SERVICE CORPORATION INTERNATIONAL
Form DEF 14A
April 03, 2014

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 R
Filed by a Party other than the Registrant £

Check the appropriate box:

£Preliminary Proxy Statement
£Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
RDefinitive Proxy Statement
£Definitive Additional Materials
£Soliciting Material Pursuant to §240.14a-12
Service Corporation International
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
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RNo fee required.

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Service Corporation International

Proxy Statement and 2014 Annual Meeting Notice

2014 Annual Meeting

Date: Wednesday, May 14, 2014
Time: 9:00 a.m. Houston time
Place: Conference Center, Heritage I and II
Service Corporation International
1929 Allen Parkway
Houston, Texas 77019

Service Corporation International
1929 Allen Parkway, P.O. Box 130548
Houston, Texas 77219-0548 April 3, 2014

Dear Shareholder,

As an owner of shares of Service Corporation International, please accept my invitation to attend the Company's Annual Meeting of Shareholders. It is scheduled for Wednesday, May 14, 2014, at 9:00 a.m. Houston time in the Conference Center, Heritage I and II, Service Corporation International, 1929 Allen Parkway, Houston, Texas.

On behalf of the Board of Directors and all associates of the Company, we appreciate your continuing support. I look forward to greeting in person all shareholders who are able to join us at our Annual Meeting.

Sincerely,

R. L. Waltrip
Chairman of the Board

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
May 14, 2014

To Our Shareholders:
The Annual Meeting of Shareholders of Service Corporation International ("SCI" or the "Company") will be held in the Conference Center, Heritage I and II, Service Corporation International, 1929 Allen Parkway, Houston, Texas at 9:00 a.m. Houston time on May 14, 2014 for the following purposes:

1. To elect three nominees to the Board of Directors (the "Board").
2. To approve the appointment of PricewaterhouseCoopers LLP as SCI's independent registered public accounting firm for the 2014 fiscal year.
3. To approve, on an advisory basis, the named executive officer compensation.
4. Consideration of one shareholder proposal, if presented.

The Company will also transact such other business that may properly come before the meeting. Only shareholders of record at the close of business on March 17, 2014 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 are represented at the Annual Meeting regardless of the size of your holdings. Whether or not you expect to attend the Annual Meeting in person, please vote your shares at your earliest convenience in order to ensure a quorum at the meeting. Submitting your proxy now will not prevent you from voting your shares at the Annual Meeting if you desire to do so, as your proxy is revocable at your option.
By Order of the Board of Directors,

Gregory T. Sangalis
Senior Vice President, General Counsel and Secretary
Houston, Texas
April 3, 2014

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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 17, 2014 are entitled to vote at the 2014 Annual Meeting of Shareholders (the “Annual Meeting”). As of the close of business on that date, there were outstanding 213,493,983 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 Annual Meeting:

1. Election of four nominees to the Board of Directors.
2. Approval of PricewaterhouseCoopers LLP as SCI's independent registered public accounting firm for the 2014 fiscal year.
3. Consideration of an advisory vote to approve named executive officer compensation.
4. Consideration of one shareholder proposal, if presented.

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 Annual Meeting is required for approval of each of the proposals.
Q: How do I vote my shares?
A: You can vote your shares using one of the following methods:

- Vote through the internet at www.proxyvote.com using the instructions on the proxy or voting instruction card.
- Vote by telephone using the toll-free number shown on the proxy or voting instruction card.
- Complete, sign and return a written proxy card in the pre-stamped envelope provided.
- Attend and vote at the meeting.

Internet and telephone voting are available 24 hours a day, and if you use one of those methods, you do not need to return a proxy card. Unless you are planning to vote at the meeting, your vote must be received on or before May 13, 2014.
Even if you submit your vote by one of the first three methods mentioned above, you may still vote at the meeting if you are the record holder of your shares or hold a legal proxy from the record holder. Your vote at the meeting will constitute a revocation of your earlier voting instructions.
Q: What if I want to vote in person at the Annual Meeting?

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

Q: How does the Board of Directors recommend voting?

A: The Board of Directors recommends voting:

- FOR each of the three nominees to the Board of Directors. Biographical information for each nominee is outlined in this Proxy Statement under “Election of Directors”.
- FOR approval of PricewaterhouseCoopers LLP as SCI's independent registered public accounting firm for the 2014 fiscal year.
- FOR approval, on an advisory basis, of named executive officer compensation.
- AGAINST the shareholder proposal, if presented, regarding election of each director annually.

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, you authorize the persons named on the proxy card to use their discretion in voting on any other matters 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 vote via the internet or telephone, or send in my proxy card so that it is received on or before May 13, 2014?

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 17, 2014 is present at the meeting in person or by proxy. It is for this reason that we urge you to vote via the internet or telephone or 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. Your 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, Gregory T. Sangalis. 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 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, they will be voted (i) for the nominees listed therein (or for other nominees as provided above), (ii) for approval of the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm, (iii) for approval on an advisory basis of named executive officer compensation, and (iv) against the shareholder proposal. 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 for 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. If you do not vote your shares, your broker or bank does not have the discretion to vote your shares on the proposals, except that they have the discretion to vote your shares for approval of Pricewaterhouse Coopers LLP as SCI's independent registered public accounting firm for the 2014 fiscal year. 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 or interested party communicate with the Board of Directors, committees or individual directors?

A: Any shareholder or interested party 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, the non-management directors or such individual director or directors, c/o 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. At the website, the following information is available for viewing. The information below 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

Q: How can I obtain a copy of the Annual Report on Form 10-K?

A: A copy of SCI's 2013 Annual Report on Form 10-K is furnished with this proxy statement to each shareholder entitled to vote at the Annual Meeting. If you do not receive a copy of the Annual Report on Form 10-K, you may obtain one free of charge by writing to Investor Relations, P.O. Box 130548, Houston, Texas 77219-0548.

This Proxy Statement, the Notice of Annual Meeting of Shareholders and the enclosed proxy card are furnished to shareholders beginning on or about April 3, 2014.

PROPOSAL 1
ELECTION OF DIRECTORS

The Board of Directors consists of eleven members and is divided into three classes, each with a staggered term of three years. 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 2017. 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. Directors are elected by a majority of votes cast.

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

Thomas L. Ryan
Age: 48 Director Since: 2004 Term Expires: 2017
Mr. Ryan was elected Chief Executive Officer of Service Corporation International in February 2005 and has served as President of SCI since July 2002. Mr. Ryan joined the Company in 1996 and served in a variety of financial management roles until November 2000, when he was asked to serve as Chief Executive Officer of European Operations based in Paris, France. In July 2002, Mr. Ryan returned to the United States where he was appointed President and Chief Operating Officer of SCI. Before joining SCI, Mr. Ryan was a certified public accountant with Coopers & Lybrand LLP for eight years. He holds a bachelor's degree in business administration from the University of Texas at Austin. Mr. Ryan serves as Chairman of the Board of Trustees of the United Way of Greater Houston. Mr. Ryan also serves on the Board of Directors of the Greater Houston Partnership and the University of Texas McCombs Business School Advisory Council. The Board of Directors believes that Mr. Ryan should serve as a Director because of his extensive knowledge and experience related to the death care industry and the Company as well as his executive, accounting and business experience as described above.

SCI Common Shares Beneficially Owned (1): 4,145,236 (2)
Other Directorships in Last Five Years: Chesapeake Energy Corporation, Texas Industries, Inc. and Weingarten Realty Investors

Malcolm Gillis
Age: 73 Director Since: 2004 Term Expires: 2017
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 taught at Harvard and Duke Universities and has held named professorships at Duke and Rice Universities. He 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. The Board of Directors believes that Dr. Gillis should serve as a Director because of his academic, economic, financial and business knowledge as well as his executive experience as described above.

SCI Common Shares Beneficially Owned (1): 88,960
Other Directorships in Last Five Years: AECOM Technology Corporation, Electronic Data Systems Corp., Halliburton Co. and 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 2,935,400 shares which may be acquired by Mr. Thomas L. Ryan upon exercise of stock options exercisable within 60 days of March 17, 2014.

Clifton H. Morris, Jr.
Age: 78 Director Since: 1990 Term Expires: 2017

Mr. Morris is currently the Chairman and Chief Executive Officer of JBC Funding, LLC, a corporate lending and investment firm. From May 1988 to September 2010, Mr. Morris was the Chairman of AmeriCredit Corp. (financing of automotive vehicles), 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 51 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. From 1966 to 1971, he served as Vice President of treasury and other 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 and Fort Worth Country Day School. The Board of Directors believes that Mr. Morris should serve as a Director because of his executive, financial, investment and business experience as well as his accounting expertise as described above.

SCI Common Shares Beneficially Owned [(1)]: 188,227
Other Directorships in Last Five Years: AmeriCredit Corp.

W. Blair Waltrip
Age: 59 Director Since: 1986 Term Expires: 2017

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. The Board of Directors believes that Mr. Waltrip should serve as a Director because of his extensive knowledge and experience related to the death care industry and the Company as well as his executive and business experience as described above.

SCI Common Shares Beneficially Owned [(1)]: 1,723,304
Other Directorships in Last Five Years: Sanders Morris Harris Group, Inc.

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

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

R. L. Waltrip
Age: 83 Director Since: 1962 Term Expires: 2015

Mr. Waltrip is the founder and Chairman of the Board of SCI. He has provided invaluable leadership to the Company for over 50 years. A licensed funeral director, Mr. Waltrip grew up in his family's funeral business and assumed management of the firm in the 1950s. He began buying additional funeral homes in the 1960s and achieved significant cost efficiencies through the “cluster” strategy of sharing pooled resources among numerous locations. At the end of 2013, the network he began had grown to include more than 2,100 funeral service locations and cemeteries. Mr. Waltrip took SCI public in 1969. Mr. Waltrip holds a bachelor's degree in business administration from the University of Houston. The Board of Directors believes that Mr. Waltrip should serve as a Director because of his extensive knowledge and experience related to the death care industry and the Company as well as his executive and business experience as described above.

SCI Common Shares Beneficially Owned [(1)]: 3,370,441 [(2)]
Other Directorships in Last Five Years: None

Alan R. Buckwalter
Age: 67 Director Since: 2003 Term Expires: 2016

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 earned a Bachelor of Science degree from Fairleigh Dickinson University. Mr. Buckwalter has attended executive management programs at Harvard Business School and the Stanford Executive Program at Stanford University. He is a Board member of the National Association of Corporate Directors (Houston chapter). He is also an avid community volunteer, serving on the Boards of Texas Medical Center, the American Red Cross (Houston chapter) and Central Houston. The Board of Directors believes that Mr. Buckwalter should serve as a Director because of his executive, banking, financial and business experience as described above.

SCI Common Shares Beneficially Owned [(1)]: 124,287
Other Directorships in Last Five Years: Freeport-McMoRan Copper & Gold Inc.

[(1)] Details are provided in the footnotes to the tables of director and officer shareholdings listed under “Voting Securities and Principal Holders”.
[(2)] Includes 1,592,066 shares which may be acquired by Mr. R. L. Waltrip upon exercise of stock options exercisable within 60 days of March 17, 2014.

Anthony L. Coelho
Age: 71 Director Since: 1991 Term Expires: 2015

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 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. He previously served as Chairman of the Board of the Epilepsy Foundation. The Board of Directors believes that Mr. Coelho should serve as a Director because of his political acumen and contacts as well as his executive, financial and business experience as described above.

SCI Common Shares Beneficially Owned (1): 60,918
Other Directorships in Last Five Years: Warren Resources, Inc.

Victor L. Lund
Age: 66 Director Since: 2000 Term Expires: 2016

From December 2006 to February 2012, Mr. Lund served as Chairman of the Board of DemandTec, Inc., a software company. 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. Mr. Lund currently serves on the Board of Directors of Teradata Corporation, an information technology corporation. Because of his experience, the Board of Directors believes that Mr. Lund should serve as a Director because he brings executive, accounting, financial, technology and corporate governance experience.

SCI Common Shares Beneficially Owned (1): 165,143
Other Directorships in Last Five Years: Borders Group, Del Monte Foods Company and Teradata Corporation

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

John W. Mecom, Jr.
Age: 74 Director Since: 1983 Term Expires: 2016

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 was also the principal owner of John Gardiner's Tennis Ranch until it was sold in 2011. Currently, Mr. Mecom is engaged primarily in the management of personal investments. The Board of Directors believes that Mr. Mecom should serve as a Director because of his varied executive, investment and business experience as described above.

SCI Common Shares Beneficially Owned (1): 110,754
Other Directorships in Last Five Years: None

Marcus A. Watts
Age: 55 Director Since: 2012 Term Expires: 2015

Effective January 1, 2011 Mr. Watts joined The Friedkin Group as President. The Friedkin Group serves as an umbrella company overseeing various business interests that are principally automotive related, including Gulf States Toyota, Inc., a wholesale distributor of Toyota vehicles and products. Prior to joining The Friedkin Group, Mr. Watts was Vice Chairman and Managing Partner-Houston of the 700-attorney law firm of Locke Lord LLP, with over 26 years of experience in corporate and securities law, governance and related matters. Mr. Watts served on the Board of Complete Production Services, Inc. from March 2007 until February 2012, at which time Complete Production Services, Inc. was acquired by Superior Energy Services. Mr. Watts currently serves on the board of a private real estate company, Highland Resources, Inc., and various civic and community boards including the Federal Reserve Bank of Dallas (Houston Branch), The Salvation Army of Greater Houston Advisory Board, United Way of Greater Houston and the YMCA of Greater Houston. The Board of Directors believes that Mr. Watts should serve as a Director because of his legal expertise as well as his executive and business experience as described above.

SCI Common Shares Beneficially Owned (1): 36,600
Other Directorships in Last Five Years: Complete Production Services, Inc.

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

Edward E. Williams
Age: 68 Director Since: 1991 Term Expires: 2015

Dr. Williams is Professor of Entrepreneurship and Statistics at Rice University where he has taught since 1978. He founded the entrepreneurship program at Rice, which has been rated in the top five both domestically and internationally for the past five years. In 2013, Rice was ranked the Number One Executive MBA entrepreneurship program in the world by the Financial Times of London. Dr. Williams organized this program in the year 2000 and has taught in it since its founding. Dr. Williams specializes in value creation, business valuations, leveraged buyouts, acquisitions, and the consolidation of fragmented industries. He has helped former students, both as a mentor and as an investor, acquire businesses in such areas as oil field services, manufacturing and real estate. Accordingly, Dr. Williams has been ranked as the Number Two Entrepreneurship Professor in the United States by BusinessWeek. Dr. Williams holds a Ph.D. with specializations in Finance, Accounting, and Economics with degrees from the Wharton School at the University of Pennsylvania and the University of Texas at Austin. He has published twelve books and numerous articles in his areas of expertise. Dr. Williams was one of the original critics of the Efficient Market Hypothesis in research papers and books in investment analysis going back over forty years. The Board of Directors believes Dr. Williams should serve as a Director because of his academic, economic, accounting, financial, investment, and business knowledge as described above.

