SERVICE CORPORATION INTERNATIONAL
Form 424B3
October 19, 2006

Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-132617

PROSPECTUS

Service Corporation International
Offer to Exchange
Registered 7.0% Senior Notes due 2017
for
All Outstanding 7.0% Senior Notes due 2017 issued on June 15, 2005
($300,000,000 in principal amount outstanding)

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, all of our outstanding 7.0% Senior Notes due 2017 issued on June 15, 2005 for our registered 7.0% Senior Notes due 2017. In this prospectus, we will call the original notes the Old Notes and the registered notes the New Notes. The Old Notes and New Notes are collectively referred to in this prospectus as the notes.

The Exchange Offer

The exchange offer expires at 5:00 p.m., New York City time, on November 20, 2006, unless extended.

The exchange offer is not conditioned upon a minimum aggregate principal amount of Old Notes being tendered.

All outstanding Old Notes validly tendered and not withdrawn will be exchanged.

The exchange offer is not subject to any condition other than that the exchange offer not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission.

We will not receive any cash proceeds from the exchange offer.

The New Notes

The terms of the New Notes to be issued in the exchange offer are substantially identical to the Old Notes, except that we have registered the New Notes with the Securities and Exchange Commission. In addition, the New Notes will not be subject to certain transfer restrictions.

Interest on the New Notes will be paid at the rate of 7.0% per annum, semi-annually in arrears on each June 15 and December 15, beginning December 15, 2006.

The New Notes will not be listed on any securities exchange or the Nasdaq Stock Market.

You should carefully consider the risk factors beginning on page 13 of this prospectus before participating in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Each broker-dealer that receives New Notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. See Plan of Distribution.

The date of this prospectus is October 19, 2006.

TABLE OF CONTENTS

Until November 29, 2006, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unused allotments or subscriptions.

We have filed with the SEC a registration statement on Form S-4 under the Securities Act to register the notes offered by this prospectus. This prospectus does not contain all the information included in the registration statement and the exhibits and schedules thereto. We strongly encourage you to read carefully the registration statement and the exhibits and schedules thereto. You can obtain documents included in the registration statement through our website at *www.sci-corp.com* or by requesting them in writing or by telephone from us at the following address:

Service Corporation International
1929 Allen Parkway
Houston, Texas 77019
Attention: James M. Shelger, Esq.
Telephone No: (713) 522-5141

To obtain timely delivery of any requested documents, you must request the information no later than five business days before you make your investment decision. Please make any such requests on or before November 13, 2006. See Where You Can Find More Information for more information about these matters.

Table of Contents

PROSPECTUS SUMMARY

The following is a summary of the material information appearing in other sections of this prospectus. It is not complete and does not contain all the information that you should consider before exchanging Old Notes for New Notes. You should carefully read this prospectus and the registration statement and the exhibits and schedules thereto to understand fully the terms of the exchange offer and the New Notes, as well as the tax and other considerations that may be important to you. You should pay special attention to the Risk Factors section beginning on page 13 of this prospectus, as well as the section entitled Cautionary Statement Regarding Forward-Looking Statements . You should rely only on the information contained in this document. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

On April 2, 2006, Service Corporation International, or SCI, executed a definitive merger agreement pursuant to which, subject to the terms and conditions set forth therein, it expects to acquire all outstanding shares of Alderwoods Group, Inc., or Alderwoods (the acquisition). We refer to the acquisition and the related transactions, including the issuance of notes offered in a private placement, the issuance of additional debt securities in a private placement, the borrowings under our new senior credit facility, the repayment of certain existing indebtedness of SCI and Alderwoods, combined with certain divestitures we expect to make pursuant to a consent decree we expect to enter into with the Federal Trade Commission (the FTC) and certain other divestitures of non-strategic operations (collectively the divestitures), collectively as the transactions. The transactions are more fully described below under The Transactions. The transactions do not include the exchange offer that is the subject of this prospectus. Pro forma combined information in this prospectus gives pro forma effect to the transactions as if they had occurred on January 1, 2005, for statement of operations purposes, and June 30, 2006, for balance sheet purposes. See Unaudited Pro Forma Combined Financial Information.

For purposes of the pro forma information in this prospectus, the assets to be sold pursuant to the divestitures have been reclassified on the pro forma balance sheet as assets held for sale, and the results of operations of these assets have been eliminated from the pro forma statement of operations. No pro forma adjustments have been made to reflect any anticipated gain or loss from the divestitures and no adjustment has been made to reflect any earnings benefit from the reinvestment of any proceeds from the divestitures or any reduction of debt from the application of sales proceeds.

For purposes of this prospectus, unless the context otherwise indicates or as otherwise indicated, the term:

- *SCI refers to Service Corporation International and its subsidiaries prior to the acquisition;*
- *Alderwoods refers to the Alderwoods Group, Inc. and its subsidiaries; and*
- *the Company, us, we, our, and ours refer to SCI, together with its subsidiaries, and includes Alderwoods, immediately after giving pro forma effect to the transactions.*

Our Business

We are North America s leading provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. We hold leading positions in each of the U.S. and Canada and, after giving pro forma effect to the transactions, we estimate that we represented approximately 14% of the funeral and cemetery services business in North America based on 2005 industry revenues, which was approximately five times the share of our next largest North American competitor. At June 30, 2006, after giving pro forma effect to the transactions, we owned and operated 1,438 funeral service locations and 235 cemeteries in North America, which are geographically diversified across 46 states, eight Canadian provinces, the District of Columbia and Puerto Rico. In addition, after giving pro forma effect to the transactions, we owned and operated an insurance company that supports our funeral operations. On a comparable store basis, SCI increased North America revenues by 3.4% in fiscal year 2005 compared to fiscal year 2004. For the six month period ended June 30, 2006, on a pro forma basis giving effect to the transactions, comparable store revenues in our North America funeral and cemetery operations increased by 2.5%, compared to the six month period ended June 30, 2005.

Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria and related businesses. We provide all professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles and preparation and embalming services. Funeral related merchandise, including caskets, burial vaults, cremation receptacles, flowers and other ancillary products and services, is sold at each of our funeral service locations. Our cemeteries provide cemetery property interment rights, including mausoleum spaces, lots and lawn crypts, and sell cemetery related merchandise and services, including stone and bronze memorials, burial vaults, casket and cremation memorialization products, merchandise installations and burial openings and closings. We also sell preneed funeral and cemetery products and services whereby a customer contractually agrees to the terms of certain products and services to be provided in the future. Finally, Alderwoods insurance subsidiary sells a variety of insurance products, primarily for the funding of preneed funerals sold by Alderwoods funeral locations.

Our funeral and cemetery operations are organized into a North America division covering the United States and Canada and an Other Foreign division. Upon completion of the acquisition, our operations in the North America division are expected to be organized into approximately 31 major regions and 42 middle regions (including four Hispana regions). Within each region, the funeral homes and cemeteries share common resources such as personnel, preparation services and vehicles. Our four regional support centers in North America are located in Houston, Miami, New York and Los Angeles and help to facilitate the execution of corporate strategies, coordinate communication between the field and corporate offices, and serve as liaisons for the implementation of policies and procedures.

Our Other Foreign division includes funeral operations in Germany and Singapore. We currently intend to sell these operations when economic values and conditions are conducive to a sale. We also have a 25% minority interest in certain funeral operations in France.

Our Competitive Strengths

Industry leader. We believe that our estimated 14% North America share, on a pro forma basis giving effect to the transactions, based on 2005 industry revenues, is approximately five times that of our next largest North American competitor and approximately two times that of the estimated 6% combined share of the remaining five publicly traded deathcare companies. We believe that our size provides us the benefits of standardized training, industry best practices and efficiencies of scale.

Geographic reach. After giving pro forma effect to the transactions, our combined network allows us to serve a broad population base with more than 1,900 funeral and cemetery locations diversified over 46 states, eight Canadian provinces, the District of Columbia and Puerto Rico. We believe our scale differentiates us from our competition by allowing us to implement a national brand strategy and to pursue strategic affinity partnerships with national groups that can influence their members choice of deathcare provider. For example, our strategic affinity partnerships today include the Veterans of Foreign Wars and Ladies Auxiliary, whose combined membership exceeds two million. We believe that our extensive national network enhances purchasing scale and provides us with an advantage in selling preneed funeral and cemetery products and services by allowing us to offer our customers the ability to transfer their preneed contracts to any of the providers in our network.

National brand. In 2000, SCI introduced the first coast-to-coast funeral service brand in North America, Dignity Memorial®. We believe that a national brand name is increasingly important as North American consumers continue to become more geographically mobile. We believe that consumers are less likely now than they have been historically to live in the same community as their parents and grandparents or to know a local funeral director. By building favorable associations with the Dignity Memorial® brand through funeral services, advertising and community outreach programs we strive to create an image of consistency, dependability and excellence that makes consumers more likely to choose our providers. We expect the acquisition of Alderwoods to provide additional opportunities for us to expand the Dignity Memorial® brand. In addition, we are currently developing a second brand, Funeraria del Angel™, to serve North America s growing Hispanic population. As of June 30, 2006, Funeraria del Angel™ had 23 locations in California, Texas, Illinois and Kansas.

Innovative offerings. Using our Dignity Memorial® brand, we augment our range of traditional products and services with more contemporary and comprehensive offerings. In addition to a wide range of funeral, memorial, burial and cremation options, we offer assistance with many of the legal and administrative details that burden customers at times of loss. We also offer grief counseling for survivors and a bereavement travel program, which obtains special rates on airfare, car rentals and hotel accommodations for family and friends traveling from out of town to attend services, and an internet memorialization. In addition, we offer packaged plans for funerals and cremations that are designed to simplify customer decision-making. Since our packaged plans were introduced in 2004, they have achieved consistently high customer satisfaction ratings.

Reputation and service excellence. We believe that we have established a strong reputation for consistency and service excellence, which sets us apart from many of our competitors, serves as a key advantage to attracting customers and enhances our standing as an employer of choice within the industry. Continuing our commitment to excellence, in 2004 we established Dignity University™, a virtual school for SCI employees at all levels. It offers a comprehensive curriculum of professional development and ethics training that is designed to help employees upgrade skills, advance their careers and implement ethical standards at every level of performance. We believe that the acquisition of Alderwoods will allow us to expand and build our reputation for service excellence.

Our Strategies for Growth

In recent years, we have strengthened our balance sheet, lowered our cost structure, introduced more efficient systems and processes and strengthened our management team. We believe these improvements, together with the acquisition of Alderwoods, present us with significant opportunities to achieve future growth. Our principal strategies are as follows:

Approach the business by customer preference. We believe customer attitudes and preferences are essential to our business. We are replacing the industry s traditional one-size-fits-all approach with a flexible operating and marketing strategy that categorizes customers according to personal needs and preferences. Using this new approach, we will tailor our product and service offerings based on four variables:

- convenience and location,
- religious and ethnic customs,
- quality and prestige, and
- price.

By identifying customers based on these variables, we can focus our resources on the most profitable customer categories and improve our marketing effectiveness. We will continue to refine our pricing, product and marketing strategies to support this approach.

Consistent with this strategy, we have begun to analyze existing business relationships to determine whether they are consistent with our strategic goals. As a result, SCI made certain local business decisions to exit unprofitable business relationships and activities in late 2005 and early 2006. We continue to analyze our operations and may exit certain business relationships or activities that do not fit our customer segmentation strategy.

Realign pricing to reflect current market environment. SCI, Alderwoods and other competitors in the deathcare industry have historically generated most of their profits from the sale of traditional products (including caskets, vaults and markers), while placing less emphasis on the services involved in funeral and burial preparation. However, because of increased customer preference for comprehensive and personalized deathcare services, as well as increased competition from retail outlets and websites for the sale of traditional products, SCI has realigned its pricing strategy from product to service offerings in order to focus on services that are most valued by customers. SCI s initial results from the realignment strategy have been favorable based on increases in the overall average revenue per funeral service performed. Upon completion of the acquisition, we expect to evaluate Alderwoods pricing, and, if necessary, make adjustments to align the pricing strategy at the Alderwoods locations to the current SCI locations.

Drive operating discipline and take advantage of our scale. Although we have already made substantial improvements in our infrastructure, we believe we can continue to achieve operating improvements through centralization and standardization of processes for staffing, central care, fleet management and cemetery maintenance. The acquisition of Alderwoods provides further opportunities for synergies and operating efficiencies, which will allow us to utilize our scale and increase profitability. We are developing clear, yet flexible, operating standards that will be used as benchmarks for productivity in these areas. In conjunction with these standards, we will develop and track shared best practices to support higher productivity. We also intend to continue to capitalize on our nationwide network of properties by pursuing strategic affinity partnerships. Over the longer term, we believe these relationships can be a key influence in the funeral home selection process.

Manage and grow the footprint. We will manage our network of business locations by positioning each business location to support the preferences of its local customer base while monitoring each region for changing demographics and competitive dynamics. Funeral home expansion efforts will primarily target businesses whose customers value quality and prestige or adhere to specific religious or ethnic customs. We will focus cemetery expansion efforts on large cemeteries that are or may be combined with funeral home operations, which allow facility, personnel and equipment costs to be shared between the funeral services location and cemetery.

