to three times the sum of his annual salary plus his target bonus, (ii) a prorated target bonus, and (iii) continuation of health benefits for three years. If any payments under the employment agreement or under the benefit plans of the Company would subject the executive to any excise tax under the Internal Revenue Code, the executive will also be entitled to receive an additional payment in an amount such that, after the payment of all taxes (income and excise), he will be in the same after-tax position as if no excise tax had been imposed.

Upon termination of his employment, each executive will be subject, at the Company's option, to a non-competition obligation for a period of one year which the Company may extend for one additional year. If the Company elects to have the non-competition provisions apply, the Company will make payments to the executive during the non-competition period at a rate equal to his base salary at the time of termination, unless such termination was for cause or the executive terminates his employment (other than within twenty-four months after a change of control for certain specified reasons), in which case the executive will be bound by the non-competition provisions without the Company making the corresponding payments.

At the date of his resignation as an officer and director on February 9, 2005, Mr. B. D. Hunter had an employment agreement containing the terms outlined above. In connection with the resignation, Company subsidiaries, Mr. Hunter and a company of which Mr. Hunter is a principal (the Hunter company) agreed, among other things, that (i) his employment agreement was terminated, (ii) his stock options would continue in accordance with their terms, (iii) his restricted stock grant became vested in accordance with its terms, (iv) his units under the Company's 2003 and 2004 performance unit plans became vested on a pro rata basis in accordance with their terms, and (v) he remained a participant in the Company cash bonus incentive plan for 2004. In addition, it was agreed, among other things, that the Hunter company will provide Mr. Hunter's consulting services for a five year term during which the Hunter company will be paid \$91,667 per month during the first thirty-six months and \$50,000 per month during the remaining twenty-four months. In the last twenty-four month period, Mr. Hunter is not required to devote more than 20 hours per week performing consulting services. The consulting period may be extended up to three additional one-year periods at the option of the Company. During the consulting period, Mr. Hunter and the Hunter company are subject to non-competition obligations. Mr. Hunter will be reimbursed for all reasonable expenses in connection with his consulting services.

#### **Other Compensation**

Mr. R. L. Waltrip and certain other officers participate in the Split Dollar Life Insurance Plan, under which they are owners of life insurance policies. Mr. R. L. Waltrip's policy provides a death benefit of \$2,000,000. In December of 2003, the Split Dollar Life Insurance policies of Mr. Waltrip and certain other officers were changed to an arrangement whereby the individuals now pay the premiums and the Company provides a bonus to offset the premiums and related taxes. As part of the conversion to the Company bonus plan, the policies were restructured and allow the Company to receive its interest in the policies (representing the cumulative premiums paid by the Company prior to July 31, 2002).

#### **Compensation of Directors**

The compensation of directors is described under "Election of Directors" "Director Compensation" herein above.

#### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

Board members who served on the Compensation Committee during 2004 were Messrs. Alan R. Buckwalter, III, Anthony L. Coelho, James H. Greer, and John W. Mecom, Jr. No member of the Compensation Committee in 2004 or at present was or is an officer or employee of the Company or any of its subsidiaries, or was formerly an officer of the Company or any of its subsidiaries or had any relationships requiring disclosure by the Company.

### CERTAIN TRANSACTIONS

For 2004, SCI paid \$132,435 in compensation to Mr. Kevin Mack in his capacity as an employee of the Company. Mr. Mack is the brother of Mr. Stephen M. Mack, Senior Vice President Middle Market Operations of the Company. For 2004, SCI paid \$151,954 in compensation to Mr. David Warren in his capacity as an employee of the Company. Mr. Warren is the stepson of Dr. Edward E. Williams, a director of the Company.

At the date of his resignation as Executive Vice President of the Company on January 18, 2000, Mr. W. Blair Waltrip had a three year employment agreement with the Company. In connection with the resignation, SCI modified Mr. W. Blair Waltrip's employment agreement and agreed to provide Mr. W. Blair Waltrip, among other things, continuation of his Company stock options in accordance with their terms. In connection with the modification of the employment agreement, the Company elected to enforce Mr. W. Blair Waltrip's post-employment non-competition obligations for the period from January 1, 2003 until December 31, 2005, during which the Company has and will make non-competition payments of \$475,000 per year. Pursuant to the foregoing, the Company paid for or to Mr. W. Blair Waltrip \$475,000 for 2004. Additionally, Mr. W. Blair Waltrip receives remuneration as a director of the Company. In 1996, the family of Mr. Sumner James Waring, III, Vice President Major Market Operations, sold its business to SCI. In the transaction, Mr. Waring's father entered a noncompetition agreement under which the Company pays him \$100,000 per year for ten years. Mr. Waring's father also has a Consulting Agreement expiring in 2005 under which the Company paid him fees (and an automobile allowance) of \$88,500 for 2004. In addition, Mr. Waring's father and mother own a company that leases an office building to SCI under a lease expiring in 2005 and providing for rent of \$63,600 in 2004 and \$65,400 in 2005. Mr. Waring's father and mother also own a company that leases funeral homes to SCI under a lease expiring in 2016, for which the Company paid rent of \$200,000 in 2004. In August 2004, Mr. Waring relocated from California to Houston at the Company's request, and the Company reimbursed him \$27,799 for relocation expenses.