SCI Common Shares Beneficially Owned [(1)]: 201,813
Other Directorships in Last Five Years: None

(1) 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 (“SEC”) regulations and the listing standards of the New York Stock Exchange. The Board of Directors held five meetings in 2013. 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, all Board members attended the Company's 2013 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 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 Secretary at least 120 calendar days prior to the anniversary of 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. Although the Guidelines do not specifically address diversity, the Committee considers diversity of experience, education, skills, background and other factors in the evaluation of prospective nominees. The Guidelines include the following:

- 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 with mature confidence as part of a team;
- 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 particular areas of 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 2013. 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.

Leadership Structure

Under the current leadership structure of the Board, the offices of Chairman of the Board and Chief Executive Officer are held by two people - R.L. Waltrip and Thomas L. Ryan, respectively. Prior to 2005, the two offices were held by Mr. R.L. Waltrip. In February 2005, the Board elected Mr. Ryan as Chief Executive Officer in accordance with the Company's succession plan to transfer day-to-day operational responsibilities. The Company believes this leadership structure remains appropriate because it vests operational leadership in a dynamic and talented leader who has significant knowledge of the deathcare industry. Further, this structure retains the leadership services and vision of Mr. Waltrip, the founder of the Company and the most recognized icon in the industry, who has provided invaluable leadership to the Company for over 50 years.

Risk Oversight

The Board of Directors has assigned to the Nominating and Corporate Governance Committee the quarterly oversight responsibility for the Company's enterprise risk management function. Management has the primary responsibility to identify risks and risk mitigation strategies and provides periodic reports to the Nominating and Corporate Governance Committee. The Audit Committee is responsible for oversight of major financial risks relating to the Company's accounting matters and financial reporting compliance. The Compensation Committee has oversight of the risk assessment of the Company's compensation programs. The Investment Committee has oversight of risks relating to the investment of trust funds. The Nominating and Corporate Governance Committee compiles risk assessments of the other committees and of management and periodically provides enterprise risk management reports to the Board.

Board Committees

NAME OF COMMITTEE AND MEMBERS	FUNCTIONS OF THE COMMITTEE
Audit Committee Victor L. Lund (Chair) Alan R. Buckwalter, III Malcolm Gillis Clifton H. Morris, Jr. Meetings In 2013 Seven	• 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 qualifications, independence and performance of the independent registered public accounting firm and the performance and effectiveness of the Company's internal audit function. • Reviews the annual audited financial statements with SCI management and the independent registered public accounting firm, 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 discussion with the independent registered public accounting firm of any significant financial reporting issues and judgments made by management 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 registered public accounting firm prior to the release of quarterly earnings and the filing of quarterly reports with the SEC, including the results of the independent registered public accounting firm's reviews of the quarterly financial statements. • Reviews with management and the independent registered public accounting firm 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. • Reviews the qualifications, independence and performance of the independent registered public accounting firm annually and recommends the appointment or re-appointment of the independent registered public accounting firm. The Audit Committee is directly responsible for the engagement, compensation and replacement, if appropriate, of the independent registered public accounting firm. • Meets at least quarterly with the independent registered public accounting firm without SCI management present. Reviews with the independent registered public accounting firm 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 to discuss policies with respect to risk assessment and risk management and to review SCI's major 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.

Board Committees (cont'd)

NAME OF COMMITTEE AND MEMBERS		FUNCTIONS OF THE COMMITTEE
Audit Committee (Cont'd)	•	Reviews and discusses summary reports of any complaints or issues, primarily from SCI's Careline, a toll-free number available to Company employees to make anonymous reports 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.
	•	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 registered public accounting firm regarding 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 and any steps taken to deal with such issues.

Board Committees (cont'd)

NAME OF COMMITTEE AND MEMBERS	FUNCTIONS OF THE COMMITTEE
Nominating and Corporate Governance Committee Anthony L. Coelho (Chair) Victor L. Lund Clifton H. Morris, Jr. Marcus A. Watts Edward E. Williams Meetings In 2013 Four	• 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 bylaws • Makes recommendations to the Board with respect to the nomination of candidates for Board membership and committee assignments, including the chairmanships of the Board committees. • 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. • Oversees the Company's enterprise risk management function. • 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. • 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. • With outside assistance, when needed, makes recommendations to the full Board with respect to compensation for Board members. • Oversees the development of orientation programs for new Board members in conjunction with SCI's Chairman. • 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. • Oversees and implements the annual process for assessment of the performance of SCI's Board and of the Nominating and Corporate Governance Committee, and coordinates the annual performance assessment of the Board committees. • Oversees and implements the individual peer review process for assessment of the performance of individual members of the Board. • The Committee Chair presides at executive sessions of non-management directors held during every SCI Board meeting.

Board Committees (cont'd)

NAME OF COMMITTEE AND MEMBERS	FUNCTIONS OF THE COMMITTEE
Investment Committee Edward E. Williams (Chair) Malcolm Gillis John W. Mecom, Jr. W. Blair Waltrip Meetings In 2013 Four	• Assists the Board of Directors in fulfilling its responsibility in the oversight management of internal and external financial assets. Internal assets are short-term investments for the Company's own account. External assets are funds received by the Company and placed into Trust in accordance with applicable state laws related to prearranged sale of funerals, cemetery merchandise and services and perpetual care funds ("Trusts") which are deposited with financial institutions (the "Trustees"). • Works in conjunction with the Investment Operating Committee of SCI, a committee comprised of senior SCI officers and other managers, which supports the Investment Committee by providing day-to-day oversight of the internal and external assets. The Investment Committee's policies are implemented through the Investment Operating Committee of SCI. • Provides guidance to the Trustees regarding the management of the SCI U.S. Trust funds. • Determines that the Trusts' assets are prudently and effectively managed in accordance with the investment policy. • Reviews and recommends an investment policy for the Trust funds including (1) asset allocation, (2) individual consideration of each Trust type, (3) acceptable risk levels, (4) total return or income objectives and (5) investment guidelines relating to eligible investments, diversification and concentration restrictions, and performance objectives for specific managers or other investments. • Evaluates performance of the Trustees and approves changes if needed. • Monitors adherence to investment policy and evaluates performance based on achieving stated objectives. • Oversight responsibility for the Company's cash investments on a short term basis. • Oversight responsibility for the Company's prearranged funeral insurance portfolio. • Oversight responsibility for the Company's retirement plans. • By law, the Trustees are ultimately responsible for all investment decisions. However, the Investment Committee in conjunction with the Investment Operating Committee and a consultant engaged by the Trustees, through the Company's wholly-owned registered investment advisor, recommends investment policies and guidelines and investment manager changes to the Trustees.

Board Committees (cont'd)

NAME OF COMMITTEE AND MEMBERS	FUNCTIONS OF THE COMMITTEE
Compensation Committee Alan R. Buckwalter, III (Chair) Anthony L. Coelho John W. Mecom, Jr. Marcus A. Watts Meetings In 2013 Five	• 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 shareholders as well as the operating performance of the Company. • Sets compensation for the Chairman and 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 and certain benefits. • 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 Chairman, CEO and other executive officers as well as appropriate peer group companies to review for comparative purposes with respect to compensation decisions. • Approves 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. • Determines SCI stock ownership guidelines for officers, adjusts such guidelines if necessary and reviews at least annually officer compliance with such guidelines. • Assesses the risk of the Company's compensation programs.
Executive Committee Robert L. Waltrip (Chair) Alan R. Buckwalter, III Anthony L. Coelho Victor L. Lund Thomas L. Ryan Marcus A. Watts Meetings In 2013 One	• Has authority to exercise many of the powers of the full Board between Board meetings. • 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.

Director Compensation

The following table sets forth director compensation for 2013. The table and following discussion apply to directors who are not employees (outside directors). Employees who are directors do not receive director fees or participate in director compensation.

2013 Director Compensation Table

Name	Fees Earned or Paid in Cash	Stock Awards(1)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(2)	All Other Compensation(3)	Total
Alan R. Buckwalter, III	$111,500	$167,800	NA	$ 141,683	$420,983
Anthony L. Coelho	107,000	$167,800	0	0	274,800
Malcolm Gillis	101,000	$167,800	NA	134,052	402,852
Victor L. Lund	116,500	$167,800	NA	95,143	379,443
John W. Mecom, Jr.	100,000	$167,800	0	74,992	342,792
Clifton H. Morris, Jr.	101,000	$167,800	0	45,627	314,427
W. Blair Waltrip	91,500	$167,800	NA	25,742	285,042
Marcus A. Watts	100,500	$167,800	NA	33,561	301,861
Edward E. Williams	109,500	$167,800	0	116,900	394,200

(1) Amounts in the Stock Awards column represent the fair market value of each award on the date of grant. Specifically, the value was calculated by multiplying (i) the average of the high and low market prices of a share of common stock of SCI on the date of the grant of the stock award, by (ii) 10,000 shares, which was the number of SCI shares per award.

(2) Amounts in this column include any increases in the actuarial present values of benefits as discussed under "Directors' Retirement Plan" below. For 2013, there were no increases; instead, there were decreases in value as follows: $3,246 for Mr. Coelho, $2,531 for Mr. Mecom, $5,390 for Mr. Morris and $6,485 for Dr. Williams.

(3) Amounts in this column are discussed under "Use of Company Aircraft" below. In February 2014, the Board modified the aircraft usage policy and eliminated the personal use of aircraft for all non-employee directors.

Stock Award

Under the Amended and Restated Director Fee Plan, all outside directors receive an annual retainer of 10,000 shares of Common Stock of SCI or, at each director's option, deferred Common Stock equivalents. The award is made once a year on the date of the Annual Meeting of Shareholders and is 100% vested on the date of grant. Accordingly, each outside director received 10,000 shares of Common Stock or deferred Common Stock equivalents on May 8, 2013. The fair market value of the award is set forth in the column "Stock Awards" in the table above. For dividends pertaining to a director's deferred Common Stock equivalents, the dividends are reinvested in additional deferred Common Stock equivalents based on the fair market value of Common Stock on the dividend record date.

Stock Ownership Guidelines

In August 2003, the Board adopted Corporate Governance Guidelines which contained a policy to encourage the directors to own SCI stock. Under the guidelines presently in effect, each director's SCI stock ownership should be at least 30,000 shares of SCI common stock within five years of the director's initial election to the Board. All members of the Board are in compliance with this policy.

Cash Fees

All outside directors receive a $75,000 annual cash retainer and the Committee Chairs receive a further annual cash retainer as follows: Audit Committee Chair $15,000, Compensation Committee Chair $10,000, Investment Committee Chair $10,000 and Nominating and Corporate Governance Committee Chair $7,500. In addition to the retainers which are paid quarterly, each outside director receives a $2,000 attendance fee for each Board or Committee meeting attended. Fees for telephonic attendance at any Board or Committee meeting are 25% of the regular fee. The total cash fees for each director are set forth in the column "Fees Earned or Paid in Cash" in the table above.

Directors may elect to defer all or any of their cash fees by participating in the Executive Deferred Compensation Plan which is described hereinafter under “Certain Information with Respect to Officers and Directors - Executive Deferred Compensation Plan.” There are no Company contributions made for a director's account in the plan. The director may have deferred fees invested in the funds available under the plan. Any earnings or losses on such deferred fees are not reported in the table above.

Directors' Retirement Plan

Effective January 1, 2001, the Non-Employee Directors' Retirement Plan was amended such that only years of service prior to 2001 are 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 vested 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). Any increases in the actuarial present values of benefits under the plan are reflected in the column “Change in Pension Value and Nonqualified Deferred Compensation Earnings” in the table above.

Use of Company Aircraft

For 2013, the incremental cost of personal use of the Company's leased aircraft by each Director is reflected in the column “All Other Compensation” in the table above. The cost includes the average cost of fuel used, direct costs incurred such as flight planning services and food, and an hourly charge for maintenance of engine and airframe. Directors were entitled to certain hours of use of the Company's leased aircraft for personal reasons in accordance with the Company's usage policy approved by the Board of Directors. In February 2014, the Board modified the aircraft usage policy and eliminated the personal use of aircraft for all non-employee directors.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This Compensation Discussion and Analysis has been prepared by our management and reviewed by the Compensation Committee of our Board of Directors. This discussion provides information and context regarding the compensation paid to our Chief Executive Officer, Chief Financial Officer, and the other three most highly-compensated executive officers in 2013, all of whom are collectively referred to as the "Named Executive Officers". Our Named Executive Officers for 2013 were:

- R. L. Waltrip - Chairman of the Board
- Thomas L. Ryan - President and Chief Executive Officer
- Michael R. Webb - Executive Vice President and Chief Operating Officer
- Eric D. Tanzberger - Senior Vice President Chief Financial Officer and Treasurer
- Sumner J. Waring, III - Senior Vice President Operations

The Company's executive compensation policies are designed to provide aggregate compensation opportunities for our executives that are competitive in the business marketplace and that are based upon Company and individual performance. Our foremost objectives are to:

- align executive pay and benefits with the performance of the Company and shareholder returns while fostering a culture of high ethical standards and integrity; and
- attract, motivate, reward and retain the broad-based management talent required to achieve our corporate directives.

Executive Summary

Our management has a strong focus on delivering long-term profitable growth for, and returning value to, our shareholders. This long-term focus has contributed significantly to our Company's total shareholder return of 300%, or 32% compounded annually, achieved over the last five fiscal years.

2013 Company Performance

The Company delivered outstanding financial results in 2013, including the following:

- Acquired Stewart Enterprises, Inc., the second largest deathcare company in North America.
- Returned $57 million to shareholders through dividends.
- Increased diluted earnings per share from continuing operations excluding special items by 15% to $.92.[1]
- Increased dividend 17% in 2013 in recognition of our financial strength.

Based on 2013 results, the SCI stock price increased by 31% to $18.13 per share at year end and our performance-based compensation programs generated award payouts that were above target levels.

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(1) Diluted earnings per share from continuing operations excluding special items is a non-GAAP financial measure. A reconciliation to diluted earnings per share computed in accordance with GAAP is set forth on Annex A to this Proxy Statement.

Key Features of Our Compensation Programs

Over the course of the past several years, acting in the interests of the stockholders, the Compensation Committee in conjunction with the Company's management has adjusted the Company's compensation programs toward performance based compensation. In addition, we have collectively modified or eliminated certain components of our programs to better align them with stockholders' interests. The following are highlights of our compensation programs, including our emphasis on pay commensurate with performance and actions taken to align aspects of our programs with evolving standards.

Compensation Program Highlights

• Pay for Performance. A significant portion of the compensation of our Named Executive Officers is directly linked to the Company's performance, as demonstrated in the historical payouts related to our annual and long-term incentive plans. The history of payouts on some variable compensation components in recent years has ranged from no payout to at or near maximum payouts dependent upon the relevant performance period. In periods of successful Company performance, management has been rewarded with performance-based compensation reflective of the success. However, when performance has not met targeted goals, then performance-based compensation resulted in lower levels of compensation.