Industry Overview

Demographic factors. More than 70% of all deaths in the United States occur at age 65 and older. In 2004 people aged 65 and older constituted 12% of the population, according to the U.S. Census Bureau; the U.S. Census Bureau projects that by 2020 the number of Americans aged 65 and older will exceed 16% of the population. We believe these demographic trends will produce a growing demand for our services.

Nevertheless, the number of annual deaths in North America is expected to remain relatively constant for at least another decade because of healthier lifestyles and improved medical care. In 2003 life expectancy in the United States reached 77.6 years, compared with 74.6 years in 1983, according to the National Center for Health Statistics. Therefore, our near-term strategies do not anticipate any increase in the number of deaths. Rather, they are designed to increase volume and profitability at existing businesses.

Competitive dynamics. The deathcare industry is characterized by a large number of locally-owned, independent operations. We believe there are approximately 22,000 funeral homes and 10,500 cemeteries in the United States. After the acquisition, the two largest public operators in the deathcare industry in the United States, based on total revenue and number of locations, will be us and Stewart Enterprises, Inc. After giving pro forma effect to the transactions, we believe that we and Stewart collectively represented approximately 17% of industry revenues in the United States in 2005.

The trend toward cremation. In the deathcare industry, there has been a growing trend in the number of cremations performed in North America as an alternative to traditional funeral service dispositions. We believe this presents a significant opportunity for our Company, especially since research shows that most people who choose cremation do so for reasons unrelated to cost. We have been a leading provider of cremation services in North America, with cremation representing approximately 37%, 38% and 39% of our combined funeral services in 2003, 2004 and 2005, respectively, after giving pro forma effect to the transactions. While cremation has traditionally resulted in lower gross profits because it reduces casket sales and because many customers who choose cremation may also decide against purchasing cemetery property, we believe we can improve revenue and profit trends associated with cremation services by realigning our pricing model and offering better and more personalized products and services.

For a further description of our business, see the information set forth under the caption Business that begins on page 110 of this prospectus.

SCI was incorporated in Texas in July of 1962. Our principal corporate offices are located at 1929 Allen Parkway, Houston, Texas 77019 and our telephone number is (713) 522-5141. Our website is *www.sci-corp.com.*

The Transactions

As used in this prospectus:

- the acquisition refers to SCI s acquisition of Alderwoods;
- the financing refers, collectively, to the issuance of notes in a private placement, the issuance of additional debt securities in a private placement, the borrowings under a new senior credit facility, the repurchase of certain outstanding notes of Alderwoods and SCI pursuant to tender offers, and the repayment of certain other existing debt of Alderwoods;
- the divestitures refers, collectively, to certain divestitures we expect to make pursuant to a consent decree we expect to enter into with the FTC and certain other divestitures of non-strategic operations; and
- the transactions refers, collectively, to the acquisition, the financing and the divestitures.

The Acquisition

On April 2, 2006, SCI entered into a definitive merger agreement pursuant to which, subject to the terms and conditions set forth therein, it expects to acquire Alderwoods for $20.00 per share in cash, resulting in a total purchase price of approximately $1.2 billion, which includes the refinancing of approximately $351.7 million and the assumption of $6.5 million of Alderwoods debt.

Acquisition rationale. The acquisition of Alderwoods will enable SCI to serve a number of new, complementary areas, while providing the opportunity for significant synergies and operating efficiencies. The significant benefits of the acquisition include:

- increased geographic scope and scale;
  - entry into attractive new geographic areas;
  - key new facilities, including Rose Hills, a premier U.S. deathcare facility;
- identified annual pre-tax cost savings of approximately $60 to $70 million expected to be achieved within eighteen months of closing the acquisition, with approximately $15 million of such savings realized within twelve months of closing, and potential additional cost-saving synergies (there can be no assurance that any such cost savings or synergies will be achieved; see Management s Discussion and Analysis of Financial Condition and Results of Operations Expected Cost Savings Resulting from the Alderwoods Acquisition);
- immediately accretive to operating cash flow, excluding implementation costs;
- strong cash flow generation and planned divestitures reduce financial risk; and
- increased preneed backlog enhances long-term revenue stability.

Table of Contents

The Financing

The following financing transactions will occur in connection with the closing of the acquisition:

- borrowings under a new $450 million senior credit facility, consisting of a $150 million 3-year term loan, all of which will be borrowed in connection with the transactions, and a $300 million 5-year revolving credit facility, none of which is expected to be drawn in connection with the transactions based on expected cash balances at closing;

- the issuance of $200 million of debt securities in a private placement; and

- the issuance of $500 million of notes in a private placement.

Pending the consummation of the acquisition and certain related transactions described in this prospectus, the net proceeds of each series of notes privately placed will be held in separate escrow accounts. Such notes are subject to special mandatory redemption in the event that the acquisition and related transactions described in this prospectus are not consummated on or prior to December 31, 2006. Such notes may also be redeemed at our option, in whole, but not in part, at any time prior to December 31, 2006, if, in our sole judgment, the acquisition and related transactions will not be consummated by that date. The redemption price in either case will be 100% of the issue price of each series of the notes set forth above, respectively, plus accrued and unpaid interest to the redemption date. Concurrently with the closing of the offering of such notes, we will deposit with an escrow agent into separate escrow accounts the net proceeds of each offering, together with an amount of cash or treasury securities, so that the escrowed funds are sufficient to fund the redemption of the notes, if required. There can be no assurance that the acquisition will be consummated by December 31, 2006, or at all.

In connection with the acquisition, on September 7, 2006, Alderwoods commenced a tender offer to purchase $200 million of its outstanding 7.75% Senior Notes due 2012 (the Alderwoods 7.75% Notes), and a solicitation of consents to eliminate substantially all of the restrictive covenants and certain events of default and to modify certain other provisions of the indenture relating to the Alderwoods 7.75% Notes. This tender offer was originally scheduled to expire on October 5, 2006, but has been extended to October 26, 2006, to coincide with the anticipated closing of the acquisition. The tender offer may be further extended if the closing date of the acquisition is later than October 26, 2006. The tender offer is conditioned upon, among other things, the tender of a majority of the outstanding principal amount of the Alderwoods 7.75% Notes, the consummation of the acquisition and the financing transactions described above, and other customary conditions. As of October 5, 2006, approximately $194,190,000 in aggregate principal amount of the Alderwoods 7.75% Notes, or 97.10% of the outstanding principal amount of the Alderwoods 7.75% Notes, and the consents related thereto, were validly tendered. Withdrawal rights of tendering holders of the Alderwoods 7.75% Notes that tendered prior to the expiration of the consent solicitation on September 20, 2006 (the Alderwoods Consent Date), have expired. The total consideration payable in respect of Alderwoods 7.75% Notes that were accepted for payment and validly tendered and not withdrawn prior to the Alderwoods Consent Date is $1,080.03 per $1,000 principal amount, which includes a $20.00 consent payment payable only in respect of Alderwoods 7.75% Notes that were tendered with consents on or prior to the Alderwoods Consent Date. The total consideration payable in respect of Alderwoods 7.75% Notes that are validly tendered after the Alderwoods Consent Date and on or prior to the expiration date is $1,060.03 per $1,000 principal amount. Accrued and unpaid interest to but excluding the settlement date will also be paid with respect to all existing Alderwoods 7.75% Notes purchased in the tender offer.

In addition, on September 7, 2006, SCI commenced a tender offer to purchase $144.5 million aggregate principal amount of its outstanding 7.7% Senior Notes due 2009, CUSIP Nos: 817565AXZ; 817565AV6; 817565AW4 (the SCI 7.7% Notes), and a solicitation of consents to eliminate substantially all of the restrictive covenants and certain events of default and to modify certain other provisions of the indenture relating to the SCI 7.7% Notes. This tender offer was originally scheduled to expire on October 5, 2006, but has been extended to October 26, 2006, to coincide with the anticipated closing of the acquisition. The tender offer may be further extended if the closing date of the acquisition is later than

Table of Contents

October 26, 2006. The tender offer is conditioned upon, among other things, the tender of a majority of the outstanding SCI 7.7% Notes, the consummation of the acquisition and the financing transactions described above, and other customary conditions. As of October 5, 2006, approximately $138,932,000 in aggregate principal amount of SCI 7.7% Notes, or 96.17% of the outstanding principal amount of the SCI 7.7% Notes, and the consents related thereto, were validly tendered. Withdrawal rights of tendering holders of the SCI 7.7% Notes that tendered prior to the expiration of the consent solicitation on September 20, 2006 (the SCI Consent Date), have expired. The total consideration payable in respect of SCI 7.7% Notes that were accepted for payment and validly tendered and not withdrawn prior to the SCI Consent Date is $1,058.11 per $1,000 principal amount, which includes a $20.00 consent payment payable only in respect of SCI 7.7% Notes that were tendered with consents on or prior to the SCI Consent Date. The total consideration payable in respect of SCI 7.7% Notes that are validly tendered after the SCI Consent Date and on or prior to the expiration date is $1,038.11 per $1,000 principal amount. Accrued and unpaid interest to but excluding the settlement date will also be paid with respect to all existing SCI 7.7% Notes purchased in the tender offer. SCI currently has outstanding a separate series of 7.7% Notes due 2009, which have different CUSIP numbers. SCI is not making a tender offer or consent solicitation for these notes.

Furthermore, upon consummation of the acquisition, SCI and Alderwoods will each terminate all commitments and Alderwoods will repay all outstanding borrowings under its existing credit facilities.

Planned Divestitures

SCI expects to execute a consent order with the staff of the FTC in connection with the acquisition, which will identify certain properties the FTC will require us to divest as a result of the acquisition. The consent order will be subject to approval by the FTC commissioners, which approval is a condition to the consummation of the acquisition. No final agreement has been reached with any third party concerning the sale of any such assets. We believe that the divestiture of the FTC mandated assets, together with the divestiture of other SCI assets that we have identified for sale, will generate proceeds of approximately $200 million in the near future, which we expect to use to repay debt. There can be no assurance that the divestitures described above will be consummated, or if consummated will generate the proceeds described above. For purposes of the pro forma information in this prospectus, the assets to be sold pursuant to the divestitures have been reclassified on the pro forma balance sheet as assets held for sale and the results of operations of these assets have been eliminated from the pro forma statement of operations. No pro forma adjustments have been made to reflect any anticipated gain or loss from the divestitures and no adjustment has been made to reflect any earnings benefit from the reinvestment of any proceeds from the divestitures or any reduction of debt from the application of sales proceeds. In addition, after completion of the acquisition, we intend to undertake a comprehensive review of our integrated operations and we believe there may be further asset sales as a result of that review within 18 months. There can be no assurance that these asset sales will occur or if they occur that they will be on terms favorable to us.

Table of Contents

Summary of the Terms of the Exchange Offer

The Exchange Offer	We are offering to exchange up to $300,000,000 aggregate principal amount of the New Notes for up to $300,000,000 aggregate principal amount of the Old Notes. Old Notes may be exchanged only in $1,000 increments. New Notes will be issued only in minimum denominations of $1,000 and integral multiples of $1,000. The terms of the New Notes are identical in all material respects to the Old Notes except that the New Notes will not contain terms with respect to transfer restrictions, registration rights and payments of additional interest that relate to the Old Notes. The New Notes and the Old Notes will be governed by the same indenture, dated February 1, 1993.
Registration Rights Agreement	We issued $300,000,000 of the Old Notes on June 15, 2005 to Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities, Inc., Banc of America Securities LLC, Lehman Brothers Inc. and Raymond James & Associates, Inc., the initial purchasers, under a purchase agreement dated June 10, 2005. Pursuant to the purchase agreement, we and the initial purchasers entered into a registration rights agreement relating to the Old Notes pursuant to which we agreed to file, not later than 90 days following the closing of the offering of the Old Notes, this exchange offer registration statement with the Commission with respect to a registered offer to exchange the Old Notes for the New Notes. We also agreed to use our best efforts to have this exchange offer registration statement declared effective by the Commission within 180 days of the closing of the offering of the Old Notes and to consummate the exchange offer not later than 210 days following the closing of the offering of the Old Notes. In the event we failed to fulfill our obligations under the registration rights agreement, additional interest would accrue on the Old Notes at an annual rate of 0.25% for the first 90 days, increasing by an additional 0.25% for each subsequent 90-day period up to a maximum additional annual rate of 1.00%. See Exchange Offer and Registration Rights. Because we were unable to fulfill our obligations under the registration rights agreement, we are currently paying additional interest of 1.00% on the Old Notes.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on November 20, 2006, unless we extend the exchange offer. See The Exchange Offer Expiration Date; Extensions; Termination; Amendments.
Conditions to the Exchange Offer	The exchange offer is not subject to any conditions other than that it does not violate applicable law or any applicable interpretation of the staff of the Commission.
Procedures for Tendering Old Notes	If you wish to accept the exchange offer, sign and date the letter of transmittal that was delivered with this prospectus in accordance with the instructions, and deliver the letter of transmittal, along with the Old Notes and any other required documentation, to the exchange agent. Alternatively, you can

Table of Contents

	tender your outstanding Old Notes by following the procedures for book-entry transfer, as described in this prospectus. By executing the letter of transmittal or by transmitting an agent s message in lieu thereof, you will represent to us that, among other things: the New Notes you receive will be acquired in the ordinary course of your business; you are not participating, and you have no arrangement with any person or entity to participate, in the distribution of the New Notes; you are not our affiliate, as defined in Rule 405 under the Securities Act, or a broker-dealer tendering Old Notes acquired directly from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act; and if you are not a broker-dealer, that you are not engaged in and do not intend to engage in the distribution of the New Notes.
Special Procedures for Beneficial Owners	If you are a beneficial owner whose Old Notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and wish to tender such Old Notes in the exchange offer, please contact the registered holder as soon as possible and instruct them to tender on your behalf and comply with our instructions set forth elsewhere in this prospectus.
Guaranteed Delivery Procedures	If you wish to tender your Old Notes, you may, in certain instances, do so according to the guaranteed delivery procedures set forth elsewhere in this prospectus under The Exchange Offer Procedures for Tendering Old Notes Guaranteed Delivery.
Effect of Not Tendering	Old Notes that are not tendered or that are tendered but not accepted will, following the completion of the exchange offer, continue to be subject to the existing restrictions upon transfer thereof. Old Notes that are not tendered will bear interest at a rate of 7.0% per annum. However, because we failed to fulfill our obligations under the registration rights agreement, additional interest is currently accruing on the Old Notes as discussed under Registration Rights Agreement above.
Withdrawal Rights	You may withdraw Old Notes that you tender pursuant to the exchange offer by furnishing a written or facsimile transmission notice of withdrawal to the exchange agent containing the information set forth in The Exchange Offer Withdrawal of Tenders at any time prior to the expiration date.
Acceptance of Old Notes and Delivery of New Notes	We will accept for exchange any and all Old Notes that are properly tendered in the exchange offer prior to the expiration date. See The Exchange Offer Procedures for Tendering Old Notes. The New Notes issued pursuant to the exchange offer will be delivered promptly following the expiration date.