Barrow, Hanley, Mewhinney & Strauss, Inc. ( BHMS ) is a holder of more than 5% of the outstanding shares of Common Stock of the Company. During 2004, BHMS was one of the investment managers of portfolios of independent trusts which hold funds collected from consumers in connection with preneed funeral sales and preneed cemetery sales. The process by which such portfolio managers are chosen and overseen is outlined above under the section entitled Board of Directors Board Committees Investment Committee . During 2004, BHMS managed on average approximately \$97,263,000 for such trusts and was managing approximately \$100,907,000 at the end of 2004. Such trusts are prohibited from investing in SCI stock or other SCI securities. For such services, the trusts paid fees of \$319,519 to BHMS for 2004. It is expected that BHMS will continue to act as an investment manager for such trusts during 2005.

Marsh & McLennan Companies, Inc. ( MMC ) is a holder of more than 5% of the outstanding shares of Common Stock of the Company. In 2004, Marsh Inc., a subsidiary of MMC, acted as agent for the Company in its purchase of (i) aviation insurance at a gross premium of \$160,480, from which MMC received a commission of \$24,072, and (ii) surety bonds relating to preneed sales in the Company's funeral home and cemetery businesses for a gross premium of \$45,524, from which MMC received a commission of \$1,592. Further in 2004, the Company paid \$34,060 to a subsidiary of MMC for quality assurance software and support. In addition, Mercer Delta, another subsidiary of MMC, provided consulting services to SCI and to the Company's Board of Directors on various corporate governance initiatives for which MMC received consulting fees of \$41,032 in 2004. It is expected that MMC subsidiaries will continue to provide services in 2004.

**VOTING SECURITIES AND PRINCIPAL HOLDERS**

The table below sets forth information with respect to any person who is known to the Company as of March 22, 2005 to be the beneficial owner of more than five percent of the Company's Common Stock.

Name and Address of Beneficial Owner	Amount Beneficially Owned	Percent of Class
Barrow, Hanley, Mewhinney & Strauss, Inc. One McKinney Plaza 3232 McKinney Avenue, 15th Floor Dallas, Texas 75204-2429	31,954,200(1)	10.3%
Brandes Investment Partners LP, Brandes Investment Partners, Inc., Brandes Worldwide Holdings, L.P., Charles H. Brandes, Glenn R. Carlson and Jeffrey A. Busby 11988 El Camino Real, Suite 500 San Diego, California 92130	24,724,393(2)	8.0%
Putnam, LLC., Marsh & McLennan Companies, Inc., Putnam Investment Management, LLC and The Putnam Advisory Company, LLC One Post Office Square Boston, Massachusetts 02109	25,802,074(3)	8.3%
Vanguard Windsor Funds Vanguard Windsor II ( Windsor ) 100 Vanguard Blvd Malvern, Pennsylvania 19355	26,080,100(4)	8.4%

- (1) Based on a filing made by Barrow, Hanley, Mewhinney & Strauss, Inc. on February 8, 2005, which reported sole voting power for 78,800 shares, shared voting power for 31,875,400 shares, sole investment power for 31,954,200 shares and shared investment power for no shares. BHMS has informed the Company that the shares reported in the table as beneficially owned by BHMS include all 26,080,100 shares reported in the table as beneficially owned by Windsor, for whom BHMS is an investment manager.
- (2) Based on a filing made by the named companies and persons on February 14, 2005, which reported sole voting power for no shares, shared voting power for 17,703,310 shares, sole investment power for no shares and shared investment power for 24,724,393 shares.
- (3) Based on filings made by the named companies on February 11, 2005, which reported sole voting power for no shares, shared voting power for 842,371 shares, sole investment power for no shares and shared investment power for 25,802,074 shares.
- (4) Based on a filing made by Vanguard Windsor Funds Vanguard Windsor II on February 10, 2005, which reported sole voting power for 26,080,100 shares, shared voting power for no shares, sole investment power for no shares and shared investment power for 26,080,100 shares. BHMS has informed the Company that the shares reported in

the table as beneficially owned by BHMS include all 26,080,100 shares reported in the table as beneficially owned by Windsor, for whom BHMS is an investment manager.