• No Tax Gross Ups. We do not provide tax gross ups in our compensation programs, and we do not have provisions in our executive employment agreements that provide for tax gross ups in the event of a change of control of the Company.

• Stock Ownership Requirements. We maintain stock ownership guidelines for officers and directors. Under the guidelines, an officer should retain all SCI stock acquired from grants of restricted stock and stock options (net of acquisition and tax costs and expenses) until that officer has met the stock ownership guidelines.

• Claw-Backs. The Company maintains claw-back provisions that are triggered in certain circumstances. If triggered, the provisions provide for a claw-back of annual performance-based incentives paid in cash, stock options, restricted stock and performance units.

• Policies on Hedging or Pledging. In 2013, we established policies that prohibit officers and directors from hedging or pledging their SCI stock ownership.

• 2013 Say-on-Pay Vote. In the advisory vote on the “say-on-pay” proposal at our 2013 annual meeting, over 80% of the shares voted, representing a significant majority of the shares outstanding, were voted to approve the named executive officer compensation.

The above are discussed in more detail in this Compensation Discussion and Analysis and are reflected in the compensation tables.

Role of the Compensation Committee

The Compensation Committee reviews the executive compensation program of the Company for its adequacy to attract, motivate and retain well-qualified executive officers who will maximize shareholder returns. The Compensation Committee also reviews the program for its direct and material relation to the short-term and long-term objectives of the Company and its shareholders as well as the operating performance of the Company. To carry out its role, among other things, the Compensation Committee:

- reviews appropriate criteria for establishing annual performance targets for executive compensation which are complementary to the Company's long-term strategies for growth;

- determines appropriate levels of executive compensation by annually conducting a thorough competitive evaluation, reviewing proprietary and proxy information, and consulting with and receiving advice from an independent executive compensation consulting firm;
- ensures that the Company's executive stock plan, long-term incentive plan, annual incentive compensation plan and other executive compensation plans are administered in accordance with compensation objectives; and
- approves all new equity-based compensation programs.

Role of Compensation Consultants

Compensation decisions are made by our Compensation Committee, based in part on input from independent consultants. Meridian Compensation Partners, LLC (Meridian) has served as our independent advisor on executive compensation since 2010. Meridian is retained by and reports directly to the Compensation Committee, which has the authority to approve Meridian's fees and other terms of engagement. Services performed by Meridian for the Compensation Committee during 2013 included preparation of competitive benchmarking reviews regarding the executive and director compensation, evaluation of proposed compensation programs or changes to existing programs, provision of information on current trends in executive compensation, and updates regarding applicable legislative and governance activity. Annually, the Compensation Committee reviews the fee structure and services provided by their independent consultants in order to affirm their continuation as consultants or to assist the Compensation Committee in the selection of new consultants, if appropriate.

Compensation Philosophy and Process

The Company's compensation philosophy as implemented through the Compensation Committee is to align executive compensation with the performance of the Company and the individual by using several compensation components for our executives. The components of our compensation program for our executives consist of:

- annual base salaries;
- annual performance-based incentives paid in cash;
- long-term performance-based incentives delivered in stock options, restricted stock and performance units; and
- retirement plans providing for financial security.

The objectives of these components of our compensation program are described in the chart below.

Element	Component	Objective
Annual Cash Compensation	Base Salary	Serves to attract and retain executive talent and may vary with individual or due to marketplace competition or economic conditions
	Annual Performance-Based Incentives	Rewards achievement of shorter term financial and operational objectives that we believe are primary drivers of our common stock price over time
Long-Term Incentive Compensation	Restricted Stock	Supports retention and encourages stock ownership
	Performance Units	Rewards for effective management of Company business over a multi-year period
	Stock Options	Rewards for the Company's stock price appreciation
Retirement	Executive Deferred Compensation Plan and 401(k) Plan	Provide financial security for retirement

Our overall compensation philosophy is to target our direct compensation for executives within a competitive range of the market median of the Reference Group as discussed below, with opportunities to exceed the targeted compensation levels through annual performance-based incentives paid in cash and through long-term performance-based incentives. However, if performance targets are not met, then the resulting performance-based award payouts will be below target levels. We believe these targeted levels are appropriate in order to motivate, reward, and retain our executives, each of whom have leadership talents and expertise that make them attractive to other companies. Each of the components of compensation is not affected by the amount of any other component. However, the Compensation Committee does review overall compensation for reasonableness and comparability to market levels and the prior year's compensation.

The compensation components are designed to motivate our senior leadership to operate as a team with company-wide goals. This approach serves to align the compensation of our most senior leadership team with the performance of the Company.

In November of each year, our independent consultant presents to the Compensation Committee comparative market information, including benchmarking data discussed below. For the Chairman and the CEO, the Compensation Committee is exclusively responsible for the final determination of all components of compensation but may request input or recommendations from Company management. For other Named Executive Officers, the Compensation Committee receives additional recommendations from our CEO for all components of compensation. In the first quarter of each year, the Compensation Committee reviews the market data and recommendations and sets the compensation components of annual base salary, annual performance-based incentives and long-term incentives for that year.

Compensation Benchmarking Tools

In its consideration of the appropriate range of overall compensation and the appropriate ranges of the components of 2013 compensation for the Name Executive Officers, the Compensation Committee reviewed benchmarking data prepared by Meridian. Competitive data reflect pay rates for similar positions in general industry companies having revenues of $1 billion to $4 billion. We refer to those companies as the “Reference Group” or the “2013 Reference Group.” The names of the companies comprising the 2013 Reference Group are set forth on Annex B.

At the request of the Compensation Committee, the 2013 Reference Group was developed by Meridian with consideration being given to the overall complexity of the Company's business model. For example, the Company sells preneed contracts (approximately $966 million in 2013) that build up our backlog but are not initially recognized or reported as revenues under GAAP. These preneed contracts are administered by the Company over long periods of time and the Company oversees the management and administration of approximately $4.6 billion in trust funds, the earnings of which are typically deferred under GAAP. In addition, executive management oversees a people centric business of more than 25,000 employees, including 4,400 preneed sales personnel whose production does not initially impact revenues under GAAP.

Annual Base Salaries

We target the base salary levels of our Named Executive Officers within range of the median benchmark levels of the Reference Group. We believe that level is appropriate to motivate and retain our Named Executive Officers, who each have leadership talents and business expertise that make them attractive to other companies. In addition, when adjusting salaries, we may also consider the individual performance of the executive.

In the first quarter of 2013, the Compensation Committee made the following salary adjustments: Mr. Waltrip received an increase of $800 to $952,000; Mr. Ryan received an increase of $60,800 to $1,075,000; Mr. Webb received an increase of $10,800 to $680,000; Mr. Tanzberger received an increase of $13,200 to $495,000; and Mr. Waring received an increase of $23,200 to $475,000. The Compensation Committee made these adjustments in recognition of the officers' strong performance during 2012.

Annual Performance-Based Incentives Paid in Cash

We use annual performance-based incentives paid in cash to focus our executive officers on financial and operational objectives that the Compensation Committee believes are primary drivers of our common stock price over time. In the first quarter of 2013 the Compensation Committee established the performance measures as the basis for annual performance-based incentive awards for our Named Executive Officers. In addition, the Compensation Committee initiated an Umbrella Program as a gateway performance metric for the incentives.

The 2013 performance measures discussed below are similar to the 2012 performance measures, except that the Compensation Committee elected to add a Return on Equity performance measure and delete the previous performance measure of comparable revenue growth.

- Normalized Earnings Per Share, which we calculate by applying a 37.1% effective tax rate to the Company's calculation of its reported fully-diluted earnings per share and further adjusting that to exclude the following:

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

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

- Normalized Free Cash Flow Per Share is defined as the Company's fully-diluted consolidated free cash flow per share calculated by adjusting Cash Flows from Operating Activities as follows:

(1) Excluding:

(a) Cash federal and state income taxes paid relating to taxable gains on sale of businesses or real estate closed in 2013, or sales closed in any year with the cash tax payments being made in 2013

(b) Cash taxes and interest paid associated with federal, state or provincial tax audit settlements

(c) Cash payments associated with major or material litigation costs and/or settlements exceeding $5 million for an individual class of legal cases

(d) Cash payments relating to openings, closing or relocation of market support centers or other overhead centers

(e) Cash payments and expenses relating to acquisitions and dispositions, systems conversions and/or implementations, and/or transitions of major vendors and/or suppliers of the Company

(2) Deducting forecasted capital improvements at existing facilities and capital expenditures to develop cemetery property

(3) Utilizing the forecasted amounts of cash taxes paid in 2013 that relate to normal operating earnings

- Comparable Preneed Production Growth, which we define as the percentage change from the prior year in combined total preneed funeral sales production and total preneed cemetery sales production at comparable same-store locations in mixed currency dollars.
- Return on Equity, which we define as net income divided by average equity. Net income is calculated using normalized net income as defined above in the Normalized Earnings Per Share performance measure. Average equity is defined as the sum of adjusted prior year equity and adjusted current year equity divided by two. Adjusted prior year equity is defined as prior year equity less other comprehensive income. Adjusted current year equity is defined as current year equity less other comprehensive income, plus or minus the adjustments defined above in the Normalized Earnings Per Share performance measure, net of tax.

In addition to the above performance measures, we established the following performance measure which is applicable only to Mr. Waring and which is designed to provide focus on the business area of responsibility ("AOR") under his management.

- Comparable AOR Preneed Production Growth, which we define as Comparable Preneed Production Growth of the locations in Mr. Waring's AOR.

We initially weighted each of the performance measures at 25%. However, contemplating the possibility of a material acquisition, we designed the plan giving flexibility to the Compensation Committee to eliminate the performance measure of Return on Equity in the event we were constrained in deploying capital. As a result of acquisition discussions with Stewart Enterprises, which began in the fourth quarter of 2012, we were constrained in deploying capital. After the announcement of the acquisition, the Committee elected to suspend the performance measure of Return on Equity and changed the weights of the remaining three performance measures to $33^{1}/_{3}$% each. The Compensation Committee established the following ranges for performance measures and their related payouts as a percentage of the target award for the performance period from January 1 through December 31, 2013. Calculation of awards for performance levels between threshold and target or target and maximum are calculated using straight-line interpolation.

Performance Measure	Threshold for 0% Payout (1)	Target for 100% Payout	Maximum for 200% Payout
Normalized Earnings per Share	$0.7779	$0.8529	$0.9279
Normalized Free Cash Flow per Share	$1.1605	$1.3205	$1.4805
Comparable Preneed Production Growth (2)	102.00%	106.00%	110.00%
Comparable AOR Preneed Production Growth (2)(3)	102.44%	106.45%	110.47%

(1) Any performance above the threshold results in a payout.
(2) Expressed as a percentage of comparable 2012 performance.
(3) Applicable only to Mr. Waring, specifically for his funeral and cemetery areas of responsibility.

The Compensation Committee established target performance-based incentive award levels for 2013 generally consistent with our overall compensation philosophy to recognize achievement for greater levels of performance and to motivate and retain the executive level talent. The target awards were generally positioned within the mid-range of the competitive benchmark market data. If SCI achieves the performance targets established by the Compensation Committee, executive officers would receive incentive awards at this targeted level. Actual incentive awards are decreased or increased on the basis of SCI's performance relative to the performance targets, subject to maximum award amounts of 200% of targeted incentive levels. The target range establishes a lower threshold to achieve a minimal annual performance-based incentive but with a higher bar to achieve a payout at or near the maximum award of 200% of the targeted incentive levels. The award is based on base salary on the last day of the measurement period. The target award opportunities for the Named Executive Officers for 2013 under the performance measures discussed above were as follows:

	Target Award Opportunity (% of Base Salary)
R.L. Waltrip	100%
Thomas L. Ryan	110%
Michael R. Webb	100%
Eric D. Tanzberger	75%
Sumner J. Waring, III	70%

The Umbrella Program is designed to generate a performance-based bonus pool to fund award payouts determined based on the performance measures discussed above and to allow for full tax deductibility of the bonuses paid to our Named Executive Officers. The Compensation Committee set the funding for the bonus pool for 2013 as 0.5% of the Company’s total consolidated revenue as reflected in the Company’s financial statements, but only if the Company achieved total consolidated revenue in excess of $2 billion for 2013. The Compensation Committee also established individual shares of the bonus pool for each executive covered under the Umbrella Program, including each Named Executive Officer as follows: 22.0% for Mr. Waltrip, 27.3% for Mr. Ryan, 15.7% for Mr. Webb, 8.6% for Mr. Tanzberger and 7.7% for Mr. Waring.

Award amounts that may be paid under the Umbrella Program are subject to the Compensation Committee’s authority to reduce, but not increase, the amount of the actual cash amount earned and payable to each designated participant. With regard to award amounts calculated under the performance measures discussed above, the Compensation Committee may elect to increase or decrease the award amount in its sole discretion; provided, however, that the amount determined under such performance measures shall not exceed the amount determined under the Umbrella Program. Further, in the event the amount calculated under such performance measures is lower than the amount calculated under the Umbrella Program, the Compensation Committee intends to reduce the amount payable under the Umbrella Program to not exceed the award amount calculated under such performance measures.

For 2013, SCI's actual performance measured as a percentage of the targets of the performance measures was as follows: 108.9% of Normalized Earnings Per Share, 111.8% of Normalized Free Cash Flow Per Share and 111.3% of Comparable Preneed Production Growth and, respecting AOR targets applicable to Mr. Waring, 111.3% of Comparable AOR Preneed Production Growth. The payouts for performance exceeding each performance measure were leveraged to reflect the Compensation Committee's expectation that superior performance would also contribute to increased shareholder values. Accordingly, actual performance measured against the performance measures resulted in (i) a 200.0% payout percentage for the Normalized Earnings Per Share performance measure, (ii) a 197.2% payout percentage for the Normalized Free Cash Flow Per Share performance measure, (iii) a 200.0% payout percentage for the Comparable Preneed Production Growth performance measure, and (iv) a 200.0% payout percentage for the Comparable AOR Preneed Production Growth performance measure applicable to Mr. Waring. As a result of the foregoing and giving effect to the weightings as described above, Messrs. Waltrip, Ryan, Webb and Tanzberger received annual performance-based incentives paid in cash at 199.1% of the target-based incentive award levels, and Mr. Waring also received an annual performance-based incentive paid in cash at 199.1% of his target-based incentive award level. The actual dollar amounts of the payouts are set forth in footnote (2) to the Summary Compensation table below. The Company also exceeded the Umbrella Program's threshold metric regarding total consolidated revenue and, consistent with the Umbrella Program, the Compensation Committee reduced the amounts payable under the Umbrella Plan to the amounts payable under the performance measures as discussed above.

Long-Term Incentive Compensation

In February of each year, the Compensation Committee approves the long-term incentive award grants for that year. Awards granted in 2013 under our long-term incentive compensation program consisted of three types of awards to provide balance and focus for the Named Executive Officers. Specifically, the awards consist of a mix of stock options, restricted stock and performance units, which are designed to ensure that appropriate focus is given to driving the Company's stock price appreciation, managing the ongoing operations and implementing strategy and ensuring superior total shareholder returns.