Table of Contents

Resale	We believe that you will be able to freely transfer the New Notes without registration or any prospectus delivery requirement; however, certain broker-dealers and certain of our affiliates may be required to deliver copies of this prospectus if they resell any New Notes.
Taxation	The exchange of Old Notes for New Notes will not be a taxable event for United States federal income tax purposes. See United States Federal Income Tax Consequences.
Broker-Dealers	Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. See Plan of Distribution.
Exchange Agent and Information Agent	Global Bondholder Services Corporation is the exchange agent and the information agent for the exchange offer. The address and phone number of Global Bondholder Services Corporation are on the inside of the back cover of this prospectus.

Table of Contents

Summary of Terms of New Notes

Issuer	Service Corporation International
New Notes	$300,000,000 aggregate principal amount of 7.0% Senior Notes due 2017
Maturity Date	June 15, 2017
Interest Rate	7.0% per annum, accruing from June 15, 2005 or from the date most recently paid
Interest Payment Dates	June 15 and December 15, commencing on December 15, 2006
Ranking	The New Notes will be our general unsecured obligations and will rank equal in right of payment with all of our other unsubordinated indebtedness and senior in right of payment to any of our future subordinated indebtedness. The New Notes will be effectively subordinated to all of our existing and future secured indebtedness to the extent of the collateral securing such indebtedness and to all indebtedness and other obligations of our subsidiaries, whether or not secured, including subsidiary guarantees of our new credit facility and our privately placed debt securities. As of June 30, 2006, after giving pro forma effect to the transactions: our senior indebtedness would have been approximately $2,034.0 million, including $180.1 million of indebtedness under the new senior credit facility (excluding unused availability under our new revolving credit facility and outstanding letters of credit), $1,011.2 million of currently outstanding senior notes, $500.0 million of notes offered in a private placement, $200.0 million of privately placed debt securities, $21.2 million of convertible debentures, and $121.5 million of other indebtedness; and our subsidiaries would have had approximately $1,256.0 million of total indebtedness and other liabilities outstanding, including trade payables and excluding guarantees of our new senior credit facility, our privately placed debt securities, intercompany obligations and deferred revenue.
Optional Redemption	The New Notes will be redeemable in whole or in part, at our option at any time, at redemption prices as set forth in this prospectus under Description of the Notes Optional Redemption, plus accrued and unpaid interest to the redemption date.
Restrictive Covenants	We will issue the New Notes under the same indenture under which the Old Notes were issued. The indenture contains covenants limiting the creation of liens securing indebtedness and sale-leaseback transactions. These covenants are subject to important exceptions. See Risk Factors Risks Related to Tendering Old Notes for New Notes The New Notes lack subsidiary guarantees and some covenants typically found in

Table of Contents

	other comparably rated debt securities, and Description of the Notes Covenants for more information.
Use of Proceeds	We will not receive any proceeds from the exchange of the New Notes for the outstanding Old Notes.
Governing Law	The New Notes will be, and the indenture is, governed by, and construed in accordance with, the laws of the State of Texas.
Trustee, Transfer Agent and Paying Agent	The Bank of New York
Book-Entry Depository	The Depository Trust Company

You should read the Risk Factors section beginning on page 13, as well as the other cautionary statements throughout this prospectus, to ensure you understand the risks involved with the exchange of the New Notes for the outstanding Old Notes.

RISK FACTORS

Before you decide to participate in the exchange offer, you should read the risks, uncertainties and factors that may adversely affect us that are discussed under the captions Management s Discussion and Analysis of Financial Condition and Results of Operations and Cautionary Statement Regarding Forward-Looking Statements, as well as the following additional risk factors.

Risks Related to Tendering Old Notes for New Notes

You may find it difficult to sell your New Notes because there is no existing trading market for the New Notes.

You may find it difficult to sell your New Notes because an active trading market for the New Notes may not develop. There is no existing trading market for the New Notes. We do not intend to apply for listing or quotation of the New Notes on any securities exchange, and so we do not know the extent to which investor interest will lead to the development of a trading market or how liquid that market might be. Although the initial purchasers have informed us that they intend to make a market in the New Notes, they are not obligated to do so, and any market-making may be discontinued at any time without notice. As a result, the market price of the New Notes, as well as your ability to sell the New Notes, could be adversely affected.

Because we are a holding company, your rights under the New Notes will be effectively subordinated to the rights of holders of our subsidiaries liabilities.

Because we are a holding company, our cash flow and ability to service debt, including the New Notes, depend upon the distribution of earnings, loans or other payments made by our subsidiaries to us. Our subsidiaries are separate legal entities and have no obligation with respect to the New Notes. In addition, payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to statutory or contractual restrictions. The New Notes will be effectively subordinated to all of the existing and future obligations of our subsidiaries. Our new senior credit facility is guaranteed by all of our material domestic subsidiaries, which conduct substantially all of our operating activities. As of June 30, 2006, on a pro forma basis after giving effect to the transactions, our subsidiaries would have had approximately $1,256.0 million of total indebtedness and other liabilities outstanding, including trade payables and excluding guarantees of our new senior credit facility and our privately placed debt securities, intercompany obligations and deferred revenues.

The New Notes are unsecured and will be effectively subordinated to all of our existing and future secured obligations to the extent of the collateral securing such obligations.

The New Notes are unsecured and will be effectively subordinated to all of our existing and future secured obligations to the extent of the collateral securing such obligations. As of June 30, 2006, after giving pro forma effect to the transactions, we would have had approximately $2,034.0 million of outstanding indebtedness, including $180.1 million of indebtedness under our new senior credit facility (excluding the $269.9 million unfunded portion of our new revolving credit facility and outstanding letters of credit), $1,011.2 million of currently outstanding senior notes, $200.0 million of privately placed debt securities, $500.0 million of notes offered in a private placement, $21.2 million of convertible debentures, and $121.5 million of other indebtedness. These amounts do not reflect the application of any proceeds that may be realized from the divestitures. See Summary Planned Divestitures . As of June 30, 2006, on a pro forma basis after giving effect to the transactions, we would have had approximately $122 million of secured indebtedness, which is effectively senior to the notes. Substantially all of our secured indebtedness consists of capital leases.

Table of Contents

The New Notes lack subsidiary guarantees and some covenants typically found in other comparably rated public debt securities.

Although the New Notes are rated below investment grade by both Standard & Poor s and Moody s Investors Service, they lack the protection of subsidiary guarantees and several financial and other restrictive covenants typically associated with comparably rated public debt securities, including:

incurrence of additional indebtedness;

payment of dividends and other restricted payments;

sale of assets and the use of proceeds therefrom;

transactions with affiliates; and

dividend and other payment restrictions affecting subsidiaries.

If an active trading market does not develop for the New Notes, you may be unable to sell the New Notes or to sell them at a price you deem sufficient.

The New Notes will be new securities for which there is no established trading market. We do not intend to apply for listing of the New Notes on any securities exchange or for quotation through any automated dealer quotation system. Accordingly, no assurance can be given as to the liquidity of, or adequate trading markets for, the New Notes.

If we breach any of the material financial covenants under our various indentures, revolving credit facility or guarantees, our debt service obligations could be accelerated.

If we or any of our consolidated subsidiaries breach any of the material financial covenants under our various indentures or our new senior credit facility, our substantial debt service obligations, including the New Notes, could be accelerated. Furthermore, any breach of any of the material financial covenants under our new senior credit facility could result in the acceleration of the indebtedness of all of our subsidiaries. In the event of any such simultaneous acceleration, we would not be able to repay all of our indebtedness.

The restrictions contained in our various indentures do not limit our ability to issue additional indebtedness.

We could enter into acquisitions, recapitalizations or other transactions that could increase our outstanding indebtedness. The indenture governing the notes does not limit our ability to incur additional indebtedness. Although covenants under the credit agreement governing our new senior credit facility and under the privately placed debt securities will limit our ability and the ability of our present and future subsidiaries to incur certain additional indebtedness, the terms of the credit agreement and those debt securities will permit us to incur significant additional indebtedness, including unused availability under our new senior credit facility. Additionally, under the credit agreement, we are permitted to pay dividends and repurchase stock, subject to certain conditions. Issuing additional indebtedness could materially impact our business by making it more difficult for us to satisfy our obligations with respect to the New Notes; increasing our vulnerability to general adverse economic and industry conditions; limiting our ability to obtain additional financing; requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, which will reduce the amount of our cash flow available for other purposes, including capital expenditures and other general corporate purposes; limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and placing us at a possible competitive disadvantage compared to our competitors that have less debt or the ability to use their cash flows for such purposes as described above.

Risk Related to Continuing Ownership of the Old Notes

If you fail to exchange your outstanding Old Notes for New Notes, you will continue to hold notes subject to transfer restrictions.

We will only issue New Notes in exchange for outstanding Old Notes that you timely and properly tender. Therefore, you should allow sufficient time to ensure timely delivery of the outstanding Old Notes and you should carefully follow the instructions on how to tender your Old Notes set forth under The Exchange Offer Procedures for Tendering Old Notes and in the letter of transmittal that accompanies this prospectus. Neither we nor the exchange agent are required to notify you of any defects or irregularities relating to your tender of outstanding Old Notes.

If you do not exchange your outstanding Old Notes for New Notes in this exchange offer, the outstanding Old Notes you hold will continue to be subject to the existing transfer restrictions. In general, you may not offer or sell the outstanding Old Notes except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not plan to register the outstanding Old Notes under the Securities Act. If you continue to hold any outstanding Old Notes after this exchange offer is completed, you may have trouble selling them because of these restrictions on transfer.

The trading market for unexchanged Old Notes could be limited.

The trading market for unexchanged Old Notes could become significantly more limited after the exchange offer due to the reduction in the amount of Old Notes outstanding upon consummation of the exchange offer. Therefore, if your Old Notes are not exchanged for New Notes in the exchange offer, it may become more difficult for you to sell or otherwise transfer your Old Notes. This reduction in liquidity may in turn reduce the market price, and increase the price volatility, of the Old Notes. There is a risk that an active trading market in the unexchanged Old Notes will not exist, develop or be maintained and we cannot give you any assurances regarding the prices at which the unexchanged Old Notes may trade in the future.

Risks Related to the Acquisition of Alderwoods

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

The success of the acquisition will depend, in part, on our ability to realize the anticipated cost savings from shared corporate and administrative areas and the rationalization of duplicative expenses. However, to realize the anticipated benefits from the acquisition, we must successfully combine the businesses of SCI and Alderwoods in a manner that permits those costs savings to be realized. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer or cost more to realize than expected. SCI and Alderwoods have operated and, until the completion of the acquisition, will continue to operate, independently. It is possible that the integration process could result in the loss of valuable employees, the disruption of each company s ongoing business or inconsistencies in standards, controls, procedures, practices, and policies that could adversely impact our operations.

The acquisition of Alderwoods may prove disruptive and could result in the combined business failing to meet our expectations.

The process of integrating the operations of Alderwoods may require a disproportionate amount of resources and management attention. Our future operations and cash flows will depend largely upon our ability to operate Alderwoods efficiently, achieve the strategic operating objectives for our business and realize significant cost savings and synergies. Our management team may encounter unforeseen difficulties in managing the integration. In order to successfully combine and operate our businesses, our management team will need to focus on realizing anticipated synergies and cost savings on a timely basis while maintaining the efficiency of our operations. Any substantial diversion of management attention or

Table of Contents

difficulties in operating the combined business could affect our revenues and ability to achieve operational, financial and strategic objectives.