The table below sets forth, as of March 22, 2005, the amount of the Company's Common Stock beneficially owned by each Named Executive Officer (except for Mr. B. D. Hunter who resigned February 9, 2005), each director and nominee for director, and all directors and executive officers as a group, based upon information



obtained from such persons. Securities reported as beneficially owned include those for which the persons listed have sole voting and investment power, unless otherwise noted.

Name of Individual or Group	Shares	Right to Acquire Ownership Under Options Exercisable	Percent of Class
	Owned(1)	Within 60 Days	
R. L. Waltrip	1,651,681(1)	8,487,003	3.1%
Thomas L. Ryan	199,765	543,332	*
Michael R. Webb	184,685	589,499	*
Jeffrey E. Curtiss	167,446(2)	958,500(2)	*
Alan R. Buckwalter	35,743(3)		*
Anthony L. Coelho	82,797		*
Jack Finkelstein	258,974(4)		*
A. J. Foyt, Jr.	119,684(5)		*
S. Malcolm Gillis	9,798		*
James H. Greer	113,070		*
Victor L. Lund	60,599		*
John W. Mecom, Jr.	50,255		*
Clifton H. Morris, Jr.	94,283(6)		*
W. Blair Waltrip	2,116,258(7)	410,000	*
Edward E. Williams	220,415		*
Executive Officers and Directors as a Group (23 persons)	5,676,230	15,321,867	6.5%

\* Less than one percent

- (1) Includes 468,384 shares held in trusts under which Mr. R. L. Waltrip's three children, as trustees, share voting and investment powers; Mr. R.L. Waltrip disclaims beneficial ownership of such shares. These shares are also included in the shares owned by Mr. W. Blair Waltrip. See Footnote (6). Also includes 530,133 shares held by trusts of which Mr. R. L. Waltrip is the trustee having sole voting and investment powers.
- (2) Shares Owned include 10,000 shares held in a revocable trust of which Mr. Curtiss is trustee and 94,312 shares held by a family limited partnership. Options include exercisable options for 100,000 shares held in trust for the benefit of certain family members. Mr. Curtiss disclaims beneficial ownership of the shares and options held in trust.
- (3) Includes 1,500 shares held by Mr. Buckwalter as custodian for family members. Mr. Buckwalter has sole voting and investment power for such shares and disclaims beneficial ownership of such shares.
- (4) Includes 244,105 shares held in trusts for the benefit of other family members and/or himself. As trustee, Mr. Finkelstein has sole voting and investment power with respect to 153,571 shares and shared voting and investment power with respect to 90,534 shares. Mr. Finkelstein disclaims beneficial ownership as to 90,534 shares held in such trusts.

- (5) Includes 17,885 shares held by Mr. Foyt as custodian for family members. Mr. Foyt has sole voting and investment power for such shares and disclaims beneficial ownership of such shares. Also includes 200 shares owned by Mr. Foyt's wife.
- (6) Includes 4,034 shares owned by Mr. Morris's wife. Mr. Morris disclaims beneficial ownership of such shares.
- (7) Includes 152,204 shares held in a trust for the benefit of Mr. W. Blair Waltrip, 1,072,224 shares held in trusts under which Mr. W. Blair Waltrip, his brother and his sister are trustees and have shared voting and investment power and for which Mr. W. Blair Waltrip disclaims 2/3 beneficial ownership. Also includes 105,357 shares held by other family members or trusts, of which shares Mr. W. Blair Waltrip disclaims beneficial ownership. Of the shares attributable to the trusts, 468,384 shares are also included in the shares owned by Mr. R. L. Waltrip. See Footnote (1). Also includes 90,000 shares held by a charitable foundation of which Mr. Waltrip is President.

### **REPORT OF THE AUDIT COMMITTEE**

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities to ensure the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent accountant's qualifications, independence and performance and the performance of the Company's internal audit functions. The Audit Committee's functions are detailed in the section entitled "Board of Directors - Board Committees - Audit Committee" above. The Audit Committee Charter is available for viewing on the SCI's home page, [www.sci-corp.com](http://www.sci-corp.com), and is also available in print to any shareholder who requests it.