The total target value of the long-term incentive awards for each of our Named Executive Officers was generally established within a competitive range of the market median of the Reference Group. The market median of the Reference Group for each executive officer was based upon the position being evaluated and varied by position (for example, the value of an award for the position of President was higher than the value of an award for the position of Senior Vice President). In addition to such range, the Compensation Committee considered other factors in establishing the total targeted expected value for each executive officer, including the individual performance of each executive officer, the job responsibilities of each executive officer and the overall Company performance in light of the then-current economic environment. Once the total target value was established for each executive officer, we calculated and granted to the executive officer (i) the number of stock options which had a value equal to one third of the total target value, (ii) the number of shares of restricted stock which had a value equal to one third of the total target value, and (iii) the number of performance units which had a value equal to one third of the total target value. We believe that the grant of significant annual equity awards further links the interests of senior management and the Company's shareholders. Therefore, the grant of stock options and the award of restricted stock are important components of annual compensation. Although the Compensation Committee does not consider current stock ownership levels in determining equity awards, we do annually review the ownership levels and progress towards established ownership guidelines, as discussed below.

Stock Options

The purpose of using stock options is to provide to executive officers a reward whose value is directly attributable to their ability to increase the value of the business and our stock price. Stock options are granted at an exercise price equal to 100% of the fair market value of SCI common stock on the grant date. Stock options vest at a rate of one third per year and have an eight-year term. The Compensation Committee establishes an economic value of stock options to be awarded and approves the number of stock options substantially equivalent to those economic values.

Restricted Stock

The purpose of using restricted stock with vesting provisions is to assist in retaining our executive officers and encouraging stock ownership. The restricted stock awards are made at the same time as the stock option grants, vest at a rate of one-third per year and are based on the estimated grant date value of the restricted shares.

Performance Units

The performance units are intended to reward executive officers for effective management of the business over a multi-year period. In addition, the performance units allow executive officers to retain or build their SCI stock ownership by providing liquidity that can be applied to taxes associated with option exercises and restricted stock vestings. The Performance Unit Plan measures the three year total shareholder return (“TSR”) relative to the public companies which are included in the Reference Group. TSR is defined as $100 invested in SCI common stock on the first day of the performance cycle, with dividends reinvested, compared to $100 invested in each of the public companies in the Reference Group, with dividend reinvestment during the same period. The Compensation Committee believes TSR is an appropriate metric because it (i) aligns the interests of management with the interests of shareholders, and (ii) provides a useful means of comparing Company performance relative to the performance of public companies in the Reference Group. Each performance unit has a value of $1.00 and the actual payout may vary by a range of 0% to 200% of the targeted award established by the Compensation Committee. Earned performance unit awards are settled in cash at the end of each three-year performance period. The chart below sets forth the range of payouts as a percent of a target award at various levels of relative TSR performance.

Performance Unit Range of Payouts

Award Payout Level	SCI Weighted Average Total Shareholder Return Ranking Relative to Comparator Group at End of Performance Cycle	% of Target Award Paid as Incentive*
Maximum	75th Percentile or greater	200%
Target	50th Percentile	100%
Threshold	25th Percentile	25%
Below Threshold	Less than 25th Percentile	0%

* Calculation of awards for performance levels between threshold and target or target and maximum are calculated using straight-line interpolation.

We believe superior relative performance in a down year deserves a reward, but should be limited. Therefore. payouts are capped at target if SCI experiences negative TSR for a performance cycle but performs well in relation to the Reference Group.

For the 2011 — 2013 performance cycle, the closing stock price determinations as of December 31, 2010 and December 31, 2013 were used to calculate the awards due participants. For this performance cycle, the participants earned an award of 200% based on TSR greater than 132% and at the 87th percentile or better ranking relative to the reference group used in 2011.

For the 2013 — 2015 performance cycle, the Compensation Committee granted performance units with performance awards ranging from 0% to 200% as set forth below in the “Grants of Plan-Based Awards” table. A target award is earned if SCI's TSR relative ranking is at the 50th percentile of the TSR of the public companies in the 2013 Reference Group.

Provisions Regarding Claw-Backs

In November 2008, the Board of Directors adopted provisions for seeking the return (claw-back) from executive officers of cash incentive payments and stock sale proceeds in certain circumstances involving fraud. For awards made after 2008, we added these provisions for the following elements of compensation: annual performance-based incentives paid in cash, stock options, restricted stock and performance units. The provisions would be triggered if the Board of Directors determines that an officer has engaged in fraud that caused, in whole or in part, a material adverse restatement of the Company's financial statements. In such an event, the Company would seek to recover from the offending officer the following:

- The actual annual performance-based incentive paid in cash to the officer, but only if the original payment would have been lower if it had been based on the restated financial results.
- The gains from sales of stock acquired under stock options realized at any time after the filing of the incorrect financial statements. (Any remaining vested and unvested stock options would be cancelled).
- The gains from sales of restricted stock realized at any time after the filing of the incorrect financial statements. (Any remaining unvested restricted stock would be forfeited).
- The amount of a performance unit award paid after the ending date of the period covered by the incorrect financial statements. (Any unpaid performance unit award would be forfeited).

Consideration of 2013 Say-on-Pay Vote

At our annual meeting of shareholders held on May 8, 2013, over 80% of the shares voted, representing a significant majority of the shares outstanding, were voted in favor of the proposal for an advisory vote to approve Named Executive Officer compensation (“say-on-pay” vote). The Compensation Committee believes this result is an indication that a significant majority of our shareholders are satisfied with our executive compensation policies and decisions, and that our executive compensation program effectively aligns the interests of our Named Executive Officers with the interests of our shareholders. The Compensation Committee considered the results of the 2013 say-on-pay vote, but such results did not impact the Committee's decisions regarding the determination of executive compensation for 2014. We will continue to consider the outcome of our “say-on-pay” vote results when determining future compensation policies and pay levels for our Named Executive Officers.

Securities Trading and Investment Policy

The Board of Directors maintains a policy governing directors and officers with regard to transactions involving the Company's securities, including purchases and sales of common stock. Among other things, the policy provides guidelines on trading during "trading windows", confidentiality responsibilities and reporting obligations.

Stock Ownership Guidelines and Retention Requirements - Officers

In 2004, we established stock ownership guidelines for officers. Share ownership is generally achieved through open market purchases of SCI stock, shares acquired in the company sponsored 401(k) plan, vesting of restricted stock and shares retained after exercise of stock options. The table below sets forth our current ownership guidelines for our officers.

Title	Target Holdings (# of Shares)
Chairman of the Board	400,000
President and Chief Executive Officer	400,000
Executive Vice President and Chief Operating Officer	200,000
Senior Vice President	100,000
Vice President	60,000

At March 17, 2014, the Named Executive Officers had attained or exceeded their ownership guideline levels.

In February 2011, we established a policy to require that an officer retain all SCI stock acquired from grants of restricted stock and stock options (net of acquisition and tax costs and expenses) until that officer has met the ownership guidelines.

Policies on Hedging and Pledging

In the fourth quarter of 2013, we established policies to prohibit officers and directors from hedging or pledging their SCI stock ownership. Pre-existing pledge arrangements are grandfathered, but such arrangements may not be renewed or extended at maturity.

Employment Agreements; Termination Payment Arrangements

The Company has employment agreements with Messrs. R.L. Waltrip, Thomas L. Ryan, Michael R. Webb, Eric D. Tanzberger and Sumner J. Waring, III. These agreements have current terms expiring December 31, 2014. Annually, the Company may extend each agreement for an additional year unless notice of nonrenewal is given by either party. The employment agreements articulate the terms and conditions of the officers' employment with the Company including termination provisions and noncompetition obligations. Each November, we review the list of, and the terms and conditions of employment for, the Named Executive Officers and other officers with employment agreements in effect and determine whether to extend, modify or allow the agreements to expire.

In 2010, we amended our executive employment agreements to eliminate any obligation to pay tax gross ups in the event of a change of control of the Company.

For further discussion of these employment agreements, refer to “Certain Information with Respect to Officers and Directors - Executive Employment Agreements” below.

Our employment agreements and compensation plans have historically incorporated arrangements for certain payments upon change of control of the Company and for other terminations. We believe that these arrangements have been and are necessary to attract, motivate, reward and retain the broad-based management talent required to achieve our corporate directives. In the context of a possible acquisition or merger of the Company, we believe that change-in-control provisions (i) help focus our executives on strategic alternatives that would maximize shareholder value, and (ii) provide for personal financial security, thereby reducing a concern which could be a distraction for the executive. Our change-in-control and other termination payment arrangements do not affect decisions regarding other compensation elements. We structured the terms and payout of our arrangements based upon our historical practice and competitive considerations, including advice from an independent consultant that such features were commonly used by publicly traded companies.

For further discussion of termination arrangements, refer to "Certain Information with Respect to Officers and Directors - Potential Payments Upon Termination" below.

Retirement Plans

We believe that financial security during retirement can be as important as financial security before retirement. We previously maintained a Supplemental Executive Retirement Plan for Senior Officers which ceased accruing benefits in 2000. In 2005, we implemented an Executive Deferred Compensation Plan for our executive officers which includes a Company contribution for retirement.

Our Supplemental Executive Retirement Plan for Senior Officers is a non-qualified plan under which our Named Executive Officers accrued benefits until December 31, 2000. No additional benefits will accrue after 2000. Each participant is entitled at age 60 to the annual payment of the full amount of his benefit.

To help retain and recruit executive level talent, the Company maintains a supplemental retirement and deferred compensation plan for its executive officers, the Executive Deferred Compensation Plan. This plan allows for an annual retirement contribution of 7.5% and a performance-based contribution targeted at 7.5%, with a range of 0% to 15% based on achievement of Company performance measures established in the first quarter of each year. These are the same performance measures described in the Annual Performance-Based Incentives Paid in Cash above. The percentages are applied to the combined eligible compensation of base salary and annual performance-based incentive paid in cash. The plan allows for individual deferral of base salary, annual performance-based incentives paid in cash, restricted stock awards and performance unit awards. The plan also allows for the restoration of Company matching contributions that are prohibited in the Company's 401(k) plan due to tax limits on contributions to qualified plans. In February 2014, the Company made the following contributions under the plan with respect to 2013 service and performance:

Name	7.5% Retirement Contribution	Performance Contribution	Total
R.L. Waltrip	NA	NA	NA
Thomas L. Ryan	$257,178	$511,956	$769,134
Michael R. Webb	152,527	303,631	456,159
Eric D. Tanzberger	92,554	184,245	276,799
Sumner J. Waring, III	85,269	169,742	255,011

We also offer a 401(k) plan to our employees, including our executive officers. In 2000, the Company initiated the 401(k) Retirement Savings Plan for elective contributions by participants and matching contributions by the Company up to prescribed limits established by the Board of Directors and specific IRS limitations. Participants may elect to defer up to 50% of salary and bonus into the Plan subject to the annual IRS contribution limit of $16,500 excluding the $5,500 catch-up contributions for eligible for participants age 50 and older. The Company's match ranges from 75% to 125% of employee deferrals based on their years of company service. The match is applied to a maximum of 6% of an officer's salary and annual performance-based incentive, subject to the IRS compensation limits.

Perquisites and Personal Benefits

We provide various perquisites and personal benefits to our executive officers which the Compensation Committee views as an important component of competitive compensation packages for executive officers, including:

- financial and legal planning and tax preparation — provided to officers to encourage critical document preparation and financial planning advice for effective tax and retirement planning
- supplemental medical reimbursements — provided to officers and managing directors. The insured benefit product covers out of pocket medical expenses, exclusive of required premium contributions by participants in the Company's medical and dental plans, and is a valued benefit provided at modest annual cost per participant.
- enhanced life insurance — executive life insurance program for officers generally covering approximately 3.5 times the executive's annual salary and bonus.
- funeral and cemetery benefits — provides funeral/cemetery discounts for directors and officers and their immediate families, on an atneed or prearranged basis. Under the policy, the Company provides (i) services free of cost, and (ii) merchandise, property and interment rights at cost.
- security and transportation services — security and transportation services are provided to the Chairman of the Board, and security services are provided to the Chief Executive Officer.
- personal use of Company aircraft — all officers were allowed limited use of the Company's leased aircraft in 2013 for personal reasons in accordance with the Company's usage policy approved by the Board of Directors. In February 2014, the Board modified the policy and eliminated the personal use of aircraft for all directors and officers, except for limited use by six senior officers (two of whom are also directors).

Personal benefit amounts are not considered annual salary for bonus purposes, deferred compensation purposes or 401(k) contribution purposes.

Compensation Policies and Practices as They Relate to Risk Management

In February 2013, we reviewed the risks arising from the Company's compensation policies and practices for its employees and made a determination that such risks are not reasonably likely to have a material adverse effect on the Company. At a meeting held February 12, 2013, the Compensation Committee reviewed and discussed compensation of Company employees, including the total potential maximum impact of the Company's variable compensation, the safeguards embodied in the compensation plans and that the compensation plans and compensation metrics do not provide incentives for management to take undue risks. The Compensation Committee reached a consensus to recommend to the Nominating and Corporate Governance Committee of our Board of Directors that it make the determination referenced above. At a meeting also held on February 12, 2013, the Nominating and Corporate Governance Committee considered the above referenced compensation information and the above referenced recommendation of the Compensation Committee. As a result, the Nominating and Corporate Governance Committee made a determination that the risks arising from the Company's compensation policies and practices for its employees are not reasonably likely to have a material adverse effect on the Company.

In February 2014, we followed the risk assessment process described in the preceding paragraph and again reached a determination that the risks arising from the Company's compensation policies and practices for its employees are not reasonably likely to have a material adverse effect on the Company.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

COMPENSATION COMMITTEE

Alan R. Buckwalter, III (Chairman)
Anthony L. Coelho
John W. Mecom, Jr.
Marcus A. Watts

CERTAIN INFORMATION WITH RESPECT TO OFFICERS AND DIRECTORS

Compensation

The following table sets forth information for the three years ended December 31, 2013 with respect to the Chief Executive Officer, the Chief Financial Officer and the three 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 "Total" column in the table reduced by the amounts in the "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column.