Our historical and pro forma combined financial information may not be representative of our results as a combined company.

The historical financial information included in this prospectus is constructed from the separate financial statements of SCI and Alderwoods for periods prior to the consummation of the acquisition. The pro forma combined financial information presented in this prospectus is based in part on certain assumptions regarding the acquisition that we believe are reasonable. We cannot assure you that our assumptions will prove to be accurate over time. Accordingly, the historical and pro forma combined financial information included in this prospectus may not reflect what our results of operations and financial condition would have been had we been a combined entity during the periods presented, or what our results of operations and financial condition will be in the future. The challenge of integrating previously independent businesses make evaluating our business and our future financial prospects difficult. Our potential for future business success and operating profitability must be considered in light of the risks, uncertainties, expenses and difficulties typically encountered by recently organized or combined companies.

Risks Related to our Business

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

Our strategic plan is focused on cost management and the development of key revenue initiatives designed to generate future internal growth in our core funeral and cemetery operations. Many of the factors necessary for the execution of our strategic plan, such as the number of deaths, are beyond our control. We cannot assure you that we will be able to execute any or all of our strategic plan. Failure to execute any or all of the strategic plan could have a material adverse effect on us, our financial condition, results of operations, or cash flows.

Our new credit agreement and privately placed debt securities contain covenants that may prevent us from engaging in certain transactions.

Our new credit agreement and privately placed debt securities contain, among other things, various affirmative and negative covenants that may prevent us from engaging in certain transactions that might otherwise be considered beneficial to us. These covenants limit, among other things, our and our subsidiaries ability to:

- incur additional indebtedness (including guarantee obligations);
- create liens on assets;
- enter into sale and leaseback transactions;
- engage in mergers, liquidations and dissolutions;
- sell assets;
- enter into leases;
- pay dividends, distributions and other payments in respect of capital stock, and purchase our capital stock in the open market;
- make investments, loans or advances;
- repay subordinated indebtedness or amend the agreements relating thereto;
- engage in certain transactions with affiliates;
- change our fiscal year;

16

Table of Contents

create restrictions on our ability to receive distributions from subsidiaries; and

change our lines of business.

Our new senior credit facility also requires us to maintain certain leverage and interest coverage ratios.

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

We have entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on our behalf as financial assurance or as required by existing state and local regulations. The surety bonds are used for various business purposes; however, the majority of the surety bonds issued and outstanding have been issued to support our preneed funeral and cemetery activities. In the event all of the surety companies cancelled or did not renew SCI s surety bonds, which are generally renewed for twelve-month periods, SCI would be required to either obtain replacement coverage or fund approximately $285.7 million and $277.5 million as of December 31, 2005 and June 30, 2006, respectively, into state-mandated trust accounts.

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

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

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

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

As of December 31, 2005, net unrealized appreciation in SCI s preneed funeral and cemetery merchandise and services trust funds amounted to $13.9 million and $48.2 million, respectively. SCI s perpetual care trust funds had net unrealized appreciation of $21.4 million as of December 31, 2005. The following table summarizes SCI s investment returns excluding fees on its trust funds for the last three years.

	2003	2004	2005
Preneed funeral trust funds	17.9%	7.1%	6.6%
Cemetery merchandise services trust funds	17.1%	6.7%	6.9%
Perpetual care trust funds	12.6%	8.6%	3.9%

The following table summarizes Alderwoods investment returns excluding fees on its trust funds for the entire trust portfolio for the last three years.

	2003	2004	2005
Total trust portfolio	7.7%	5.0%	3.1%

If our earnings from our trust funds decline, we would likely experience a decline in future revenues. In addition, if the trust funds experienced significant investment losses, there would likely be insufficient

funds in the trusts to cover the costs of delivering services and merchandise or maintaining cemeteries in the future. We would have to cover any such shortfall with cash flows, which could have a material adverse effect on us, our financial condition, results of operations, or cash flows.

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

We sell price guaranteed preneed funeral contracts through various programs providing for future funeral services at prices prevailing when the agreements are signed. For preneed funeral contracts funded through life insurance or annuity contracts, SCI and Alderwoods receive in cash a general agency commission that typically averages 14% and 9%, respectively, of the total sale from the third party insurance company. Additionally, there is an increasing death benefit associated with the contract of between 1% (for SCI) and 3% (for Alderwoods) per year to be received in cash by us at the time the funeral is performed. There is no guarantee that the increasing death benefit will cover future increases in the cost of providing a price guaranteed funeral service, which could materially adversely affect our future cash flows, revenues and operating margins.

If our insurance subsidiary s actual claims experience differs from its underwriting and reserving assumptions, or if it suffers investment losses, our operating results and financial position could be adversely affected.

We set prices for our preneed insurance products and establish reserves to pay future policy benefits under such products based upon actuarial or statistical estimates, using many assumptions and projections, which involve the exercise of significant judgment, including as to the levels and timing of the receipt or payment of premiums, benefits, claims, expenses, investment results, mortality, morbidity and persistency. If our actual claims experience differs from our underwriting and reserving assumptions, or if we otherwise determine that our reserves are inadequate to pay future policy benefits, it could adversely impact our operating results and financial position. Our insurance subsidiary invests in fixed maturity investments, cash and short-term investments, which are affected by financial market conditions that are beyond our control. If earnings from these investments decline, we would likely have insufficient funds to pay future benefits under our preneed products. We would have to cover any such shortfall with operating cash flows, which could have a material adverse effect on our operating results and financial condition.

Unfavorable results of litigation could have a material adverse impact on our financial statements.

As discussed in note thirteen to SCI s annual financial statements and note ten to its interim financial statements and note 9 to Alderwoods annual financial statements and note 4 to its interim financial statements, each included elsewhere in this prospectus, SCI, Alderwoods and their respective subsidiaries are subject to a variety of claims and lawsuits. Adverse outcomes in some or all of the pending cases may result in significant monetary damages or injunctive relief. SCI, Alderwoods and their respective subsidiaries are also subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. While management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on our financial position or results of operations, litigation and other claims are subject to inherent uncertainties and management s view of these matters may change in the future. There exists the possibility of a material adverse impact on our financial position and the results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

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

The U.S. Census Bureau estimates that the number of deaths in the United States will increase up to one percent per year until 2010. However, longer life spans could reduce the number of deaths during this period. If the number of deaths declines, the number of funeral services and interments performed by us could decrease and our financial condition, results of operations and cash flows could be materially adversely affected.

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

There is a continuing upward trend in the number of cremations performed in North America as an alternative to traditional funeral service dispositions. In North America for the six months ended June 30, 2006, 41% of the comparable funeral services performed by SCI were cremation cases compared to 40% and 39% performed in years 2005 and 2004, respectively. In North America for the twenty-four weeks ended June 17, 2006, 38% of the comparable funeral services performed by Alderwoods were cremation cases compared to 36% and 35% performed during the fifty-two weeks ended December 31, 2005 and January 1, 2005, respectively. We continue to expand our cremation memorialization products and services, which has resulted in higher average sales for cremation services. If we are unable to successfully expand our cremation memorialization products and services to meet the continuing trends, our financial condition, results of operations, and cash flows could be materially adversely affected.

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

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

Fluctuations in the value of the Canadian dollar could result in currency exchange losses.

A portion of our corporate and administrative expenses are payable in Canadian dollars, while most of our revenue is generated in United States dollars and we report our financial statements in United States dollars. Therefore, a strengthening of the Canadian dollar relative to the United States dollar will adversely affect our results of operations. Expenses for Alderwoods corporate and administrative functions are paid principally in Canadian dollars and have predictable future cash outflows (Foreign Currency Expenditure). We have a program to hedge the variability in the United States dollar equivalent of a portion of the Foreign Currency Expenditure due to the fluctuation in the exchange rate between the United States dollar and the Canadian dollar (Foreign Currency Hedge Program). We use forward foreign exchange contracts and foreign exchange option contracts to partially mitigate foreign exchange variability. Under the Foreign Currency Hedge Program, losses or gains in our underlying foreign exchange exposure are partially offset by gains or losses on the forward foreign exchange contracts and foreign exchange option contracts, so as to reduce the magnitude of foreign exchange transaction gains or losses. Any hedging activities we undertake may not be successful in mitigating all of this risk.

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

Our operations are subject to regulation, supervision, and licensing under numerous foreign, federal, state and local laws, ordinances and regulations, including extensive regulations concerning trust funds, preneed sales of funeral and cemetery products and services, and various other aspects of our business. The impact of such regulations varies depending on the location of our funeral and cemetery operations. Violations of applicable laws could result in fines or sanctions to us.

In addition, from time to time, governments and agencies propose to amend or add regulations, which would increase costs and decrease cash flows. For example, foreign, federal, state, local and other regulatory agencies have considered and may enact additional legislation or regulations that could affect the deathcare industry, such as regulations that require more liberal refund and cancellation policies for preneed sales of products and services, limit or eliminate our ability to use surety bonding, increase trust requirements and prohibit the common ownership of funeral homes and cemeteries in the same region. If adopted by the regulatory authorities of the jurisdictions in which we operate, these and other possible

Table of Contents

proposals could have a material adverse effect on us, our financial condition, results of operations and cash flows.

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

Our foreign operations and investments involve special risks.

Our activities in areas outside the United States are subject to risks inherent in foreign operations, including the following:

- loss of revenue, property and equipment as a result of hazards such as expropriation, nationalization, wars, insurrection and other political risks;

- the effects of currency fluctuations and exchange controls, such as devaluation of foreign currencies and other economic problems; and

- changes in laws, regulations, and policies of foreign governments, including those associated with changes in the governing parties.

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

The number of tax years with open tax audits varies depending on the tax jurisdiction. In the United States, the Internal Revenue Service is currently examining SCI s tax returns for 1999 through 2002 and various state jurisdictions are auditing years through 2004. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our accruals reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue would reduce a deferred tax asset or require the use of cash. Favorable resolution could result in reduced income tax expense reported in the financial statements in the future. The tax accruals are presented in SCI s balance sheet within *Other liabilities.*

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 in this prospectus. These statements may be accompanied by words such as believe, estimate, project, expect, anticipate or predict that convey the uncertainty of future events or outcomes. These statements are based on assumptions that we believe are reasonable; however, many important factors could cause our actual results in the future to differ materially from the forward-looking statements made in this prospectus and in any other documents or oral presentations made by us or on our behalf. Important factors that could cause our actual results to differ materially from those in forward-looking statements include, among others, the factors described in this prospectus under Risk Factors .

You should not place undue reliance on forward-looking statements, which speak only as of the date of this prospectus.

WHERE YOU CAN FIND MORE INFORMATION

Each of SCI and Alderwoods file annual, quarterly and special reports, proxy statements and other information with the Commission under the Securities Exchange Act of 1934. You may read and copy this information at the Commission s public reference room, 100 F Street, N.E., Washington, D.C. 20549.

You may also obtain copies of this information by mail from the public reference section of the Commission, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. The Commission also maintains an Internet world wide web site that contains reports, proxy statements and other information about issuers, including SCI and Alderwoods, who file electronically with the Commission. The address of that site is *www.sec.gov*. You can also inspect reports, proxy statements and other information about SCI at the offices of the New York Stock Exchange, Inc., located at 20 Broad Street, New York, New York 10005. You can also inspect reports, proxy statements and other information about Alderwoods at the offices of the NASDAQ National Market at 1735 K Street, N.W., Washington, D.C. 20006. In addition, you can obtain certain documents, including those filed with the Commission, through SCI s website at *www.sci-corp.com* and Alderwoods website at *www.alderwoods.com*.

This prospectus is part of a registration statement on Form S-4 that we have filed with the SEC. As allowed by SEC rules, this prospectus does not contain all the documents and other information you can find in the registration statement or the exhibits filed with the registration statement. Whenever a reference is made in this prospectus to an agreement or other document of Service Corporation International be aware that such reference is not necessarily complete and that you should refer to the exhibits that are filed with the registration statement for a copy of the agreement or other document. You may review a copy of the registration statement at the SEC s public reference room in Washington, D.C., as well as through the SEC s website as described above. You may also obtain any of the documents referenced in this prospectus from us free of charge by requesting them in writing or by telephone from us at the following address:

Service Corporation International
1929 Allen Parkway
Houston, Texas 77019
Attention: James M. Shelger, Esq.
Telephone No.: (713) 522-5141

To obtain timely delivery of any requested documents, you must request the information no later than five business days before you make your investment decision. Please make any such requests on or before November 13, 2006.

We have not authorized anyone to give any information or make any representation that differs from, or adds to, the information in this document or in our documents that are publicly filed with the Commission. Therefore, if anyone does give you different or additional information, you should not rely on it.

If you are in a jurisdiction where it is unlawful to offer to exchange or sell, or to ask for offers to exchange or buy, the securities offered by this document, or if you are a person to whom it is unlawful to direct these activities, then the offer presented by this document does not extend to you.

The information contained in this document speaks only as of its date unless the information specifically indicates that another date applies.