Each member of the Audit Committee is independent and financially literate, as defined by the New York Stock Exchange rules, and is limited to serving on no more than three audit committees. The Board of Directors has appointed, and the Audit Committee has acknowledged, Mr. Victor L. Lund, Chairman of the Audit Committee, as the Audit Committee Financial Expert as defined by the rules of the Securities and Exchange Commission.

The Audit Committee has reviewed and discussed the audited financial statements with management of the Company and with the independent accountants. Specifically, the Committee has discussed with the independent accountants the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards), as modified or supplemented. The Committee received a written disclosure letter from the Company's independent accountants as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as modified and supplemented. The Committee has also reviewed the independence of the independent accountants considering the compatibility of non-audit services with maintaining their independence from the Company. Based on the preceding review and discussions contained in this paragraph, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the 2004 fiscal year for filing with the Securities and Exchange Commission.

#### **AUDIT COMMITTEE:**

Victor L. Lund, Chair

Alan R. Buckwalter, III

Jack Finkelstein

S. Malcolm Gillis

Edward E. Williams

### **PROPOSAL TO APPROVE THE SELECTION OF INDEPENDENT ACCOUNTANTS**

The Audit Committee of the Board of Directors of the Company has recommended PricewaterhouseCoopers LLP (PricewaterhouseCoopers) to serve as the independent accountants for the Company for the fiscal year ending December 31, 2005. PricewaterhouseCoopers and its predecessors have audited the Company's accounts since 1993. A representative of PricewaterhouseCoopers is expected to be present at the Annual Meeting of Shareholders, will have the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions at such meeting. The Audit Committee wishes to submit the selection of PricewaterhouseCoopers for shareholders' approval at the Annual Meeting. If the shareholders do not give approval, the Audit Committee will reconsider its selection.

#### **Audit Fees and All Other Fees**

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services, and other services performed by the independent auditor. The policy permits the Audit Committee to grant pre-approval for specifically defined audit and non-audit services.

*Audit Fees*

Fees for audit services totaled \$6,651,942 in 2004 and \$2,663,622 in 2003, including fees associated with the annual audit and for compliance with Section 404 of the Sarbanes-Oxley Act, the reviews of the Company's quarterly reports on Form 10-Q, and statutory audits required internationally.

*Audit Related Fees*

Fees for audit related services totaled \$-0- in 2004 and \$2,264,160 in 2003. Audit related services in 2003 were related to due diligence performed in connection with the disposition of international operations.

*Tax*

Fees for tax services, including tax compliance, tax advice and tax planning, totaled \$207,450 in 2004 and \$197,133 in 2003. Fees for tax services in both years were primarily related to compliance work in the Company's international operations.

*All Other Fees*

Fees for all other services not described above totaled approximately \$2,800 in 2004 and \$806,577 in 2003. The 2004 amount was a licensing fee for a research data base, and the fees paid in 2003 were related to restructuring advice for the Company's international operations.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR APPROVAL OF THE SELECTION OF PRICEWATERHOUSECOOPERS LLP AS THE INDEPENDENT ACCOUNTANTS OF THE COMPANY.**

**OTHER MATTERS**

**Section 16(a) Beneficial Ownership Reporting Compliance**

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company during its most recent fiscal year and Forms 5 and amendments thereto furnished to the Company with respect to its most recent fiscal year, and written representations from reporting persons that no Form 5 was required, the Company believes that all required Form 3, 4 and 5 reports for transactions occurring in 2004 were timely filed, except that Mr. James M. Shelger, Senior Vice President General Counsel, filed late one Form 4 in 2004 reporting one transaction in 2004.

**Proxy Solicitation**

In addition to solicitation by mail, further solicitation of proxies may be made by mail, facsimile, telephone, telegraph or oral communication following the original solicitation by directors, officers and regular employees of the Company who will not be additionally compensated therefor, or by its transfer agent. The expense of such solicitation will be borne by the Company and will include reimbursement paid to brokerage firms and other custodians, nominees and fiduciaries for their expenses in forwarding solicitation material regarding the Annual Meeting to beneficial owners. In addition, the Company has retained Georgeson Shareholder Communications Inc. to aid in the solicitation of proxies from shareholders generally in connection with the Annual Meeting of Shareholders. Such solicitations may be by mail, facsimile, telephone, telegraph or personal interview. The fee of such firm is not expected to exceed \$12,000 plus reimbursement for reasonable expenses.