Summary Compensation Table

Name and Principal Position	Year	Salary	Restricted Stock Awards(1)	Option Awards(1)	Non-Equity Incentive Plan Compensation(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(3)	All Other Compensation	Total(4)
R. L. Waltrip	2013	$951,966	$642,236	$635,792	$3,081,178	0	$390,362	$5,701,534
Chairman of the Board	2012	951,200	624,683	633,795	2,924,303	0	376,545	5,510,526
	2011	951,015	560,582	583,599	2,317,022	0	326,651	4,738,870
Thomas L. Ryan	2013	1,072,428	1,446,174	1,433,289	4,794,042	0	832,390	9,578,322
President and Chief	2012	1,014,200	1,296,300	1,318,703	4,584,075	36,573	879,073	9,128,923
Executive Officer	2011	1,010,092	1,159,510	1,205,378	3,255,584	14,245	713,496	7,358,305
Michael R. Webb	2013	679,543	672,746	665,193	2,539,699	0	527,348	5,084,529
Executive Vice President	2012	669,200	634,740	644,018	2,338,052	71,121	636,892	4,994,022
and Chief Operating Officer	2011	665,285	560,582	583,599	1,711,452	33,574	511,445	4,065,937
Eric D. Tanzberger	2013	494,442	346,289	343,254	1,331,060	0	359,139	2,874,183
Senior Vice President	2012	481,031	315,135	319,283	1,019,909	21,336	339,936	2,496,630
and Chief Financial Officer	2011	460,177	280,291	291,800	775,199	7,871	249,182	2,064,519
Sumner J. Waring, III	2013	474,018	305,100	302,828	1,179,919	0	327,516	2,589,381
Senior Vice President	2012	451,800	280,493	283,845	982,618	0	332,476	2,331,231
Operations	2011	450,561	245,597	255,802	753,751	0	306,042	2,011,754

(1) The Restricted Stock Awards and Option Awards columns set forth the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions made for the valuation of the awards are set forth in note 14 to the consolidated financial statements included in the SCI 2013 Annual Report on Form 10-K.

(2) The Non-Equity Incentive Plan Compensation is composed of the following:

	Year	Annual Performance-Based Incentive Paid in Cash	Performance Units (a)
R .L.Waltrip	2013	$1,895,178	$1,186,000
	2012	1,288,543	1,635,760
	2011	1,271,754	1,045,268
Thomas L. Ryan	2013	2,354,042	2,440,000
	2012	1,511,275	3,072,800
	2011	1,491,584	1,764,000
Michael R. Webb	2013	1,353,699	1,186,000
	2012	906,532	1,431,520
	2011	894,720	816,732
Eric D. Tanzberger	2013	739,060	592,000
	2012	456,869	563,040
	2011	432,199	343,000
Sumner J. Waring, III	2013	661,919	518,000
	2012	419,578	563,040
	2011	427,019	326,732

(a) Performance Units for 2013 related to the performance period of 2011-2013. Performance Units for 2012 related to the performance period of 2010-2012. Performance Units for 2011 related to the performance period of 2009-2011.

(3) This column sets forth the change in the actuarial present value of each executive's accumulated benefit in 2013, 2012, and 2011 for the Supplemental Executive Retirement Plan for Senior Officers. The assumptions made for quantifying the present value of the benefits are set forth in note 15 to the consolidated financial statements included in the SCI 2013 Annual Report on Form 10-K. For 2013, there were no increases in the actuarial present value; instead, there were decreases in value as follows: $13,780 for Mr. Ryan, $17,662 for Mr. Webb and $8,674 for Mr. Tanzberger.

(4) All Other Compensation includes the following:

2013 All Other Compensation

Name	Contributions To Deferred Compensation Plan (a)	Contributions to 401(k) Plan (a)	Life Insurance Related (b)	Perquisites and Other Personal Benefits (c)	
R. L. Waltrip		$19,125	$12,000	$359,236	(d)
Thomas L. Ryan	$619,091	19,125	11,418	182,756	(e)
Michael R. Webb	370,249	19,125	13,836	124,138	(f)
Eric D. Tanzberger	221,755	19,125	2,922	115,337	(g)
Sumner J. Waring, III	201,184	19,125	2,762	104,444	(h)

(a) The amounts represent contributions by the Company to the accounts of executives in the plans identified in the table.

(b) The amounts represent payment for term life insurance premiums or supplemental life insurance.

(c) The amounts represent the incremental cost to the Company to provide perquisites and other personal benefits. With respect to personal use of the Company's leased aircraft, the cost includes the average cost of fuel used, direct costs incurred such as flight planning services and food, and an hourly charge for maintenance of engine and airframe. With respect to medical reimbursement, the Company pays to the executive the medical expenses he incurs which are not reimbursed to the executive by the Company's health insurance.

(d) For Mr. Waltrip, includes $180,297 for personal use of aircraft, $82,742 for guard and alarm services at his residence, as well as costs regarding medical reimbursement, tax and financial planning, personal security and driving services of employees and provision of an automobile.

(e) For Mr. Ryan, includes $149,814 for personal use of aircraft, as well as costs regarding medical reimbursement, tax and financial planning and security services at his residence.

(f) For Mr. Webb, includes $110,383 for personal use of aircraft, as well as costs regarding medical reimbursement and tax and financial planning.

(g) For Mr. Tanzberger, includes $95,390 for personal use of aircraft, as well as costs regarding medical reimbursement and tax and financial planning.

(h) For Mr. Waring, includes $82,049 for personal use of aircraft, as well as costs regarding medical reimbursement and tax and financial planning.

Grants of Plan-Based Awards

The following table sets forth plan-based awards granted in 2013.

Grants of Plan-Based Awards

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards			
	Name	Grant Date	Performance units (#)	Threshold ($)	Target ($)	Maximum ($)
	R. L. Waltrip	2/12/2013		$ 1	$ 952,000	$ 1,904,00
		2/12/2013	700,000	175,000	700,000	1,400,000
		2/12/2013				
		2/12/2013				
	Thomas L. Ryan	2/12/2013		1	1,182,500	2,365,000
		2/12/2013	1,580,000	395,000	1,580,000	3,160,000
		2/12/2013				
		2/12/2013				
	Michael R. Webb	2/12/2013		1	680,000	1,360,000
		2/12/2013	733,000	183,250	733,000	1,466,000
		2/12/2013				
		2/12/2013				
	Eric D. Tanzberger	2/12/2013		1	371,250	742,500
		2/12/2013	378,000	94,500	378,000	756,000
		2/12/2013				
		2/12/2013				
	Sumner J. Waring, III	2/12/2013		1	332,500	665,000
Excess tax benefits from stock-based payment arrangements			—	—	841	—
Dividends paid			—	—	882	—
Adjustment to adopt FIN 48			—	—	—	—
Stock compensation costs			—	—	7,730	—
Balance, December 31, 2007			**71,788**	**$ 718**	**$ 301,329**	**$ 2,894**

See Accompanying Notes to Consolidated Financial Statements.

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WORLD WRESTLING ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the year ended December 31, 2007	For the eight months ended December 31, 2006	For the ye April 30, 2006
OPERATING ACTIVITIES:			
Net income	$ 52,137	$ 31,617	$ 47,047
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of feature film production assets	29,062	—	—
Income from discontinued operations, net of tax	—	—	(35)
Depreciation and amortization	9,319	5,557	10,472
Realized losses on sales of investments	1,958	105	1,820
Amortization of investment income	(493)	(329)	(1,702)
Stock compensation costs	7,777	4,843	4,694
Unrealized loss (gain) on revaluation of warrants	1,178	(839)	(1,474)
Provision for doubtful accounts	47	(1,574)	494
Provision for inventory obsolescence	1,037	1,429	1,894
(Benefit) Provision for deferred income taxes	(7,421)	2,442	(1,661)
Excess tax benefits from stock-based payment arrangements	(841)	(712)	—
Changes in assets and liabilities:			
Accounts receivable	(4,531)	17,237	(6,368)
Inventory	(2,704)	(2,689)	(2,625)
Prepaid expenses and other assets	8,688	(2,764)	(2,658)
Feature film production assets	(1,833)	(17,466)	(7,323)
Accounts payable	7,042	(4,917)	4,156
Accrued expenses and other liabilities	(598)	(10,273)	20,849
Deferred income	(1,661)	621	(478)
Net cash provided by continuing operations	98,163	22,288	67,102
Net cash provided by (used in) discontinued operations	—	—	162
Net cash provided by operating activities	98,163	22,288	67,264
INVESTING ACTIVITIES:			
Purchase of property and equipment	(18,153)	(5,099)	(9,376)
Purchase of other assets	(363)	(2,726)	(881)
Purchases of short-term investments	(211,366)	(77,436)	(53,765)
Proceeds from sales or maturities of short-term investments	242,888	20,850	148,908
Net cash provided by (used in) continuing operations	13,006	(64,411)	84,886
Net cash used in discontinued operations	—	—	—
Net cash provided by (used in) investing activities	13,006	(64,411)	84,886
FINANCING ACTIVITIES:			
Repayment of long-term debt	(860)	(537)	(757)
Issuance of stock, net	882	350	483
Dividends paid	(68,664)	(51,017)	(50,064)
Net proceeds from exercise of stock options	6,170	3,679	16,823
Excess tax benefit from stock-based payment arrangements	841	712	—
Net cash used in continuing operations	(61,631)	(46,813)	(33,515)
Net cash provided by discontinued operations	—	—	—
Net cash used in financing activities	(61,631)	(46,813)	(33,515)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	49,538	(88,936)	118,635
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	86,267	175,203	56,568
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 135,805	$ 86,267	$ 175,203

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the year for income taxes, net of refunds	$	24,299	$	19,533	$	19,060
Cash paid during the year for interest	$	552	$	421	$	587

See Accompanying Notes to Consolidated Financial Statements.

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WORLD WRESTLING ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share and per share data)

1. Basis of Presentation and Business Description

The accompanying consolidated financial statements include the accounts of World Wrestling Entertainment, Inc., and our subsidiaries. In this Annual Report on Form 10-K, WWE refers to World Wrestling Entertainment, Inc. and its subsidiaries, unless the context otherwise requires. References to we, us, our and the Company refe to WWE and its subsidiaries. We are an integrated media and entertainment company, principally engaged in the development, production and marketing of television and pay-per-view event programming and live events and the licensing and sale of consumer products featuring our World Wrestling Entertainment brands. Our operations are organized around four principal activities:

Live and Televised Entertainment

- Revenues consist principally of ticket sales to live events, sales of merchandise at these live events, television rights fees, sales of television advertising and sponsorships, and fees for viewing our pay-per-view and video on demand programming.

Consumer Products

- Revenues consist principally of the direct sales of WWE produced home videos and magazine publishing and royalties or license fees related to various WWE themed products such as video games, toys and books.

Digital Media

- Revenues consist principally of advertising sales on our websites, sale of merchandise on our website through our WWEShop internet storefront and sales of various broadband and mobile content.

WWE Films

- Revenues consist of our share of receipts from the distribution of filmed entertainment featuring our Superstars. Two feature films were released in 2006 and one film was released in 2007. We participate in revenues generated under the distribution of the films through all media after the print and advertising and distribution costs incurred by our distributors have been recouped and the results have been reported to us.

All significant intercompany transactions and balances have been eliminated.

2. Summary of Significant Accounting Policies

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Period In June 2006, the Board of Directors elected to change our historical fiscal year end of April 30 to a calendar basis beginning with calendar 2007. We therefore established an eight month transition period from May 1, 2006 through December 31, 2006. This period is referred to herein as transition 2006 or T 2006 or the transition period. Prior to the transition period, our fiscal quarters were thirteen-week periods that ended on the thirteenth Friday in the quarter, with the exception of our fourth quarter, which always ended on April 30.

Cash and Equivalents Cash and equivalents include cash on deposit in overnight deposit accounts and investments in money market accounts.

Short-term Investments We classify all of our short-term investments as available-for-sale securities. Such short-term investments consist primarily of mutual funds and of municipal auction rate securities, which are stated at fair value, with unrealized gains and losses on such securities reflected, net of tax, as other comprehensive income (loss) in stockholders equity. Realized gains and losses on short-term investments are included in earnings and are derived using the specific identification method for determining the cost of securities sold. It is our intent to maintain a liquid portfolio to take advantage of investment opportunities; therefore, all securities are considered to be available-for-sale and are classified as current assets.

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WORLD WRESTLING ENTERTAINMENT, INC.

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(dollars in thousands, except share and per share data)

Accounts Receivable Accounts receivable relate principally to amounts due to us from pay-per-view providers and television networks for pay-per-view presentations and television programming, respectively, and balances due from the sale of home videos and magazines. Our accounts receivable represent a significant portion of our current assets. We are required to estimate the collectibility of our receivables and to establish allowances for the amount of accounts receivable that we estimate to be uncollectible. We base these allowances on our historical collection experience, the length of time our accounts receivable are outstanding and the financial condition of individual customers. Accounts receivable are charged off when considered uncollectible. Activity in the allowance for doubtful accounts is as follows:

	Balance at beginning of period	**Charged to costs and expenses**	**Write-offs and other**	**Balance at end of period**
2007	$ 2,084	$ 47	$ (773)	$ 1,358
Transition 2006	$ 3,740	$ (1,574)	$ (82)	$ 2,084
2006	$ 3,287	$ 494	$ (41)	$ 3,740
2005	$ 2,612	$ 675	$	$ 3,287

Inventory Inventory consists of merchandise sold on a direct sales basis, and videotapes and DVDs, which are sold through wholesale distributors and retailers. Substantially all of our inventory is comprised of finished goods. Inventory is stated at the lower of cost or market. The valuation of our inventories requires management to make market estimates assessing the quantities and the prices at which we believe the inventory can be sold.

Feature Films Feature films are recorded at the cost of production, including production overhead. These costs for an individual film will be amortized in the proportion that revenues bear to managements estimates of the ultimate revenue expected to be recognized from exploitation, exhibition or sale of such film. Management regularly reviews and when necessary revises, its ultimate revenue and cost estimates, which may result in a change in the rate of amortization of film costs and/or write-down of all or a portion of the unamortized costs of the film to its estimated fair value.

Property and Equipment — Property and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets or, when applicable, the life of the lease, whichever is shorter. Vehicles and equipment are depreciated based on estimated useful lives varying from three to five years. Buildings and related improvements are depreciated based on estimated useful lives varying from five to thirty-nine years. Our corporate aircraft is depreciated over ten years on a straight-line basis less an estimated residual value of $9,500. Planned major maintenance activities related to the corporate aircraft are capitalized and amortized over five years, which is the estimated period until the next overhaul.

Valuation of Long-Lived Assets — We periodically evaluate the carrying amount of long-lived assets when events and circumstances warrant such a review.

Income Taxes — We account for income taxes in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*. Our deferred provision was determined under the asset and liability method. Under this method, tax deferred assets and liabilities are recognized based on differences between the financial statement and income tax basis of assets and liabilities using presently enacted tax rates. Valuation allowances are established to reduce deferred tax assets to amounts management believes are more likely than not to be realized. We consider estimated future taxable income and ongoing tax planning strategies in assessing the need for valuation allowances. We also provide reserves when we believe that it is not probable that a tax position we have taken will be sustained if challenged.

Revenue Recognition — Revenues are generally recognized when products are shipped or as services are performed. However, due to the nature of several of our business lines, there are additional steps in the revenue recognition process, as described below.

- Pay-per-view programming:

Revenues from our pay-per-view programming are recorded when the event is aired and are based upon our initial estimate of the number of buys achieved. This initial estimate is based on preliminary buy information received from our pay-per-view distributors.

Final reconciliation of the pay-per-view buys generally occurs within one year and any subsequent adjustments to the buys are recognized as new information is received.