Table of Contents

USE OF PROCEEDS

This exchange offer is intended to satisfy our obligations under the registration rights agreement entered into in connection with our issuance of the Old Notes. We received net proceeds of approximately $291 million from the issuance of the Old Notes after deducting initial purchasers discounts and offering expenses. We used the net proceeds of the Old Notes, together with available cash, to pay for the $282.3 million aggregate principal amount, premium and accrued interest of our 7.2% Notes due 2006 and 6.875% Notes due 2007 tendered pursuant to our tender offers for those notes.

We will not receive any cash proceeds from the issuance of the New Notes. We will exchange outstanding Old Notes for New Notes in like principal amount as contemplated in this prospectus. The terms of the New Notes are identical in all material respects to the existing Old Notes except as otherwise described herein under Description of the Notes. The Old Notes surrendered in exchange for the New Notes will be retired and canceled and cannot be reissued. Accordingly, issuance of the New Notes will not result in a change in our total debt and other financing obligations.

CAPITALIZATION

The following table shows SCI s cash and cash equivalents and capitalization as of June 30, 2006, on an as reported basis, and our cash and cash equivalents and capitalization on a pro forma basis to reflect the transactions. The exchange of the Old Notes for the New Notes will not impact our overall total capitalization. This table is unaudited and should be read in conjunction with Unaudited Pro Forma Combined Financial Information, Selected Historical Financial Information of SCI, Selected Historical Financial Information of Alderwoods, Management s Discussion and Analysis of Financial Condition and Results of Operations, and SCI s and Alderwoods interim financial statements and related notes, which are included elsewhere in this prospectus.

	As of June 30, 2006	
	Actual	Pro forma
	(Dollars in millions)	
Cash and cash equivalents(1)	$ 529.2	$
Debt:		
New senior credit facility		
Revolving credit facility(1)(2)	$	$ 30.1
Term loan(2)		150.0
Privately placed debt securities		200.0
Privately placed notes		500.0
Existing senior notes due 2007	13.5	13.5
Existing senior notes due 2008	195.0	195.0
Existing senior notes due 2009(3)	341.6	197.1
Existing senior debentures due 2013	55.6	55.6
Existing senior notes due 2016	250.0	250.0
New Notes	300.0	300.0
Existing convertible debentures, maturities through 2013	21.2	21.2
Other debt(4)	118.8	121.5
Total debt	1,295.7	2,034.0
Total stockholders equity(5)	1,608.9	1,578.8
Total capitalization	$ 2,904.6	$ 3,612.8

(1) At June 30, 2006, SCI and Alderwoods had $537.6 million of combined cash on hand. At September 13, 2006, SCI and Alderwoods had approximately $631 million of combined cash on hand. We intend to keep approximately $50 million in cash on hand after the closing of the acquisition. Therefore, to the extent cash on hand at closing exceeds approximately $590 million, revolver borrowings under the new senior credit facility reflected above will be reduced.

Table of Contents

(2) Based on expected cash balances at closing, we do not expect to have drawings under our revolving credit facility. In connection with the closing of the acquisition, SCI will replace its existing $200 million senior credit facility with a new $450 million senior credit facility, consisting of a $150 million 3-year term loan, all of which will be borrowed in connection with the transactions, and a $300 million 5-year revolving credit facility. Based on cash balances at June 30, 2006, we would have borrowed $30.1 million under the new revolving credit facility in connection with the transactions. See footnote (1) above. Availability under the new revolving credit facility will be further reduced by outstanding letters of credit. At June 30, 2006, our pro forma outstanding letters of credit were approximately $70.1 million.

(3) SCI commenced a tender offer on September 7, 2006 to purchase $144.5 million aggregate principal amount of the SCI 7.7% Notes. This tender offer was originally scheduled to expire on October 5, 2006, but has been extended to October 26, 2006, to coincide with the anticipated closing of the acquisition. The tender offer may be further extended if the closing date of the acquisition is later than October 26, 2006.

(4) Primarily includes capital leases, mortgage notes, and unamortized discounts. Pro forma other debt excludes $13.5 million of capital leases and other debt related to assets held for sale. Pro forma other debt includes the elimination of unamortized discount of $9.7 million relating to the SCI 7.7% Notes with respect to which SCI has commenced a tender offer. See footnote (3) above.

(5) Adjustments to equity include $25.0 million of estimated tender premiums, $4.3 million of transaction fees and $18.3 million to write-off unamortized discounts and deferred financing costs related to the extinguished debt, net of a $17.6 million tax benefit.

Table of Contents

SELECTED HISTORICAL FINANCIAL INFORMATION OF SCI

The selected historical financial data set forth below as of December 31, 2004 and 2005 and for the fiscal years ended December 31, 2003, 2004 and 2005 have been derived from SCI s annual financial statements included elsewhere in this prospectus. The selected historical financial data set forth below as of December 31, 2001, 2002 and 2003 and for the fiscal years ended December 31, 2001 and 2002 have been derived from annual financial statements that are not included in this prospectus. The selected historical financial data for the six months ended June 30, 2005 and 2006 have been derived from SCI s interim financial statements included elsewhere in this prospectus which, in the opinion of management, include all adjustments necessary for a fair presentation of that information for such periods. The selected historical financial data presented for the interim periods has been prepared in a manner consistent with the accounting policies of SCI described elsewhere in this prospectus and should be read in conjunction therewith. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year period.

SCI has restated its previously reported selected financial data for each of the five fiscal years in the period ended December 31, 2005, as well as its unaudited quarterly financial data for the six months ended June 30, 2005. The restatement corrected errors related to (1) the miscalculation of SCI s actuarially determined pension benefit obligation, (2) the accounting for certain leases related to funeral home properties which were previously accounted for as operating leases but should have been accounted for as capital leases, and (3) other out-of-period adjustments previously identified by SCI but deemed to be not material either individually or in the aggregate. For additional information regarding the restatement, see note two to SCI s annual financial statements and note two to SCI s interim financial statements included elsewhere in this prospectus.

During 2005, SCI sold its funeral and cemetery operations in Argentina and Uruguay and its cemetery operations in Chile. These operations are classified as discontinued operations for all periods presented.

In 2005, SCI changed its method of accounting for direct selling costs related to the acquisition of preneed funeral and cemetery contracts. Prior to this change, SCI capitalized such direct selling costs and amortized these costs in proportion to the revenue recognized. Under its new method of accounting, SCI expenses these direct selling costs as incurred. As a result of this accounting change, SCI recorded a cumulative effect charge of $187.5 million, net of tax, in 2005. For more information regarding this accounting change, see note four to SCI s annual financial statements included elsewhere in this prospectus.

On March 31, 2004, SCI implemented revised Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46R). Under the provisions of FIN 46R, SCI is required to consolidate preneed funeral and cemetery merchandise and service trust assets, cemetery perpetual care trusts, and certain cemeteries. As a result of this accounting change, SCI recognized a cumulative effect charge of $14.0 million, net of tax, in 2004.

In 2004, SCI also changed its method of accounting for gains and losses on its pension plan assets and obligations to recognize such gains and losses as they are incurred. Prior to the adoption of this change, SCI amortized the difference between actual and expected investment returns and actuarial gains and losses over seven years. As a result of this accounting change, SCI recognized a charge for the cumulative effect of $36.6 million, net of tax, in 2004.

In 2002, SCI adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 142 addresses accounting for goodwill and other intangible assets and redefines useful lives, amortization periods and impairment of goodwill. Under the pronouncement, goodwill is no longer amortized, but is tested for impairment annually by assessing the fair value of reporting units, generally one level below reportable segments. As a result of the adoption of SFAS 142, SCI recognized a non-cash charge in 2002 reflected as a cumulative effect of accounting change of $135.6 million, net of applicable taxes, related to the impairment of goodwill in its

Table of Contents

North America cemetery reporting unit. For more information regarding goodwill, see note nine to SCI s annual financial statements included in this prospectus.

The selected historical financial data below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and with SCI s annual financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,					Six Months Ended June 30,	
	2001	2002	2003	2004	2005	2005	2006
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	
	(Dollars in millions, except per share data)						
Statement of operations data:							
Revenues	$ 2,463.9	$ 2,293.4	$ 2,313.2	$ 1,831.2	$ 1,715.7	$ 879.3	$ 873.1
Gross profit	313.4	356.8	356.2	330.0	298.1	170.8	170.7
Gains and impairment (losses) on dispositions net	(480.2)	(163.1)	50.7	25.8	(26.1)	(1.2)	(7.4)
Operating (loss) income	(198.2)	9.0	219.8	224.9	187.2	127.4	120.4
(Loss) income from continuing operations before income taxes	(391.5)	(129.4)	95.7	112.0	88.7	69.3	83.9
(Loss) income from continuing operations before cumulative effect of accounting changes	(433.9)	(90.1)	69.3	119.7	55.5	42.2	52.6
Basic (loss) income per share from continuing operations	(1.52)	(0.31)	0.23	0.38	0.19	0.14	0.18
Diluted (loss) income per share from continuing operations	(1.52)	(0.31)	0.23	0.37	0.18	0.14	0.18
Cash dividends paid per share					0.075	0.025	0.050

	As of December 31,					As of June 30,
	2001	2002	2003	2004	2005	2006
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	
	(Dollars in millions)					
Balance sheet data (at period end):						
Total assets	$ 9,029.3	$ 7,801.8	$ 7,571.2	$ 8,227.2	$ 7,544.8	$ 7,670.7

Total long-term debt less current maturities	2,312.4	1,885.2	1,530.1	1,200.4	1,186.5	1,265.3
Stockholders equity	1,451.7	1,318.9	1,516.3	1,843.0	1,581.6	1,608.9

Table of Contents

See note two to SCI s annual financial statements and note two to SCI s interim financial statements included elsewhere in this prospectus for details related to the restatement impacts on the financial statements as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005 and the six months ended June 30, 2005. The impacts on the selected financial data as of December 31, 2003, 2002 and 2001, and for each of the two years in the period ended December 31, 2002 are as follows (in millions, except per share data):

	2002		2001	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Loss from continuing operations before cumulative effect of accounting changes	$ (89.3)	$ (90.1)	$ (433.3)	$ (433.9)
Net loss	$ (234.6)	$ (235.4)	$ (622.2)	$ (622.7)
Loss per share:				
Loss from continuing operations before cumulative effect of accounting changes				
Basic	$ (0.30)	$ (0.31)	$ (1.52)	$ (1.52)
Diluted	$ (0.30)	$ (0.31)	$ (1.52)	$ (1.52)
Total assets	$ 7,793.1	$ 7,801.8	$ 9,020.5	$ 9,029.3
Long-term debt, less current maturities	$ 1,874.1	$ 1,885.2	$ 2,301.4	$ 2,312.4
Stockholders equity	$ 1,321.3	$ 1,318.9	$ 1,453.2	$ 1,451.7

	2003	
	As Previously Reported	As Restated
Total assets	$ 7,562.9	$ 7,571.2
Long-term debt, less current maturities	$ 1,519.2	$ 1,530.1
Stockholders equity	$ 1,521.6	$ 1,516.3

Table of Contents

SELECTED HISTORICAL FINANCIAL INFORMATION OF ALDERWOODS

As described in Business History , on January 2, 2002, Alderwoods succeeded to substantially all of the assets and operations of Loewen Group pursuant to its bankruptcy reorganization plan. The consolidated financial and other information of Alderwoods issued subsequent to the reorganization are not comparable with the consolidated financial information and other information issued by Loewen Group prior to the reorganization due to, among other things, the significant changes in the financial and legal structure of Alderwoods and the application of fresh start reporting in connection with the reorganization. Accordingly, the accompanying consolidated financial information should be reviewed with caution, and Loewen Group s consolidated financial information should not be relied upon as being indicative of future results of Alderwoods or providing an accurate comparison of financial performance. A black line has been drawn to separate and distinguish between the consolidated financial information that relates to Alderwoods and the consolidated financial information that relates to Loewen Group, the predecessor company for accounting purposes.

The selected historical financial data set forth below as of January 1 and December 31, 2005 and for the fifty-three weeks ended January 3, 2004, the fifty-two weeks ended January 1, 2005, and the fifty-two weeks ended December 31, 2005, have been derived from Alderwoods annual financial statements included elsewhere in this prospectus. The selected historical financial data set forth below as of December 31, 2001 and for the fiscal year ended December 31, 2001 for Loewen Group has been derived from annual financial statements that are not included in this prospectus. Also, the selected historical financial data as of December 28, 2002 and January 3, 2004, the fifty-two weeks ended December 28, 2002 and the fifty-three weeks ended January 3, 2004 for Alderwoods has been derived from annual financial statements that are not included in this prospectus.

The historical information for the twenty-four weeks ended June 17, 2006 and June 18, 2005 has been derived from Alderwoods interim financial statements, included elsewhere in this prospectus which, in the opinion of management, include all adjustments necessary for a fair presentation of that information for such periods. The financial information presented for the interim periods has been prepared on a basis consistent with the accounting policies of Alderwoods described elsewhere in this prospectus and should be read in conjunction therewith. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full fiscal year or for any other interim period.

Table of Contents

The selected historical financial data below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and with Alderwoods consolidated financial statements and related notes included elsewhere in this prospectus.