**Other Business**

The Board of Directors of the Company is not aware of other matters to be presented for action at the Annual Meeting of Shareholders; however, if any such matters are properly presented for action, it is the intention of the persons named in the enclosed form of proxy to vote in accordance with their judgment.

**Submission of Shareholder Proposals**

Any proposal to be presented by a shareholder at the Company's 2006 Annual Meeting of Shareholders scheduled to be held on May 11, 2006 must be received by the Company by December 19, 2005, so that it may be considered by the Company for inclusion in its proxy statement relating to that meeting.

Pursuant to the Company's Bylaws, any holder of Common Stock of the Company desiring to bring business before the Company's 2006 Annual Meeting of Shareholders scheduled to be held on May 11, 2006 in a form other than a shareholder proposal in accordance with the preceding paragraph must give advance written notice in accordance with the Bylaws that is received by the Company, addressed to the Secretary, no earlier than January 11, 2006 and no later than January 31, 2006. Any notice pursuant to this or the preceding paragraph should be addressed to the Secretary of the Company, 1929 Allen Parkway, P.O. Box 130548, Houston, Texas 77219-0548.

To avoid unnecessary expense, please return your proxy regardless of the number of shares that you own. Simply date, sign and return the enclosed proxy in the enclosed business reply envelope. Thank you.

Service Corporation International

1929 Allen Parkway

P.O. Box 130548

Houston, Texas 77219-0548

April 18, 2005

*Service Corporation International  
1929 Allen Parkway  
P.O. Box 130548  
Houston, Texas 77219-0548*

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ð DETACH PROXY CARD HERE ð

Please mark, sign, date  
and  
return this proxy  
promptly  
using the enclosed  
envelope.

x

Votes MUST be indicated

(x) in Black or Blue ink.

1. ELECTION OF DIRECTORS. (The Board recommends a vote **FOR** **AGAINST** **ABSTAIN**  
**FOR all of the nominees).**

FOR  WITHHOLD  \*EXCEPTIONS   
ALL FOR ALL

2. Approval of the selection of     
PricewaterhouseCoopers LLP as the  
Company's independent accountants  
for fiscal 2005. (The Board  
**recommends**  
**vote FOR this proposal).**

Nominees: Thomas L. Ryan, S. Malcolm Gillis,  
Clifton H. Morris, Jr. and W. Blair Waltrip.

(INSTRUCTIONS: To withhold authority to vote for  
any individual nominee, mark the Exceptions box and  
write that nominee's name in the space provided  
below.)

\*Exceptions: \_\_\_\_\_

-

To change your address, please mark this box.

SCAN LINE

The undersigned acknowledges receipt of the Notice of Annual Meeting  
of Shareholders and of the Proxy Statement  
Please sign exactly as the name appears hereon. Joint owners should each  
sign personally. Where applicable, indicate your official position or  
representation capacity.

\_\_\_\_\_  
Date Share Owner sign here Co-Owner sign here

**SERVICE CORPORATION INTERNATIONAL**

**PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**For The Annual Meeting of Stockholders May 12, 2005**

The undersigned hereby appoints Robert L. Waltrip, Jeffrey E. Curtiss and James M. Shelger, and each or any of them as attorneys, agents and proxies of the undersigned with full power of substitution, for and in the name, place and stead of the undersigned, to attend the annual meeting of shareholders of Service Corporation International (the Company ) to be held in the Newmark Group Auditorium, American Funeral Service Training Center, 415 Barren Springs Drive, Houston, Texas 77090 on Thursday, May 12, 2005, at 10:00 a.m., Houston time, and any adjournment(s) thereof, and to vote thereat the number of shares of Common Stock of the Company which the undersigned would be entitled to vote if personally present as indicated below and on the reverse side hereof and, in their discretion, upon any other business which may properly come before said meeting. This Proxy when properly executed will be voted in accordance with your indicated directions. **If no direction is made, this proxy will be voted FOR the election of directors and FOR approval of the selection of PricewaterhouseCoopers LLP as the Company s independent accountants.**

**PLEASE VOTE, SIGN,  
DATE AND RETURN  
THIS  
PROXY CARD  
PROMPTLY USING THE  
ENCLOSED  
ENVELOPE.**

SERVICE CORPORATION INTERNATIONAL  
P.O. BOX 11270  
NEW YORK, N.Y. 10203-0270

(Continued and to be dated and signed on the reverse side.)