- Television advertising:

Revenues from the sale of television advertising are recorded when the commercial airs within our programming and are based upon contractual amounts previously established with our advertisers. These contractual amounts are typically based on the advertisement reaching a desired number of viewers.

- Sponsorships:

Through our sponsorship packages, we offer advertisers a full range of our promotional vehicles, including internet and print advertising, arena signage, on-air announcements and special appearances by our Superstars. We follow the guidance of Emerging Issues Task Force (EITF) Issue 00-21 *Revenue Arrangements with Multiple Deliverables*, and assign the total sponsorship revenues to the various elements contained within a sponsorship package based on their relative fair values. Our relative fair values for the sponsorship elements are based upon a combination of historical prices and current advertising market conditions. Revenue from these packages is recognized as each element is delivered.

- Licensing:

Licensing revenues are recognized upon receipt of notice by the individual licensees as to license fees due. If we receive licensing advances, such payments are deferred and recognized as income as earned.

- Home video:

Revenues from the sales of home video titles are recorded when shipped by our distributor to wholesalers/retailers, net of an allowance for estimated returns. The allowance for estimated returns is based on historical information and current industry trends.

- Magazine publishing:

Publishing newsstand revenues are recorded when the magazine is shipped, net of an allowance for estimated returns. We estimate the allowance for newsstand returns based upon our review of historical returns rates and the expected performance of our current titles in relation to prior issue return rates.

Advertising Expense Advertising costs are expensed as incurred, except for costs related to the development of a major commercial or media campaign which are expensed in the period in which the commercial or campaign is first presented.

Foreign Currency Translation For translation of the financial statements of our Canadian and United Kingdom subsidiaries, we have determined that the Canadian Dollar and the U.K. Pound, respectively, are the functional currencies. Assets and liabilities are translated at the year-end exchange rate, and income statement accounts are translated at average exchange rates for the year. The resulting translation adjustments are recorded in accumulated other comprehensive income, a component of stockholders equity. Foreign currency transactions are recorded at the exchange rate prevailing at the transaction date.

Stock-Based Compensation We adopted SFAS No 123(R), *Share-Based Payment* (SFAS 123(R)), which revises SFAS 123 and supersedes APB 25, on May 1, 2006. SFAS 123(R) requires that new, modified and unvested share-based payment transactions with employees, such as stock options and restricted stock, be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. We adopted SFAS 123(R) using the modified prospective method. Under this transition method, compensation cost recognized in the current period includes amounts of: (a) compensation cost of all share based awards granted to employees prior to, but unvested as of, May 1, 2006, based on grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all stock based awards granted subsequent to May 1, 2006, based on the grant date fair value estimated in accordance with the new provisions of SFAS 123(R). In accordance with the modified prospective method, results for prior periods have not been restated. (See Note 13) For all periods presented, restricted stock unit and performance stock unit grants are recorded at fair value as of the issuance date, with the resulting compensation cost recorded over the vesting period.

In the fiscal years ended April 30, 2006 and 2005, we accounted for stock options issued to employees using the intrinsic value method as prescribed under Accounting Principles Board Opinion No 25, *Accounting for Stock Issued to Employees*, (APB 25) and related interpretations. Under this method, no compensation expense was recognized when the number of shares granted is known and the exercise price of the stock option is equal to or greater than the market price of our stock on the grant date. Stock options issued to non-employees were accounted for at fair value at the issuance date. We followed the disclosure-only provisions of SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, and SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS Nos. 148 and 123 encouraged, but did not require, companies to adopt a fair value based method for determining expense related to stock-based compensation.

The following table provides relevant information as to reported results for the fiscal years ended April 30, 2006 and 2005 under our intrinsic value method of accounting for stock options with supplemental information as if the fair value recognition provisions of SFAS No. 123 had been applied:

	2006	2005
Reported income from continuing operations	$ 47,012	$ 37,778
Add: Stock-based employee compensation expense included in reported income from continuing operations, net of related tax effects	2,910	2,542
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3,741)	(4,125)
Pro forma income from continuing operations	$ 46,181	$ 36,195
Reported basic earnings from continuing operations per common share	$ 0.68	$ 0.55
Pro forma basic earnings from continuing operations per common share	$ 0.67	$ 0.53
Reported diluted earnings from continuing operations per common share	$ 0.67	$ 0.54
Pro forma diluted earnings from continuing operations per common share	$ 0.66	$ 0.52

Derivative Instruments We hold warrants received from certain publicly traded companies with whom we have licensing or distribution agreements. Warrants received from our licensees and television programming distributors were initially recorded at their estimated fair value on the date of grant using the Black-Scholes option pricing model. That amount was recorded as deferred revenue and is amortized into operating income over the life of the related agreements using straight-line amortization. For 2007, transition 2006, fiscal 2006 and 2005, we recorded revenues of $493, $329, $493 and $493, respectively, related to the amortization of deferred revenue resulting from the receipt of such warrants. Subsequent to receipt, the warrants are adjusted to their estimated fair value each quarter, with changes in fair value included in other income.

Intangible Assets Our intangible assets consist of the cost of acquired film libraries which are amortized over three years and acquired trademarks and trade names which are amortized over three to six years. To the extent capitalized, our intangible assets are being amortized over their estimated useful lives based on the period the assets are expected to contribute to our cash flows. We perform impairment tests annually and whenever events or circumstances indicate that intangible assets might be impaired.

Earnings Per Share We present both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the year which is calculated using the treasury-stock method (see Note 3). Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS 157 is effective for us on January 1, 2008. We are currently assessing the potential effect of SFAS 157 on our financial statements.

WORLD WRESTLING ENTERTAINMENT, INC.

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In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for us on January 1, 2008.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109,* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is estimated to be greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption is to be reported as an adjustment to opening retained earnings for the year of adoption. As a result of the implementation of FIN 48 on January 1, 2007, we recognized a $1,502 increase in the liability for unrecognized income tax benefits, with a corresponding decrease in the opening balance of retained earnings.

3. Earnings Per Share

For purposes of calculating basic and diluted earnings per share, we used the following weighted average common shares outstanding:

	2007	**T 2006**	**2006**	**2005**
Basic	71,616,122	70,898,623	69,360,856	68,617,365
Diluted	72,301,211	71,596,238	70,175,854	69,376,281
Dilutive effect of outstanding options	209,576	289,442	170,186	120,866
Dilutive effect of restricted stock units	474,025	406,484	644,812	638,050
Dilutive effect of employee share purchase plan	1,488	1,689	—	—
Anti-dilutive outstanding options, end of year	174,400	277,000	306,200	2,785,000

4. Intangible Assets

Our intangible assets consist principally of acquired wrestling based film libraries, trademarks and trade names. The cost of film libraries acquired during 2007, transition 2006, fiscal 2006 and fiscal 2005 was approximately $363, $1,678, $881 and $195, respectively. The cost of trademarks and trade names acquired during transition 2006 and fiscal 2005 were $1,048 and $160, respectively. We did not purchase any trademarks and trade names in 2007 or fiscal 2006. Our intangible assets consisted of the following:

	December 31, 2007		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Film libraries	$ 7,667	$ (6,005)	$ 1,662
Trademarks and trade names	3,708	(3,068)	640
	$ 11,375	$ (9,073)	$ 2,302

(dollars in thousands, except share and per share data)

	December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Film libraries	$ 7,304	$ (5,077)	$ 2,227
Trademarks and trade names	3,708	(2,607)	1,101
	$ 11,012	$ (7,684)	$ 3,328

	April 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Film libraries	$ 5,626	$ (4,574)	$ 1,052
Trademarks and trade names	2,660	(2,251)	409
	$ 8,286	$ (6,825)	$ 1,461

Amortization expense recorded for 2007, transition 2006, fiscal 2006 and fiscal 2005 was $1,389, $859, $2,028 and $2,079, respectively.

The following table presents estimated future amortization expense:

For the year ending December 31, 2008	$ 1,327
For the year ending December 31, 2009	916
For the year ending December 31, 2010	59
Total	$ 2,302

5. Investments

Short-term investments consisted of the following:

	December 31, 2007		
	Amortized Cost	Unrealized Holding Gain (Loss)	Fair Value
Fixed income mutual funds and other	$ 54,175	$ (962)	$ 53,213
Municipal auction rate securities	77,335	—	77,335
Total	$ 131,510	$ (962)	$ 130,548

The unrealized holding loss of $962 at December 31, 2007 consisted of gross losses of $1,144 and gains of $182.

(dollars in thousands, except share and per share data)

	December 31, 2006		
	Amortized Cost	Unrealized Holding Gain (Loss)	Fair Value
Fixed income mutual funds and other	$ 89,990	$ (3,101)	$ 86,889
Municipal auction rate securities	75,000		75,000
Total	$ 164,990	$ (3,101)	$ 161,889

The unrealized holding loss of $3,101 at December 31, 2006 consisted of gross losses of $3,188 and gains of $87.

	April 30, 2006		
	Amortized Cost	Unrealized Holding Gain (Loss)	Fair Value
Fixed income mutual funds and other	$ 90,659	$ (2,848)	$ 87,811
United States Treasury Notes	17,850	(6)	17,844
Total	$ 108,509	$ (2,854)	$ 105,655

The unrealized holding loss of $2,854 at April 30, 2006 consisted of gross losses of $2,907 and gains of $53.

Management deems investments to be impaired when a decline in fair value is judged to be other-than-temporary. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, as well as the intent and ability to hold the investment.

Subsequent to December 31, 2007, we sold approximately $37,135 in municipal auction rate securities. However, starting on February 13, 2008, we experienced difficulty in selling additional securities due to the failure of the auction mechanism which provides liquidity to these securities. The securities for which auctions have failed will continue to accrue interest and be auctioned every 35 days until the auction succeeds, the issuer calls the securities, or they mature. Accordingly, there may be no effective mechanism for selling these securities and we may own long-term securities. As of February 22, 2008, the Company had approximately $40,200 of auction rate securities and at this time we do not believe such securities are impaired or that the failure of the auction mechanism will have a material impact on our liquidity.

In addition to the short-term investments described above, we also hold warrants which we received from certain publicly traded companies with whom we have licensing or distribution agreements. The estimated fair value of these warrants, determined using the Black-Scholes model, was $4,158, $5,336 and $4,497 as of December 31, 2007, December 31, 2006 and April 30, 2006, respectively, and is included in other non-current assets. We recognized mark to market adjustments of $(1,178), $839, $1,474, and $714 during 2007, transition 2006, fiscal 2006 and 2005, respectively, relating to these warrants, which is included in other (expense) income.

6. Property and Equipment

(dollars in thousands, except share and per share data)

Property and equipment consisted of the following:

	December 31, 2007	December 31, 2006	April 30, 2006
Land, buildings and improvements	$ 60,644	$ 56,084	$ 55,957
Equipment	57,605	45,752	44,788
Corporate aircraft	20,829	20,829	20,710
Vehicles	634	634	518
	139,712	123,299	121,973
Less accumulated depreciation and amortization	(61,941)	(55,327)	(54,403)
Total	$ 77,771	$ 67,972	$ 67,570

Depreciation expense was $7,930, $4,698, $8,444 and $9,795 in 2007, transition 2006, fiscal 2006 and fiscal 2005, respectively.

7. Feature Film Production Assets

Feature film production assets are summarized as follows:

	December 31, 2007	December 31, 2006	April 30, 2006
Feature film productions:			
In release	$ 20,469	$ 34,104	$ —
Completed but not released	—	18,558	33,744
In production	311	—	1,702
In development	1,110	898	648
Total	$ 21,890	$ 53,560	$ 36,094

We released our feature film *The Condemned* in April, 2007. The film achieved approximately $7,400 in gross domestic box office receipts, which was short of the Company's expectations. As a result of this performance, the Company recorded an asset impairment charge of $15,662 in the second quarter. *The Condemned* was released domestically on DVD in September, 2007 and has performed in-line with our updated expectations.

In Transition 2006 we released two feature films, *See No Evil* and *The Marine*. *See No Evil* achieved more than $15,000 in gross domestic box office receipts and was released domestically on DVD in November, 2006. *The Marine* has achieved more than $18,000 in gross domestic box office receipts and was released domestically on DVD in January 2007.

We estimate that approximately 53% of "In release" film production assets will be amortized over the next twelve months. Approximately 80% of "In release" film production assets are estimated to be amortized over the following three years.

(dollars in thousands, except share and per share data)

Unamortized feature film production assets are evaluated for impairment each reporting period. If the estimated revenue is not sufficient to recover the unamortized asset, the asset will be written down to fair value. As stated above, during the second quarter we recorded an asset impairment charge of $15,662 to cost of revenues, which reflected our expectations related to the performance of *The Condemned*. As of December 31, 2007, we do not believe any additional capitalized assets included in Feature Film Production Assets are impaired.

In addition to the capitalized production costs related for the three released films, we have also capitalized certain script development costs for various other film projects. Capitalized script development costs are reviewed periodically for impairment if, and when, a project is deemed to be abandoned. Approximately $367, $0, $197 and $158 of previously capitalized development costs were expensed for abandoned projects in 2007, transition 2006, fiscal 2006 and 2005, respectively.

8. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following:

	December 31, 2007	December 31, 2006	April 30, 2006
Accrued pay-per-view event costs	$ 4,959	$ 5,228	$ 7,500
Accrued income taxes	—	—	7,418
Accrued payroll related costs	7,737	5,403	9,176
Accrued legal and professional fees	1,849	2,051	3,254
Accrued home video production and distribution	5,198	5,144	3,121
Accrued other	10,941	7,709	5,548
Total	$ 30,684	$ 25,535	$ 36,017

Accrued other includes accruals for our publishing, television, and licensing business activities, none of which exceeds 5% of current liabilities.

9. Debt

In 1997, we entered into a mortgage loan agreement under which we borrowed $12,000 at an annual interest rate of 7.6% with a maturity date of December 31, 2013. Principal and interest are to be paid in 180 monthly installments of approximately $112. The loan is collateralized by our executive offices and television studio in Stamford, Connecticut.

As of December 31, 2007 the scheduled principal repayments under our mortgage obligation were as follows:

For the year ending December 31, 2008	$ 927
For the year ending December 31, 2009	1,002
For the year ending December 31, 2010	1,082
For the year ending December 31, 2011	1,169
For the year ending December 31, 2012	1,262
Thereafter	360
Total	$ 5,802

10. Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. As a result of the implementation of FIN 48 on January 1, 2007, we recognized a $1,502 increase in the liability for unrecognized income tax benefits, with a corresponding decrease in the opening balance of retained earnings.

At the adoption date of January 1, 2007, we had $14,018 ($10,382 net of federal benefit) of unrecognized tax benefits, all of which would affect our effective tax rate if recognized. At December 31, 2007 we have $13,130 ($8,765 net of federal benefit) of unrecognized tax benefits.

We recognize potential accrued interest and penalties related to uncertain tax positions in income tax expense. We have approximately $3,589 of accrued interest related to uncertain tax positions as of December 31, 2007.