	Predecessor(g)	Alderwoods Group					
		52 Weeks Ended	53 Weeks Ended	52 Weeks Ended	52 Weeks Ended	24 Weeks Ended	
	December 31, 2001	December 28, 2002	January 3, 2004	January 1, 2005	December 31, 2005	June 18, 2005	June 17, 2006
	(Dollars in millions, except per share data)						
Statement of operations data:							
Revenues	$ 836.4	$ 692.4	$ 720.8	$ 717.1	$ 748.9	$ 360.7	$ 354.3
Gross profit(a)	181.2	126.2	143.9	124.9	114.5	64.5	58.9
Provision for goodwill impairment		(228.3)					
(Provision) benefit for asset impairment(b)	(180.7)	(0.6)	(5.2)	(1.8)	1.4	1.6	
Operating (loss) income	(132.2)	(145.8)	82.4	71.9	73.1	53.8	26.3
(Loss) income from continuing operations(c)	(87.2)	(223.6)	8.4	(3.6)	42.9	26.9	5.9
Net (loss) income	(643.7)	(233.7)	10.8	9.3	41.2	25.2	4.7
Basic (loss) income per share from continuing operations(d)	(1.29)	(5.60)	0.21	(0.09)	1.06	0.67	0.15
Diluted (loss) income per share from continuing operations	(1.29)	(5.60)	0.21	(0.09)	1.03	0.65	0.14
Balance sheet data:							
Total assets(e)(f)	$ 2,874.1	$ 2,553.7	$ 2,453.0	$ 2,372.4	$ 2,274.3		2,280.8
Total long-term debt including current maturities	831.2	756.1	630.9	463.6	373.5		358.2
Shareholders equity	739.4	523.4	544.9	555.9	597.8		598.2

(a) For the 52 weeks ended December 31, 2005, the 52 weeks ended January 1, 2005, the 53 weeks ended January 3, 2004, and the 52 weeks ended December 28, 2002, gross profit includes depreciation expense not included in the year ended December 31, 2001.

(b) Predecessor provision for asset impairment includes goodwill impairment as determined under the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.*

(c) For the Predecessor, represents loss before extraordinary gain, fresh start valuation adjustments and cumulative effect of accounting change.

(d) For the Predecessor, represents basic loss per share before extraordinary gain, fresh start valuation adjustments and cumulative effect of accounting change. Predecessor loss per share amounts are included herein, as required by U.S. GAAP. However, the common stockholders of the Predecessor received no equity in Alderwoods upon reorganization.

(e) Alderwoods elected to adopt FIN No. 46R at the beginning of the 2004 fiscal year on January 4, 2004. The adoption of FIN No. 46R resulted in the consolidation in Alderwoods balance sheet of the funeral, cemetery merchandise and service, and perpetual care trusts, and several pooled investment funds created for such trusts, but did not change the legal relationships among these trusts, pooled investment funds, Alderwoods, and its holders of preneed contracts. Alderwoods does not consolidate certain funeral trusts for which it does not absorb a majority of their expected losses and therefore, is not considered a primary beneficiary of these funeral trusts under FIN No. 46R. The adoption of FIN No. 46R has not materially impacted Alderwoods stockholders equity, net income or its consolidated statement of cash flows. Amounts and balances prior to January 4, 2004 have not been restated to reflect the adoption of FIN No. 46R.

Table of Contents

(f) Alderwoods changed its accounting policy on accounting for insurance funded preneed funeral contracts as of January 4, 2004, as Alderwoods concluded that its insurance funded preneed funeral contracts are not assets and liabilities as defined by Statement of Financial Accounting Concepts No. 6 *Elements in Financial Statements.* Accordingly, Alderwoods retroactively removed from its consolidated balance sheet amounts relating to insurance funded preneed funeral contracts previously included in preneed funeral contracts with an equal and offsetting amount in deferred preneed funeral contract revenue. The removal of insurance funded preneed funeral contracts did not have any impact on Alderwoods results of operations, consolidated stockholders equity, or cash flows.

(g) The financial results of the Loewen Group, the Predecessor, for the year ended December 31, 2001, include $87 million of pretax charges representing reorganization costs. The 2001 results exclude $133 million of contractual interest expense applicable to certain pre-Petition Date debt obligations, which were subject to compromise as a result of the Chapter 11 and Creditors Arrangement Act filings.

Table of Contents

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

On April 2, 2006, SCI entered into a definitive merger agreement pursuant to which, subject to the terms and conditions set forth therein, it will acquire Alderwoods for $20.00 per share in cash, resulting in a total purchase price of approximately $1.2 billion, which includes the refinancing of approximately $351.7 million and the assumption of $6.5 million of Alderwoods debt.

The following financing transactions will occur in connection with the closing of the acquisition:

- borrowings under a new $450 million senior credit facility, consisting of a $150 million 3-year term loan, all of which will be borrowed in connection with the transactions, and a $300 million 5-year revolving credit facility, none of which is expected to be drawn in connection with the acquisition based on expected cash balances at closing;

- the issuance of $200 million of debt securities in a private placement; and

- the issuance of $500 million of notes offered in a private placement.

In connection with the acquisition, Alderwoods and SCI have each commenced tender offers to purchase outstanding notes. The tender offers were originally scheduled to expire on October 5, 2006, but have been extended to October 26, 2006, to coincide with the anticipated closing of the acquisition. The tender offers may be further extended if the closing date of the acquisition is later than October 26, 2006.

SCI expects to execute a consent order with the staff of the FTC in connection with the acquisition, which will identify certain properties the FTC will require us to divest as a result of the acquisition. The consent order will be subject to approval by the FTC commissioners, which approval is a condition to the consummation of the acquisition. No final agreement has been reached with any third party concerning the sale of any such assets. We believe that divestiture of the assets, together with the divestiture of other SCI assets that we have identified for sale, will generate proceeds of approximately $200 million in the near future, which we expect to use to repay debt. There can be no assurance that the divestitures described above will be consummated, or if consummated will generate the proceeds described above.

The following unaudited pro forma combined financial information is based on SCI s and Alderwoods annual and interim financial statements included elsewhere in this prospectus adjusted to illustrate the pro forma effect of the transactions.

The unaudited pro forma combined balance sheet gives effect to the transactions as if they had occurred on June 30, 2006. The unaudited pro forma combined statements of operations for the year ended December 31, 2005, and for the six months ended June 30, 2006 and 2005 give effect to the transactions as if they had occurred on January 1, 2005.

For purposes of the pro forma information in this prospectus, the assets to be sold pursuant to the divestitures have been reclassified on the pro forma balance sheet as assets held for sales and the results of operations of these assets have been eliminated from the pro forma statement of operations. No pro forma adjustments have been made to reflect any anticipated gain or loss from the divestitures and no adjustment has been made to reflect any earnings benefit from the reinvestment of any proceeds from the divestiture or any reduction of debt from the application of sale proceeds.

The unaudited pro forma adjustments are based upon currently available information and certain assumptions that we believe to be reasonable under the circumstances. The acquisition will be accounted for, and the pro forma combined financial information has been prepared, using the purchase method of accounting. The pro forma adjustments reflect our preliminary estimates of the purchase price allocation, which are subject to revision as more detailed analysis is completed and additional information on the fair value of Alderwoods assets and liabilities becomes available. The final allocation will be based on the actual assets and liabilities that exist as of the date of the consummation of the transactions.

The unaudited pro forma combined financial information does not give effect to certain additional cost savings initiatives that we intend to pursue. See Summary Planned Divestitures and Management s Discussion and Analysis of Financial Condition and Results of Operations Expected Cost Savings Resulting from the Alderwoods Acquisition.

The unaudited pro forma combined financial information is for informational purposes only and is not intended to represent the consolidated results of operations or financial position that we would have reported had the transactions been completed as of the dates presented, and should not be taken as representative of our future consolidated results of operations or financial position.

The unaudited pro forma combined financial information should be read in conjunction with the information contained in Selected Historical Financial Information of SCI, Selected Historical Financial Information of Alderwoods, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements of SCI and Alderwoods and related notes included elsewhere in this prospectus.

Table of Contents

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of June 30, 2006

	SCI Historical	Alderwoods Historical(a)	Adjustments for the Acquisition	Adjustments for the Divestitures(l)	Adjustments for the Financing	Pro Forma
			(Dollars in thousands)			
			ASSETS			
Current assets:						
Cash and cash equivalents	$ 529,171	$ 8,400	$ (876,650)(b)	$ 9	$ 339,070(m)	$
Receivables, net	62,439	51,244		(4,023)		109,660
Inventories	64,938	15,282		(25,223)		54,997
Current assets held for sale				29,298		29,298
Other	30,847	8,325		(61)		39,111
Total current assets	687,395	83,251	(876,650)		339,070	233,066
Preneed funeral receivables and trust investments	1,227,144	338,052		(62,466)		1,502,730
Preneed cemetery receivables and trust investments	1,285,832	301,621		(143,584)		1,443,869
Cemetery property, at cost	1,365,712	116,096	108,904(c)	(94,981)		1,495,731
Property and equipment, at cost, net	1,038,990	540,954	78,095(d)	(73,709)		1,584,330
Insurance invested assets		298,392				298,392
Assets held for sale				496,559		496,559
Deferred charges and other assets	253,727	42,600	5,630(e)	(16,747)	7,016(n)	292,226
Identifiable intangible assets		19,930	167,795(f)	(9,421)		178,304
Goodwill	1,118,119	295,913	(50,494)(g)	(22,691)		1,340,847
Cemetery perpetual care trust investments	693,781	243,980		(72,960)		864,801
Total	$ 7,670,700	$ 2,280,789	$ (566,720)	$	$ 346,086	$ 9,730,855
			LIABILITIES & STOCKHOLDERS EQUITY			
Current liabilities:						
Accounts payable and accrued liabilities	$ 196,977	$ 113,984	$ 19,560(g)(1)	$ (2,177)	$	$ 328,344
Current maturities of long-term debt	30,414	2,271		(8)		32,677

Current liabilities held for sale				2,185		2,185
Income taxes	21,014					21,014
Total current liabilities	248,405	116,255	19,560			384,220
Long-term debt	1,265,263	355,958		(13,528)	393,678(o)	2,001,371
Deferred preneed funeral revenues	539,178	44,517	(28,422)(g)(1)	(14,802)		540,471
Deferred preneed cemetery revenues	777,717	31,313	73,390(h)	(58,449)		823,971
Insurance policy liabilities		285,701				285,701
Deferred income taxes	168,925	10,744	(29,348)(i)		(17,526)(p)	132,795
Liabilities held for sale				347,481		347,481
Other liabilities	315,403	28,471	(3,738)(j)	(766)		339,370
Non-controlling interest in funeral and cemetery trusts	2,055,566	564,447		(186,807)		2,433,206
Non-controlling interest in cemetery perpetual care trust investments	691,385	245,221		(73,129)		863,477
Total stockholders equity	1,608,858	598,162	(598,162)(k)		(30,066)(q)	1,578,792
Total	$ 7,670,700	$ 2,280,789	$ (566,720)	$	$ 346,086	$ 9,730,855

See notes to unaudited pro forma condensed combined balance sheet.

32

Table of Contents

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

(a) Reflects the unaudited consolidated balance sheet of Alderwoods as of June 17, 2006. Certain line items have been reclassified to conform to SCI s presentation.

(b) Represents the cash purchase price plus SCI acquisition costs.

(c) Represents an adjustment to report Alderwoods cemetery property at fair value as part of purchase accounting. The estimated fair value of Alderwoods cemetery property was $225,000 at June 17, 2006, calculated using discounted future cash flows. The carrying value of Alderwoods cemetery property was $116,096 at June 17, 2006, resulting in a total increase to cemetery property of $108,904.

(d) Represents an adjustment to report Alderwoods property and equipment at fair value as part of purchase accounting. The estimated fair value of Alderwoods property and equipment was $619,049 at June 17, 2006, calculated using discounted future cash flows. The carrying value of Alderwoods property and equipment was $540,954 at June 17, 2006, resulting in a total increase to property and equipment of $78,095.

(e) Represents an adjustment to conform Alderwoods accounting for the recognition of sales of undeveloped cemetery property with SCI s historical accounting policy. Deferred cemetery revenue was increased by $6,951 and deferred charges and other assets was increased by $5,630. See note (g)(2) and (h).

(f) Represents the additional intangible assets or adjustments to intangible assets to be recorded as a result of the acquisition, consisting of the following:

Trademarks and tradenames(1)	$	39,500
Cemetery customer relationships(2)		16,400
Funeral trust preneed deferred revenue and insurance funded preneed revenue(3)		61,213
Cemetery preneed deferred revenue(4)		46,033
Water rights		5,500
Adjustment to fair value of insurance subsidiary s in force insurance policies		(851)
	$	167,795

(1) Represents the estimated value of various local trademarks and tradenames associated with funeral and cemetery locations.

(2) Represents the estimated value of future funeral services and cemetery services derived from existing cemetery customers.

(3) Represents the amount necessary to adjust preneed funeral trust deferred revenue for certain existing preneed funeral contracts, and insurance funded contracts to their estimated fair value.

(4) Represents the amount necessary to adjust preneed cemetery deferred revenue for certain existing preneed cemetery contracts to their estimated fair value.