We file income tax returns in the U.S., various states and various foreign jurisdictions. With few exceptions, we are subject to income tax examinations by tax authorities for years on or after April 30, 2004. Based upon the expiration of statutes of limitations in several jurisdictions, the Company believes it is reasonably possible that the total amount of previously unrecognized tax benefits may decrease by approximately $2,910 within 12 months of December 31, 2007.

For 2007, transition 2006, fiscal 2006, and 2005 we were taxed on our income from continuing operations at an effective tax rate of 31.8%, 31.5%, 39.6% and 33.0%, respectively. Our income tax provision related to our income from continuing operations for 2007, transition 2006, fiscal 2006, and 2005 was $24,337, $14,529, $30,884 and $18,581, respectively, and included federal, state and foreign taxes.

The components of our tax provision from continuing operations were as follows:

	2007	T 2006	2006	2005
Current:				
Federal	$ 27,994	$ 11,514	$ 22,595	$ 10,443
State and local	3,708	278	7,232	1,623
Foreign	57	295	2,718	5,325
Deferred:				
Federal	(6,721)	2,167	(2,139)	2,183
State and local	(701)	275	478	(993)
Foreign	—	—	—	—
Total	$ 24,337	$ 14,529	$ 30,884	$ 18,581

The income tax provision allocated to continuing operations and discontinued operations was as follows:

	2007	T 2006	2006	2005
Provision for income taxes - continuing operations	$ 24,337	$ 14,529	$ 30,884	$ 18,581
Provision for income taxes - discontinued operations	—	—	23	737
Total allocated provision for income taxes	$ 24,337	$ 14,529	$ 30,907	$ 19,318

Components of income before income taxes are as follows:

	2007	T 2006	2006	2005
U.S.	$ 76,205	$ 45,801	$ 77,357	$ 54,878

(dollars in thousands, except share and per share data)

International subsidiaries	269	345	539	1,481
Income before income taxes	$ 76,474	$ 46,146	$ 77,896	$ 56,359

The following sets forth the difference between the provision for income taxes from continuing operations computed at the U.S. federal statutory income tax rate of 35% and that reported for financial statement purposes:

	2007	T 2006	2006	2005
Statutory U.S. federal tax at 35%	$ 26,773	$ 16,150	$ 27,263	$ 19,726
State and local taxes, net of federal benefit	1,954	876	5,012	1,218
Foreign rate differential	(38)	142	157	181
Tax exempt interest income	(2,664)	(1,524)	(1,205)	(1,701)
Valuation allowance	610	11	292	(1,002)
Unrecognized tax benefits	(2,177)	—	—	—
Other	(121)	(1,126)	(635)	159
Provision for income taxes	$ 24,337	$ 14,529	$ 30,884	$ 18,581

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities of continuing operations consisted of the following:

	December 31, 2007	December 31, 2006	April 30, 2006
Deferred tax assets:			
Accounts receivable	$ 501	$ 764	$ 1,362
Inventories	2,784	2,174	1,367
Prepaid royalties	3,623	4,270	3,929
Stock options/stock compensation	2,918	2,505	737
Credits and net operating loss carryforwards	—	—	2,465
Investments	2,202	2,845	3,970
Intangible assets	9,061	3,262	3,171
Accrued liabilities and reserves	217	—	730
Indirect income tax benefit	4,365	—	—
Deferred tax assets, gross	25,671	15,820	17,731
Valuation allowance	(1,622)	(1,799)	(1,788)
Deferred tax assets, net	24,049	14,021	15,943
Deferred tax liabilities:			
Fixed assets and depreciation	(4,323)	(5,032)	(5,011)
Accrued liabilities and reserves	—	(274)	—
Total deferred tax assets, net	$ 19,726	$ 8,715	$ 10,932

The temporary differences described above represent differences between the tax basis of assets or liabilities and amounts reported in the consolidated financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. As of December 31, 2007, December 31, 2006, April 30, 2006 and April 30, 2005, $5,571, $4,871, $5,467 and $5,815, respectively, of the net deferred tax assets are included in prepaid expenses and other current assets and the remaining $14,155, $3,843, $5,465 and $3,617, respectively, are included in other non-current assets in our consolidated balance sheets.

(dollars in thousands, except share and per share data)

As of December 31, 2007, December 31, 2006, April 30, 2006, and April 30, 2005 we had valuation allowances of $1,622, $1,799, $1,788 and $1,496, respectively, to reduce our deferred tax assets to an amount more likely than not to be recovered. The valuation allowance is primarily related to the deferred tax asset arising from losses on investments which are capital in nature for which realization is uncertain. These capital loss carryforwards that remain at December 31, 2007 begin to expire in 2009.

We are subject to periodic audits of our various tax returns by government agencies which could result in possible tax liabilities. Although the outcome of these matters cannot currently be determined, we do not believe that amounts, if any, which may be required to be paid by reason of such audits will have a material effect on our financial statements.

Unrecognized Tax benefits Tabular Reconciliation

Beginning Balance- January 1, 2007	$ 10,514
Additional Uncertain Tax Positions	1,949
Adjustment due to change in facts	(985)
Reduction due to Expirations of Statute of Limitations	(1,937)
Ending Balance- December 31, 2007	$ 9,541

U.S. income taxes have not been provided on unremitted earnings of our foreign subsidiaries, because our intent is to keep such earnings indefinitely reinvested in the foreign operations of the subsidiaries.

11. Commitments and Contingencies

We have certain commitments, including various non-cancelable operating leases, performance contracts with various performers and employment agreements with certain executive officers.

Future minimum payments as of December 31, 2007 under the agreements described above were as follows:

	Operating Lease Commitments	**Other Commitments**	**Total**
For the year ending December 31, 2008	$ 1,529	$ 12,784	$ 14,313
For the year ending December 31, 2009	1,324	6,622	7,946
For the year ending December 31, 2010	1,136	4,555	5,691
For the year ending December 31, 2011	751	3,343	4,094
For the year ending December 31, 2012	545	3,093	3,638
Thereafter	1,287	12,866	14,153
Total	$ 6,572	$ 43,263	$ 49,835

Rent expense under operating leases included in continuing operations was approximately $2,609, $1,363, $2,460 and $2,231 for 2007, transition 2006, fiscal 2006, and 2005, respectively.

Legal Proceedings

World Wide Fund for Nature

In April 2000, the World Wide Fund for Nature and its American affiliate, the World Wildlife Fund (collectively, the "Fund") instituted legal proceedings against us in the English High Court seeking injunctive relief and unspecified damages for alleged breaches of a 1994 agreement between the Fund and us regarding the use of the initials "wwf". In August 2001, a High Court judge granted the Fund's motion for summary judgment, holding that we breached the agreement by using the initials "wwf" in connection with certain of our website addresses and our former scratch logo. The English Court of Appeal subsequently upheld that ruling. As a result we are subject to an injunction barring us, either directly or indirectly, from most uses of the initials "wwf."

As part of its original complaint, the Fund included a damages claim. On October 29, 2004, the Fund filed a claim for damages in the English High Court seeking actual damages for legal and other costs of approximately $575, which we have provided for, and substantial monetary claims in an amount calculated as a royalty based on certain percentages of our profits over the period January 1997 through November 2002. We filed an application to determine as a preliminary issue the propriety of the Fund's basis upon which damages were claimed. The Court ruled that the Fund is entitled in point of law to seek restitutionary damages, but that the question whether the Fund was entitled in point of fact to claim or recover damages on that basis remained undetermined. We appealed this decision, and by order and judgment dated April 2, 2007, the English Court of Appeals reversed the High Court, ruling that the Fund is not entitled in point of law to seek restitutionary damages against us. On May 1, 2007, the Fund filed a petition to the House of Lords for leave to appeal the judgment of the Court of Appeals, which the House of Lords refused.

We strongly believe that the Fund has never suffered any loss or damage, and would vigorously defend against any damages claim if the Fund were to attempt to assert such a claim under a different theory. Based upon the decisions of the Court of Appeals and House of Lords, we do not believe this matter will have any material adverse effect on our financial condition, results of operations or liquidity.

Shenker & Associates; THQ/Jakks.

On November 14, 2000, Stanley Shenker & Associates, Inc. ("SSAI") filed a complaint against us in the Superior Court of Connecticut, relating to the termination of an agency agreement between SSAI and us. In October 2003, as a result of significant litigation misconduct by the plaintiff and its principal, Stanley Shenker ("Shenker"), the court issued a comprehensive opinion and order, dismissing plaintiff's case against us with prejudice and entering a default judgment in our favor on all of our counterclaims for tortious interference with business relations, conversion, fraud and conspiracy.

We also filed a complaint against James Bell ("Bell"), one of our former officers, and certain entities related to him, with respect to irregularities in the licensing program, which came to light through discovery in the SSAI litigation. On February 10, 2005, Bell pleaded guilty in the U.S. District Court for the District of Connecticut to mail fraud as a result of kickbacks Bell was paid by Shenker based on royalties received from certain WWE licensing agreements. On January 12, 2007, Shenker pleaded guilty in the U.S District Court for the District of Connecticut to conspiracy to commit interstate transportation of money obtained by fraud and wire fraud by, among other things, depriving us of honest services through Shenker's and Bell's secret arrangement to split between themselves royalty commission monies paid by WWE licensees. On May 1, 2007, Shenker and Bell were sentenced to thirty-three and eight months, respectively, in prison as a result of their criminal conduct directed against us.

On October 19, 2004, as a result of information uncovered in connection with the SSAI matter, we filed an action in the U.S. District Court for the Southern District of New York against Jakks Pacific, Inc. ("Jakks"), two foreign subsidiaries of Jakks, THQ Inc. (THQ"), THQ/Jakks Pacific LLC ("THQ/Jakks"), SSAI and Bell Licensing, LLC. The suit also names as defendants certain senior executives of Jakks, Shenker and Bell. We filed an amended complaint on March 31, 2005. Our lawsuit alleged violations of the Racketeer Influenced and Corrupt Organization Act (RICO) and the Sherman Act, and various claims under state law. We sought treble, punitive and other damages and a declaration that the existing videogame license with THQ/Jakks and a related amendment to the toy licenses with Jakks are void and unenforceable. In an order dated March 31, 2006, the Court: (1) denied the defendants' motions to dismiss the RICO claim based on their enterprise argument; (2) granted the defendants' motions to dismiss the Robinson-Patman Act claim; and (3) granted the defendants' motions to dismiss the Sherman Act claim. In response to additional motions to dismiss, the court entered an order dated December 21, 2007, dismissing our RICO claim because the court found it failed to allege a cognizable RICO injury and it was time-barred, and dismissing the lawsuit because there were no remaining federal claims. On December 28, 2007, we timely filed a notice of appeal with the U.S. Court of Appeals for the Second Circuit. As part of its ruling, the court also found that a release and covenant not to sue asserted by Jakks as a complete bar to our claims do not apply to the claims at issue. Jakks has cross-appealed that ruling and filed a motion for reconsideration with the district court, which we have opposed. In addition, all defendants have cross-appealed the court's ruling on their RICO enterprise argument.

On October 13, 2006, we filed a complaint in the Superior Court of the State of Connecticut against THQ and THQ/Jakks arising out of the improper sublicense of rights to certain WWE-branded videogames in violation of the applicable videogame license agreement. The complaint alleged claims for, among other things, breach of contract, unjust enrichment, violation of the Connecticut Unfair Trade Practices Act and a declaration that we are entitled to terminate the videogame license agreement with THQ/Jakks. On March 30, 2007, we filed a motion to cite in and to amend complaint in order to add new claims against the existing defendants, THQ and THQ/Jakks, and new defendants, Jakks, certain officers of Jakks, Stanley Shenker and Associates, Inc., and Shenker. The new claims relate to the defendants' conduct in connection with the corruption of WWE's agents, Shenker and Bell, and collusion to secure the WWE videogame license for THQ/Jakks. In December 2007, we amended our complaint to assert additional claims relating to the defendants' corruption of Shenker and Bell to secure certain toy licensing rights.

IPO Class Action

In December 2001, a purported class action complaint was filed against us asserting claims for alleged violations of the federal securities laws relating to our initial public offering in 1999. Also named as defendants in this suit were Vincent K. McMahon, Linda E. McMahon and August J. Liguori, a former Chief Financial Officer (collectively, the "Individual Defendants") and the underwriters of our initial public offering. According to the allegations of the Complaint, the underwriter defendants allegedly engaged in manipulative practices by, among other things, pre-selling allotments of shares of our stock in return for undisclosed, excessive commissions from the purchasers and/or entering into after-market tie-in arrangements which allegedly artificially inflated the Company's stock price.

In December 2006, the Court of Appeals for the Second Circuit ruled that the certification of this proceeding as a class action was invalid and remanded the case to the Southern District of New York ("SDNY"). The class plaintiffs requested the Second Circuit to reconsider, which was denied. We are unable to predict whether the plaintiffs will be successful in amending their claims in accordance with the Second Circuit's ruling.

Other Matters

In July 2007, we received letters from the U.S. House of Representatives Committee on Oversight and Government Reform and the U.S. House of Representatives Subcommittee on Commerce, Trade, and Consumer Protection, requesting certain information relating to our drug testing policies. We have responded accordingly.

We are not currently a party to any other material legal proceedings. However, we are involved in several other suits and claims in the ordinary course of business, the outcome of which is not expected to have a material adverse effect on our financial condition, results of operations or liquidity. We may from time to time become a party to other legal proceedings.

12. Stockholders Equity

Our Class B common stock is fully convertible into Class A common stock, on a one for one basis, at any time at the option of the holder. The two classes are entitled to equal per share dividends and distributions and vote together as a class with each share of Class B entitled to ten votes and each share of Class A entitled to one vote, except when separate class voting is required by applicable law. If, at any time, any shares of Class B common stock are beneficially owned by any person other than Vincent McMahon, Linda McMahon, any descendant of either of them, any entity which is wholly owned and is controlled by any combination of such persons or any trust, all the beneficiaries of which are any combination of such persons, each of those shares will automatically convert into shares of Class A common stock. Through his beneficial ownership of a substantial majority of our Class B common stock, our controlling stockholder, Vincent McMahon, can effectively exercise control over our affairs, and his interests could conflict with the holders of our Class A common stock.

We paid four quarterly dividends of $0.24 per share, or $68,664, on all Class A and Class B common shares in 2007. In February 2008 we announced an increase in the quarterly dividend on all Class A common shares to $0.36 per share to be paid in March 2008.

13. Share Based Compensation

The LTIP provides for grants of options and other forms of equity-based incentive awards as determined by the compensation committee of the Board of Directors as incentives and rewards to encourage employees, directors, consultants and performers to participate in our long-term success. The LTIP provides for grants of options to purchase shares at a price equal to the fair market value on the date of grant. The options expire between 5-10 years after the date of grant and are generally exercisable in installments beginning one year from the date of the grant. In 2004, we began issuing restricted stock units, which generally vest annually.

Current grants outstanding have vesting periods between three and seven years. As of December 31, 2007 there were 4,038,690 shares available for future grants. It is our policy to issue new shares to satisfy option exercises and the vesting of restricted stock units.