Table of Contents

(g) Represents the elimination of previously recorded goodwill and the addition of goodwill arising from the transaction. Goodwill was determined as follows:

Equity purchase price	$	856,300
Estimated SCI acquisition costs		20,350
Aggregate purchase price		876,650
Fair value of liabilities assumed(1)		1,714,069
Fair value of assets acquired(2)		(2,345,300)
Goodwill arising from the transaction		245,419
Alderwoods historical goodwill		(295,913)
Adjustment to goodwill	$	(50,494)

(1) Represents the estimated fair value of liabilities assumed as follows:

Historical total liabilities	$	1,682,627
Adjustment to fair value preneed funeral deferred revenue		(28,422)
Adjustment to fair value preneed cemetery deferred revenue (See note (h))		73,390
Adjustment to deferred income taxes (See note (i))		(29,348)
Adjustment to record certain severance obligations triggered by change of control provisions		19,560
Adjustment to other liabilities (See note (j))		(3,738)
Fair value of liabilities assumed	$	1,714,069

(2) Represents the fair value of assets acquired as follows:

Historical total assets	$	2,280,789
Eliminate historical goodwill		(295,913)
Adjustment to conform recognition of sales of undeveloped cemetery property (See note (e))		5,630
Adjustment to fair value cemetery property (See note (c))		108,904
Adjustment to fair value property and equipment (See note (d))		78,095
Adjustment to fair value identifiable intangible assets (See note (f))		167,795
Fair value of assets assumed	$	2,345,300

(h) The following represents adjustments to preneed cemetery deferred revenue arising as part of purchase accounting:

Adjustment to fair value preneed cemetery deferred revenue	$	66,439
Adjustment to conform recognition of sales of undeveloped cemetery property (See note (e))		6,951
Adjustment to preneed cemetery deferred revenue	$	73,390

(i) Represents an adjustment to deferred income tax liabilities as part of purchase accounting as follows:

Deferred taxes related to adjustments to the fair market value of assets acquired and liabilities assumed (See notes (c), (d), (e), (f), (g), (h) and (j))	$	122,190
Elimination of valuation allowances on certain federal and state tax deferred tax assets based on the expected combined operations of Alderwoods and SCI		(125,767)
Elimination of deferred taxes related to previously recorded goodwill (See note (g))		(25,771)
	$	(29,348)

Table of Contents

(j) The following represents adjustments to other liabilities arising as part of purchase accounting:

Adjustment to reclassify certain severance obligations previously accrued	$	(5,643)
Adjustment to fair value pension liability		1,905
Adjustment to other liabilities	$	(3,738)

(k) Represents the elimination of Alderwoods historical equity balances.

(l) For purposes of the pro forma information in this prospectus, the assets to be sold pursuant to the divestitures have been reclassified on the pro forma balance sheet as assets held for sale and the results of operations of these assets have been eliminated from the pro forma statement of operations. No pro forma adjustments have been made to reflect any anticipated gain or loss from the divestitures and no adjustment has been made to reflect any earnings benefit from the reinvestment of any proceeds from the divestitures or any reduction of debt from the application of sale proceeds.

(m) Represents net cash provided as a result of the financing transactions, offset by the use of cash to extinguish debt and pay financing costs.

Amounts to be extinguished:		
Repayment of existing Alderwoods indebtedness(1)	$	351,683
Repayment of SCI Senior Notes due 2009		144,500
Total amounts to be extinguished		496,183
Financing costs and transaction fees		19,875
Estimated tender premiums		25,000
Total amounts to be paid	$	541,058
Debt issuance:		
Notes offered in a private placement	$	500,000
Credit facility		180,128
Privately placed debt securities		200,000
Total sources of cash		880,128
Total cash provided	$	339,070

(1) Excludes $6,546 of existing Alderwoods debt expected to be assumed by SCI.

(n) Represents the adjustment to deferred charges and other assets as set forth in the table below:

Write-off of Alderwoods deferred financing costs for extinguished debt	$	(7,125)
Write-off of SCI s deferred financing costs for extinguished debt		(1,459)
Financing costs		15,600
Total adjustment to deferred charges and other assets	$	7,016

Table of Contents

(o) Represents the increase in long-term debt as set forth in the table below:

Amounts to be extinguished:		
Existing Alderwoods debt	$	351,683
Existing SCI debt		134,767
Total amounts to be extinguished		486,450
Debt issuance:		
Notes offered in a private placement		500,000
Credit facility		180,128
Privately placed notes		200,000
Total debt issuance		880,128
Total adjustment to long-term debt	$	393,678

(p) Represents the tax benefit related to the adjustments to stockholders equity for non-recurring charges directly attributable to the financing transactions (see note (q)).

(q) The following are the adjustments to stockholders equity related to non-recurring charges directly attributable to the financing transactions that will occur in connection with the closing of the acquisition:

Estimated tender premiums	$	25,000
Transaction fees		4,275
Write-off of SCI s original issuance discount for extinguished debt		9,733
Write-off of Alderwoods deferred financing fees for extinguished debt		7,125
Write-off of SCI s deferred financing fees for extinguished debt		1,459
Tax benefit		(17,526)
	$	30,066

Table of Contents

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2005

	SCI Historical	Alderwoods Historical(a)	Adjustments for the Acquisition	Adjustments for the Divestitures(g)	Adjustments for the Financing	Pro Forma
	(Dollars in thousands, except per share data)					
Revenues	$ 1,715,737	$ 748,914	$ (5,025)(b)	$ (94,251)	$	$ 2,365,375
Costs and expenses	(1,417,592)	(634,395)	(7,649)(c)	81,285		(1,978,351)
Gross profit	298,145	114,519	(12,674)	(12,966)		387,024
General and administrative expenses	(84,834)	(42,815)	7,751(d)			(119,898)
Gains (loss) on dispositions and impairment charges, net	(26,093)	1,379	4,964(e)	401		(19,349)
Operating income	187,218	73,083	41	(12,565)		247,777
Interest expense	(103,733)	(30,069)		695	(25,248)(i)	(158,355)
Loss on early extinguishment of debt	(14,258)					(14,258)
Interest income	16,706					16,706
Other income (expense), net	2,774	4,662	(4,964)(e)			2,472
Income from continuing operations before income taxes	88,707	47,676	(4,923)	(11,870)	(25,248)	94,342
Provision for income taxes	(33,233)	(4,815)	(12,256)(f)	4,638(h)	9,250(j)	(36,416)
Income from continuing operations	$ 55,474	$ 42,861	$ (17,179)	$ (7,232)	$ 15,998	$ 57,926
Income from continuing operations per share:						
Basic	$ 0.19					$ 0.19
Diluted	$ 0.18					$ 0.19
Average common shares outstanding:						

Basic	302,213	302,213
Diluted	306,745	306,745

See notes to unaudited pro forma condensed combined statement of operations.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Six Months Ended June 30, 2005

	SCI Historical	Alderwoods Historical(a)	Adjustments for the Acquisition	Adjustments for the Divestitures(g)	Adjustments for the Financing	Pro forma
	(Dollars in thousands, except per share data)					
Revenues	$ 879,284	$ 360,663	$ (3,776)(b)	$ (45,961)	$	$ 1,190,210
Costs and expenses	(708,440)	(296,171)	(3,484)(c)	39,106		(968,989)
Gross profit	170,844	64,492	(7,260)	(6,855)		221,221
General and administrative expenses	(42,192)	(12,346)	3,866(d)			(50,672)
Gain (loss) on dispositions and impairment charges, net	(1,213)	1,627	5,447(e)	(450)		5,411
Operating income	127,439	53,773	2,053	(7,305)		175,960
Interest expense	(51,229)	(14,528)		363	(13,391)(i)	(78,785)
Loss on early extinguishment of debt	(14,258)					(14,258)
Interest income	7,950					7,950
Other (expense) income, net	(637)	5,843	(5,447)(e)			(241)
Income from continuing operations before income taxes	69,265	45,088	(3,394)	(6,942)	(13,391)	90,626
Provision for income taxes	(27,073)	(18,193)	1,592(f)	2,716(h)	4,907(j)	(36,051)
Income from continuing operations	$ 42,192	$ 26,895	$ (1,802)	$ (4,226)	$ (8,484)	$ 54,575
Income from continuing operations per share:						
Basic	$ 0.14					$ 0.18
Diluted	$ 0.14					$ 0.17
Average common shares outstanding:						
Basic	307,896					307,896
Diluted	311,986					311,986

See notes to unaudited pro forma condensed combined statement of operations.

Table of Contents

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Six Months Ended June 30, 2006

	SCI Historical	Alderwoods Historical(a)	Adjustments for the Acquisition	Adjustments for the Divestitures(g)	Adjustments for the Financing	Pro Forma
	(Dollars in thousands, except per share data)					
Revenues	$ 873,143	$ 354,261	$ (531)(b)	$ (46,028)	$	$ 1,180,845
Costs and expenses	(702,399)	(295,410)	(2,495)(c)	38,961		(961,343)
Gross profit	170,744	58,851	(3,026)	(7,067)		219,502
General and administrative expenses	(42,929)	(32,557)	5,118(d)			(70,368)
Gain (loss) on dispositions and impairment charges, net	(7,391)		(80)(e)	(99)		(7,570)
Operating income	120,424	26,294	2,012	(7,166)		141,564
Interest expense	(53,337)	(12,949)		378	(14,337)(i)	(80,245)
Interest income	12,763					12,763
Other income (expense), net	4,046	(129)	80(e)			3,997
Income from continuing operations before income taxes	83,896	13,216	2,092	(6,788)	(14,337)	78,079
Provision for income taxes	(31,282)	(7,318)	285(f)	2,685(h)	5,253(j)	(30,377)
Income from continuing operations	$ 52,614	$ 5,898	$ 2,377	$ (4,103)	$ (9,084)	$ 47,702
Income from continuing operations per share:						
Basic	$ 0.18					$ 0.16
Diluted	$ 0.18					$ 0.16
Average Common Shares outstanding:						
Basic	293,580					293,580
Diluted	297,784					297,784

See notes to unaudited pro forma condensed combined statement of operations.

Table of Contents

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

(a) Alderwoods historical information is derived from: (1) the audited consolidated statement of operations for the fifty-two weeks ended December 31, 2005; (2) the unaudited consolidated statement of operations for the twenty-four weeks ended June 18, 2005; and (3) the unaudited consolidated statement of operations for the twenty-four weeks ended June 17, 2006. Certain of Alderwoods line items have been reclassified to conform to SCI s presentation.

(b) The table below sets forth adjustments to revenue arising from the acquisition:

	Year Ended December 31, 2005	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006
	(Dollars in thousands)		
Preneed funeral contracts(1)	(5,754)	(2,766)	(3,188)
Preneed cemetery contracts(2)	1,521	664	752
Cemetery revenue from the sale of unconstructed property(3)	(792)	(1,674)	1,905
Adjustment to revenue	$ (5,025)	$ (3,776)	$ (531)

(1) Represents a net adjustment for the amortization of (i) the associated intangible asset, and (ii) the fair value adjustment to funeral trust funded preneed deferred revenue.

(2) Represents a net adjustment for the amortization of (i) the associated intangible asset, and (ii) the fair value adjustment to cemetery preneed deferred revenue.

(3) Represents an adjustment to conform Alderwoods accounting for the recognition of sales of undeveloped cemetery property with SCI s historical accounting policy.

(c) The table below sets forth adjustments to costs and expenses arising from the acquisition:

	Year Ended December 31, 2005	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006
	(Dollars in thousands)		
Depreciation expense(1)	$ 6,684	$ 3,271	$ 3,726
Intangible amortization expense(2)	(3,910)	(1,955)	(1,955)
Pension expense(3)	(415)	(208)	47
Cemetery costs from the sale of unconstructed property(4)	(67)	434	(600)
Cemetery property cost of sales(5)	(9,941)	(5,026)	(3,713)
Adjustment to costs and expenses	$ (7,649)	$ (3,484)	$ (2,495)

(1)

Represents a net adjustment to record depreciation expense over a weighted average estimated remaining useful life of 30 years, reflecting the adjusted fair value of Alderwoods property and equipment.

(2) Represents an adjustment to record the amortization of intangible assets recorded as a result of the acquisition. The cemetery customer relationships and the funeral insurance funded preneed revenue are being amortized over an estimated useful life of ten years. The trademark, tradename, water rights and insurance in force intangibles are considered to have an indefinite life and are not subject to amortization; rather, such assets would be subject to annual tests for impairment. The intangible assets associated with funeral trust funded preneed deferred revenue and cemetery preneed deferred revenue are amortized relative to the recognition of preneed revenue and included in note (b(1)) and (b(2)).

(3) Represents a net adjustment to conform Alderwoods accounting policy for gains and losses on its pension plan assets and obligations to SCI s historical accounting policy.

(4) Represents an adjustment to conform Alderwoods accounting for the recognition of sales of undeveloped cemetery property with SCI s historical accounting policy.

(5) Represents a net adjustment to record cemetery property cost of sales at the adjusted fair value of Alderwoods cemetery property.

(d) Represents an adjustment to eliminate compensation expense for certain officers for whom severance costs have been recorded on the pro forma balance sheet.

(e) Represents the reclassification of gains and losses from dispositions to conform to SCI s historical presentation.