Stock based compensation cost was $7,777, $4,843, $4,694 and $4,084 for 2007, transition 2006, fiscal 2006 and fiscal 2005, respectively. The total recognized tax benefit was $2,955, $1,501 $1,878, and $1,353 for 2007, transition 2006, fiscal 2006 and 2005, respectively.

SFAS 123(R) also amends SFAS No. 95, *Statement of Cash Flows*, requiring the benefits of tax deductions in excess of recognized compensation costs to be reported as financing cash flows, rather than as operating cash flows as previously required. The tax benefits in excess of recognized compensation cost for 2007 and transition 2006 were $841 and $712, repectively.

SFAS 123(R)s requirement to apply an estimated forfeiture rate to unvested awards resulted in an increase in net earnings, and a cumulative effect of accounting change, as we previously recorded forfeitures when they occurred. For transition 2006, the cumulative effect of accounting change totaled $215 ($140 net of related tax effect) and was recorded in selling, general and administrative expense because its impact on net income and net income per share was not significant.

Stock Options

(dollars in thousands, except share and per share data)

The fair value of stock options was determined using the Black-Scholes valuation model. Such value is recognized as expense over the service period, net of estimated forfeitures, using the straight line method under SFAS 123(R). We have not granted any stock options since June 2004. We granted 1,104,500 options in fiscal 2005. The per share weighted average fair value of stock options granted in fiscal 2005 was $2.95.

The weighted average assumptions used in the option-pricing model in fiscal 2005 was as follows:

	2005
Expected life of option	3 years
Risk-free interest rate	3.0%
Expected volatility of our common stock	33%
Expected dividend yield	1.9%

We did not recognize stock compensation cost for stock options prior to the adoption of SFAS 123(R) on May 1, 2006. See Note 2 for pro forma net income disclosures for fiscal 2006 and 2005.

The following table summarizes option activity for 2007:

Stock Options	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2006	1,715,300	$ 13.14	3.1	$ 5,613
Granted	—	—	—	—
Exercised	(469,818)	$ 13.13	—	—
Forfeited/Expired	(52,420)	$ 12.36	—	—
Outstanding at December 31, 2007	1,193,062	$ 13.16	2.3	$ 2,298
Vested and Expected to Vest at December 31, 2007	1,184,500	$ 13.16	2.3	$ 2,282
Exercisable at December 31, 2007	1,086,037	$ 13.19	2.4	$ 2,097

As of December 31, 2007, the total future compensation cost related to unvested options not yet recognized was $200 and the weighted average period over which these awards are expected to be recognized was 0.5 years. We estimate forfeitures, based on historical trends, when recognizing compensation expense associated with stock options, and will adjust our estimate of forfeitures when they are expected to differ. For 2007, we estimated that 8% of option grants will be forfeited over the life of each grant. The intrinsic value of options exercised was approximately $2,038, $1,331, $4,609 and $213 for 2007, transition 2006, fiscal 2006, and fiscal 2005, respectively.

Cash received from option exercises under all share-based payment arrangements was $6,170, $3,679, $16,823 and $704 for 2007, transition 2006, fiscal 2006, and fiscal 2005, respectively. Tax benefits realized from tax deductions associated with stock option exercises totaled $774, $506, $1,751 and $81 for 2007, transition 2006, fiscal 2006, and fiscal 2005, respectively.

Restricted Stock Units

The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock on the grant date. The fair value of restricted stock units is recognized as expense over the service period, net of estimated forfeitures, using the straight-line method under SFAS 123(R). We estimate forfeitures, based on historical trends, when recognizing compensation expense associated with its restricted stock, and adjust the estimate of forfeitures when they are expected to differ. For the year ended December 31 2007, we estimate that 8% of restricted stock grants will be forfeited over the life of each grant.

We granted 190,750, 517,750, 611,000 and 133,900 restricted stock units in 2007, transition 2006, fiscal 2006 and fiscal 2005, respectively, with an aggregate grant-date fair value of approximately, $3,063, $8,538 $7,869 and $1,727. During 2007, transition 2006, fiscal 2006 and 2005, we recognized $4,931, $4,451, $4,694 and $4,084, respectively, of compensation expense associated with restricted stock units, which was classified as selling, general and administrative expense.

The following table summarizes the activity of restricted stock units:

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2006	1,087,138	$ 14.60
Granted	190,750	$ 16.06
Vested	(398,307)	$ 16.26
Forfeited/Expired	(174,541)	$ 15.22
Dividends	56,344	$ 15.61
Unvested at December 31, 2007	761,384	$ 15.03

The grant date fair value of restricted stock units vested was $6,476, $2,372, $4,475 and $6,455 for 2007, transition 2006 and fiscal 2006, and fiscal 2005, respectively. Tax benefits realized from tax deductions associated with RSU activity totaled $2,461, $901, $1,701 and $684 for 2007, transition 2006, fiscal 2006 and fiscal 2005, respectively.

As of December 31, 2007 there was $4,765 of total unrecognized compensation cost related to unvested restricted stock units to be recognized over a weighted-average period of approximately 1.3 years. Based on the current restricted stock units outstanding, $3,444 of compensation expense will be recognized in 2008 and the remaining $1,321 will be recognized from 2009 to 2011.

Performance Stock Units

In July 2007, the Company began issuing performance stock units, (PSUs) in addition to RSUs. The concept behind granting PSUs is to further align the interest of our employees with our shareholders. The July 2007 issuance of approximately 475,000 PSUs is subject to performance goals established for the last two quarters of 2007. As these goals have been exceeded, we will grant approximately 585,000 shares which will vest in equal annual installments on the first three anniversaries of their issuance date. Total compensation cost related to the PSUs, based on the estimated value of the units as of December 31, 2007, net of estimated forfeitures, is $7,943. The compensation expense is being amortized over the service period, which is approximately three and one-half years.

Employee Stock Purchase Plan

We provide a stock purchase plan for our employees. Under the plan, any regular full-time employee may contribute up to 10% of their base compensation (subject to certain income limits) to the semi-annual purchase of shares of our common stock. The purchase price is 85% of the fair market value at certain plan-defined dates. SFAS 123(R) defines this plan as compensatory, and accordingly, a charge is recorded for the difference between the fair market value and the discounted price. In 2007, two purchases occurred and resulted in a $65 charge. 107 employees were participants in the stock purchase plan and these employees purchased approximately 41,176 shares of our common stock at an average price of $13.82 per share.

WORLD WRESTLING ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share and per share data)

14. Employee Benefit Plans

We sponsor a 401(k) defined contribution plan covering substantially all employees. Under this plan, participants are allowed to make contributions based on a percentage of their salaries, subject to a statutorily prescribed annual limit. We make matching contributions of 50 percent of each participant's contributions, up to 6% of eligible compensation (maximum 3% matching contribution). We may also make additional discretionary contributions to the 401(k) plan. Our expense for matching contributions and additional discretionary contributions to the 401(k) plan was $1,010, $567, $835 and $762 during 2007, transition 2006, fiscal 2006 and fiscal 2005, respectively.

15. Segment Information

During fiscal 2006, we expanded the number of our reportable segments to four in order better to reflect the manner in which management analyzes our performance including our digital media businesses and the production of feature films. We have also reclassified certain other operations between the reportable segments. All prior year segment information has been adjusted to reflect the current presentation. The results of operations for *The World* and for the XFL are not included in the segment reporting as they are classified separately as discontinued operations in our consolidated financial statements (See Note 18). We do not allocate corporate overhead to each of the segments and as a result, corporate overhead is a reconciling item in the table below. There are no intersegment revenues. The activities of each segment are summarized in Note 1.

Revenues derived from sales outside of North America were approximately $119,298, $60,416, $97,686 and $87,594 for 2007, transition 2006, fiscal 2006 and fiscal 2005, respectively.

The table presents information about the financial results of each segment for 2007, transition 2006, fiscal 2006, and fiscal 2005 and assets as of December 31, 2007, December 31, 2006 and April 30, 2006. Unallocated assets consist primarily of cash, short-term investments and real property and other investments.

	2007	**T 2006**	**2006**	**2005**
Net revenues:				
Live and Televised Entertainment	$ 316,842	$ 182,999	$ 290,784	$ 299,501
Consumer Products	118,087	59,183	86,410	53,865
Digital Media	34,771	20,755	22,857	13,065
WWE Films	15,955	—	—	—
Total net revenues	$ 485,655	$ 262,937	$ 400,051	$ 366,431
Depreciation and amortization:				
Live and Televised Entertainment	$ 3,624	$ 2,164	$ 3,561	$ 3,905
Consumer Products	1,389	859	2,028	2,079
Digital Media	836	177	1,471	1,450
Corporate	3,470	2,357	3,412	4,440
Total depreciation and amortization	$ 9,319	$ 5,557	$ 10,472	$ 11,874
Operating income:				
Live and Televised Entertainment	$ 100,161	$ 57,001	$ 93,984	$ 100,612
Consumer Products	68,642	26,855	46,417	26,796
Digital Media	6,293	3,796	2,933	1,290

(dollars in thousands, except share and per share data)

WWE Films	(14,743)	(1,110)	(1,284)	(1,005)
Corporate	(91,920)	(47,299)	(71,510)	(77,400)
Total operating income	$ 68,433	$ 39,243	$ 70,540	$ 50,293

	As of: December 31, 2007	December 31, 2006	April 30, 2006
Assets:			
Live and Televised Entertainment	$ 94,871	$ 77,083	$ 88,898
Consumer Products	15,185	14,982	16,853
Digital Media	9,747	6,128	3,380
WWE Films	45,243	56,299	39,010
Unallocated (1)	305,010	298,793	331,249
Total assets	$ 470,056	$ 453,285	$ 479,390

(1) Includes assets of discontinued operations of $508, $469, and $457 as of December 31, 2007, December 31, 2006, and April 30, 2006, respectively.

16. Financial Instruments and Off-Balance Sheet Risk

Concentration of Credit Risk Financial instruments which potentially subject us to concentrations of credit risk are principally bank deposits, short-term investments and accounts receivable. Cash and cash equivalents are deposited with high credit quality financial institutions. Short-term investments primarily consist of AAA or AA rated instruments or mutual funds holding similar instruments. Except for receivables from cable companies related to pay-per-view events and our home video distributor, concentrations of credit risk with respect to trade receivables are limited due to the large number of customers. A significant portion of trade receivables for pay-per-view events is received from our pay-per-view administrator, who collects and remits payments to us from individual cable system operators. We perform ongoing evaluations of our customers financial condition, including our pay-per-view administrator, and we monitor our exposure for credit losses and maintain allowances for anticipated losses.

Fair Value of Financial Instruments The carrying amounts of cash, cash equivalents, money market accounts, accounts receivable and accounts payable approximate fair value because of the short-term nature of such instruments. Our short-term investments are carried at quoted market values. Our debt consists of the mortgage related to our corporate headquarters, which has an annual interest rate of 7.6%. The fair value of this debt is not significantly different from its carrying amount.

17. Quarterly Financial Summaries (unaudited)

	1st Quarter	2nd Quarter	3rd Quarter *	4th Quarter
2007				
Net revenues	$ 107,391	$ 137,511	$ 108,110	$ 132,643
Cost of revenues	$ 58,097	$ 100,524	$ 63,438	$ 76,710
Net income	$ 15,138	$ 7,046	$ 8,449	$ 21,504
Earnings per common share: basic				
Net income	$ 0.21	$ 0.10	$ 0.12	$ 0.30
Earnings per common share: diluted				

Net income	$ 0.21	$ 0.10	$ 0.12	$ 0.30
T 2006				
Net revenues	$ 93,267	$ 96,236	$ 73,434	NA
Cost of revenues	$ 53,266	$ 57,882	$ 45,946	NA
Net income	$ 11,302	$ 10,396	$ 9,919	NA
Earnings per common share: basic				
Net income	$ 0.16	$ 0.15	$ 0.14	NA
Earnings per common share: diluted				NA
Net income	$ 0.16	$ 0.15	$ 0.13	NA
2006				
Net revenues	$ 93,812	$ 88,933	$ 103,042	$ 114,263
Cost of revenues	$ 52,501	$ 47,305	$ 56,188	$ 71,178
Income from continuing operations	$ 11,178	$ 11,676	$ 13,593	$ 10,564
Income from discontinued operations	$ 2	$ 26	$ 6	$ 1
Net income	$ 11,180	$ 11,702	$ 13,599	$ 10,565
Earnings per common share: basic				
Net income	$ 0.16	$ 0.17	$ 0.20	$ 0.15
Earnings per common share: diluted				
Net income	$ 0.16	$ 0.17	$ 0.19	$ 0.15

*** The third quarter in T 2006 consists of only two months**

WORLD WRESTLING ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share and per share data)

18. Discontinued Operations

The World and XFL

The results of *The World* business, which have been classified as discontinued operations in the consolidated financial statements, are $11 and $1,369 in April 30, 2006 and 2005, respectively. Income on the shutdown of the XFL in fiscal 2006 was $24, net of taxes of $17.

WORLD WRESTLING ENTERTAINMENT, INC.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
(dollars in thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions (1)	Balance at End of Period
For the Year Ended December 31, 2007				
Allowance for doubtful accounts	$ 2,084	$ 47	$ (773)	$ 1,358
Inventory obsolescence reserve	4,891	1,037	(348)	6,276
Magazine publishing allowance for newsstand returns	4,076	23,472	(22,740)	4,808

Home video allowance for returns	8,510	17,669	(19,557)	6,662
For the Transition Period Ended December 31, 2006				
Allowance for doubtful accounts	$ 3,740	$ (1,574)	$ (82)	$ 2,084
Inventory obsolescence reserve	3,535	1,429	(73)	4,891
Magazine publishing allowance for newsstand returns	4,512	14,954	(15,390)	4,076
Home video allowance for returns	3,817	14,251	(9,558)	8,510
Advertising underdelivery	365	—	(365)	—
For the Year Ended April 30, 2006				
Allowance for doubtful accounts	$ 3,287	$ 494	$ (41)	$ 3,740
Inventory obsolescence reserve	2,062	1,894	(421)	3,535
Magazine publishing allowance for newsstand returns	4,602	20,555	(20,465)	4,512
Home video allowance for returns	2,920	10,198	(9,301)	3,817
Advertising underdelivery	2,625	1,599	(3,859)	365
For the Year Ended April 30, 2005				
Allowance for doubtful accounts	$ 2,612	$ 675	$ —	$ 3,287
Inventory obsolescence reserve	1,126	1,549	(613)	2,062
Magazine publishing allowance for newsstand returns	4,517	24,503	(24,418)	4,602
Home video allowance for returns	2,588	9,649	(9,317)	2,920
Advertising underdelivery	4,401	6,145	(7,921)	2,625

(1) Deductions are comprised primarily of disposals of obsolete inventory, write-offs of specific bad debts, returns and advertising "make-goods" for underdelivery. When we do not deliver the guaranteed rating, additional spots, commonly referred to as "make-goods" or at times, a cash refund, is given to the customer.