(f) The pro forma adjustments to income tax reflect the statutory federal, state and foreign income tax impact of the pro forma adjustments related to the Alderwoods acquisition (see notes (b), (c), (d) and (e)) and the effects of purchase accounting.

(g) For purposes of the pro forma information in this prospectus, the assets to be sold pursuant to the divestitures have been reclassified on the pro forma balance sheet as assets held for sale and the results of operations of these assets have been eliminated from the pro forma statement of operations. No pro forma adjustments have been made to reflect any anticipated gain or loss from the divestitures and no adjustment has been made to reflect any earnings benefit from the reinvestment of any proceeds from the divestitures or any reduction of debt from the application of sale proceeds.

(h) Represents the statutory federal, and state income tax impact attributable to the operations to be divested.

(i) The table below sets forth adjustments to interest expense resulting from the extinguishment of debt and issuance of new debt:

	Year Ended December 31, 2005	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006
Interest expense on new borrowings:			
Senior notes due 2014 offered hereby(1)	$ 18,438	$ 9,219	$ 9,219
Senior notes due 2018 offered hereby(2)	19,063	9,531	9,531
New senior credit facility			
Term loan(3)	11,100	5,550	5,550
Revolving credit facility(4)	2,227	1,114	1,114
Private placement debt securities(5)	14,800	7,400	7,400
Amortization of deferred financing costs(6)	$ 1,843	$ 902	$ 975
Total interest expense on new borrowings	$ 67,471	$ 33,716	$ 33,789
Less: historical interest expense and related amortization of deferred financing costs on extinguished borrowings:			
Alderwoods	$ 29,221	$ 13,824	$ 12,951
SCI	13,002	6,501	6,501
Total historical interest expense and related amortization of deferred financing costs on extinguished borrowings	$ 42,223	$ 20,325	$ 19,452

Adjustment to interest expense	$ 25,248	$ 13,391	$ 14,337

Table of Contents

(1) Represents interest on our new senior notes due 2014, which is calculated as follows:

	Year Ended December 31, 2005	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006
Outstanding balance	$ 250,000	$ 250,000	$ 250,000
Interest rate	7.375%	7.375%	7.375%
Portion of year outstanding	100%	50%	50%
Calculated interest	$ 18,438	$ 9,219	$ 9,219

(2) Represents interest on our new senior notes due 2018, which is calculated as follows:

	Year Ended December 31, 2005	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006
Outstanding balance	$ 250,000	$ 250,000	$ 250,000
Interest rate	7.625%	7.625%	7.625%
Portion of year outstanding	100%	50%	50%
Calculated interest	$ 19,063	$ 9,531	$ 9,531

(3) Represents interest on our new term loan, which is calculated as follows:

	Year Ended December 31, 2005	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006
Estimated outstanding balance	$ 150,000	$ 150,000	$ 150,000
Assumed interest rate-3 month LIBOR (5.4% on September 13, 2006) plus 2.00%	7.40%	7.40%	7.40%
Portion of year outstanding	100%	50%	50%
Calculated interest	$ 11,100	$ 5,550	$ 5,550
An increase or decrease of 25 basis points in interest rate would result in an interest expense increase or decrease of	$ 375	$ 188	$ 188

(4) Represents interest on our new revolving facility, which is calculated as follows:

	Year Ended	Six Months Ended	Six Months Ended

	December 31, 2005	June 30, 2005	June 30, 2006
Estimated outstanding balance	$ 30,100	$ 30,100	$ 30,100
Assumed interest rate-3 month LIBOR (5.4% on September 13, 2006) plus 2.00%	7.40%	7.40%	7.40%
Portion of year outstanding	100%	50%	50%
Calculated interest	$ 2,227	$ 1,114	$ 1,114
An increase or decrease of 25 basis points in interest rate would result in an interest expense increase or decrease of	$ 75	$ 38	$ 38

42

Table of Contents

(5) Represents interest on our private placement debt securities, which is calculated as follows:

	Year Ended December 31, 2005	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006
Estimated outstanding balance	$ 200,000	$ 200,000	$ 200,000
Assumed interest rate-3 month LIBOR (5.4% on September 13, 2006) plus 2.00%	7.40%	7.40%	7.40%
Portion of year outstanding	100%	50%	50%
Calculated interest	$ 14,800	$ 7,400	$ 7,400
An increase or decrease of 25 basis points in interest rate would result in an interest expense increase or decrease of	$ 500	$ 250	$ 250

(6) Represents amortization of deferred financing costs over the term of the new financing arrangements.

(j) Represents the statutory federal, and state income tax impact of the adjustment to interest expense (see note (h)).

SUPPLEMENTARY FINANCIAL INFORMATION

The supplementary data specified by Item 302 of Regulation S-K as it relates to SCI s quarterly data is included in Note 22 to the consolidated financial statements of SCI included in this prospectus. The supplementary data specified by Item 302 of Regulation S-K as it relates to Alderwoods quarterly data is included in Note 23 to the consolidated financial statements of Alderwoods included in this prospectus.

RATIO OF EARNINGS TO FIXED CHARGES OF SCI

(In thousands, except ratio amounts)

	Six Months Ended June 30,		Years Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
Ratio (earnings divided by fixed charges)	2.47	2.16	1.73	1.81	1.60	A	A

A. During the years ended December 31, 2002 and 2001, the ratio coverage was less than 1:1. In order to achieve a coverage of 1:1, the Company would have had to generate additional income from continuing operations before income taxes and cumulative effect of accounting changes of $128,922 and $393,356 for the years ended December 31, 2002 and 2001, respectively.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with and is qualified in its entirety by reference to the consolidated financial statements and related notes of SCI and Alderwoods included elsewhere in this prospectus. Except for historical information, the discussion in this section contains forward-looking statements that involve risks and uncertainties, including, but not limited to, those described in the Risk factors section of this prospectus. Future results could differ materially from those discussed below. See the discussion under the caption Cautionary Statements Regarding Forward-Looking Statements .

On April 2, 2006, SCI executed a definitive merger agreement pursuant to which, subject to the terms and conditions set forth therein, it expects to acquire all outstanding shares of Alderwoods Group, Inc., or Alderwoods. We refer to the acquisition and the related transactions, including the issuance of notes offered in a private placement, the issuance of debt securities in a private placement, the borrowings under our new senior credit facility, the repayment of certain existing indebtedness of SCI and Alderwoods and the divestitures, collectively as the transactions. The transactions do not include the exchange offer that is the subject of this prospectus. The following discussion and analysis of our financial condition and results of operations covers periods prior to the consummation of the acquisition. Accordingly, the discussion and analysis of historical periods does not reflect the significant impact that the acquisition will have on us, including significantly increased leverage.

For purposes of this prospectus, unless the context otherwise indicates or as otherwise indicated, the term:

SCI refers to Service Corporation International and its subsidiaries prior to the acquisition;

Alderwoods refers to the Alderwoods Group, Inc. and its subsidiaries; and

the Company, us, we, our, or ours refer to SCI, together with its subsidiaries, including Alderwoods, immediately after giving effect to the transactions.

Overview

We are North America s leading provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. We hold leading positions in each of the U.S. and Canada and, giving pro forma effect to the acquisition, we estimate that we represented approximately 14% of the funeral and cemetery services business in North America based on 2005 industry revenues, which was approximately five times the share of our next largest North American competitor.

On April 2, 2006, SCI entered into a definitive merger agreement pursuant to which it expects to acquire Alderwoods for $20.00 per share in cash, resulting in a total purchase price of approximately $1.2 billion, which includes the refinancing of approximately $351.7 million and the assumption of $6.5 million of Alderwoods debt. Upon completion of the acquisition, we intend to focus on the near-term reduction of our outstanding indebtedness to our long-term target levels. Through the application of operating cash flow and proceeds from asset sales to retire pre-payable debt, we expect to reduce our outstanding debt to approximately $1.7 billion within the next several years.

Our strategy to deliver profitable growth is supported by three structural components, and the acquisition of Alderwoods is consistent with each of those components:

Approach business by customer category the acquisition provides increased exposure to key demographic and customer segments.

Utilize scale and drive operating discipline the acquisition provides additional economies of scale.

Manage the footprint the acquisition provides an increased presence across North America.

Table of Contents

We derive a majority of our revenues from the sale of funeral related merchandise and services. Funeral merchandise includes caskets, burial vaults, cremation receptacles, flowers, and other ancillary products. Funeral services include preparation and embalming, cremation, and the use of funeral facilities and vehicles, as well as assisting customers with many of the legal and administrative details related to funerals. Funeral revenues also include revenues generated by our wholly owned subsidiary, Kenyon International Emergency Services (Kenyon), which provides disaster management services in mass fatality incidents. Revenues and gross profits associated with Kenyon are subject to significant variation due to the nature of its operations. On a pro forma basis giving effect to the transactions, revenues generated from the sale of funeral related merchandise and services were $1.6 billion or 66.6% of total net revenues for the fiscal year ended December 31, 2005 and $781.6 million or 66.2% of total net revenues for the six months ended June 30, 2006. We sell a significant portion of our funeral services on a preneed basis, whereby a customer contractually agrees to the terms of a funeral to be performed in the future. On a pro forma basis giving effect to the transactions, approximately $463.3 million or 29.4% of our total funeral revenues in the fiscal year ended December 31, 2005 and approximately $231.7 million or 29.6% of our total funeral revenues in the six months ended June 30, 2006 were made on a preneed basis in prior periods.

We also generate revenue from the sale of cemetery related property, merchandise and services. Our cemeteries sell cemetery property interment rights including lots, mausoleum spaces, lawn crypts, and spaces in cremation gardens. Our cemeteries also perform interment services (primarily merchandise installation and burial openings and closings) and provide management and maintenance of cemetery grounds. Cemetery merchandise includes items such as stone and bronze memorials, burial vaults, and casket and cremation memorialization products. On a pro forma basis giving effect to the transactions, revenues generated from the sale of cemetery related property, merchandise, and services were $695.2 million or 29.4% of total net revenues for the fiscal year ended December 31, 2005 and $353.0 million or 29.9% of total net revenues for the six months ended June 30, 2006. Cemetery sales are also often made on a preneed basis. On a pro forma basis giving effect to the transactions, approximately $360.4 million or 51.9% of our total cemetery revenues in the fiscal year ended December 31, 2005 and approximately $176.9 million or 50.1% of our total cemetery revenues in the six months ended June 30, 2006 were made on a preneed basis in prior periods.

Alderwoods insurance company sells a variety of insurance products, primarily for the funding of preneed funerals. On a pro forma basis giving effect to the transactions, revenues generated from the sale of insurance products were $95.0 million or 4.0% of total net revenues for the fiscal year ended December 31, 2005 and $46.3 million or 3.9% of total net revenues for the six months ended June 30, 2006.

At June 30, 2006, on a pro forma basis giving effect to the transactions, we owned and operated 1,438 funeral homes and 235 cemeteries in 46 states, eight Canadian provinces, the District of Columbia, and Puerto Rico. In 2005, on a pro forma basis giving effect to the transactions, $2.3 billion or 99.5% of our net sales were generated in North America. With the acquisition of Alderwoods, we gain entry into five new states in the U.S. and assume the leading position in Canada. We plan to continue to focus our growth in the future on building an increased presence across North America.

At June 30, 2006, on a pro forma basis giving effect to the transactions, we owned 243 funeral home/cemetery locations in which a funeral home is physically located within or adjoining a cemetery operation. Combination operations allow certain facility, personnel and equipment costs to be shared between the funeral home and cemetery. Combination locations also create synergies between funeral and cemetery sales personnel and give families added convenience to purchase both funeral and cemetery products and services at a single location. With the acquisition of Alderwoods, we will acquire Rose Hills, which is the largest combination operation in the U.S., performing approximately 5,000 funerals and 9,000 interments per year.

We recognize sales of merchandise and services when the merchandise is delivered or the service is performed. Sales of cemetery interment rights are recognized when a minimum of 10% of the sales price has been collected and the property has been constructed or is available for interment.

Primary costs associated with our funeral service locations include labor costs, facility costs, vehicle costs, and cost of merchandise. Primary costs associated with our cemeteries include labor costs, selling costs, cost of merchandise (including cemetery property), and maintenance costs.

Expected Cost Savings Resulting from the Alderwoods Acquisition

Based on current estimates and assumptions, we expect to achieve significant cost savings and other synergies as a result of the Alderwoods acquisition, principally through the elimination of duplicate information technology systems and infrastructure, duplicate accounting, finance, legal and other systems, overlapping management, and duplicate executive and public company costs, as well as through increased purchasing scale. We expect that these cost savings will have significant effects on our results of operations that are not reflected in the unaudited pro forma combined financial information included in this prospectus.

We have developed a detailed integration plan and established integration teams of employees at both SCI and Alderwoods to implement this plan after closing. These teams will work under the direct supervision of integration leaders, which includes several senior executives that have been designated with the responsibility for developing and supervising the implementation of the integration plan. We believe that the compatibility of SCI s and Alderwoods systems and infrastructure will help to minimize integration risk. For example, both companies use the same point-of-sale software.

Based on current estimates and assumptions, and excluding one-time cash integration costs of approximately $60 million (which does not include financing fees and other related transaction costs), of which we expect to incur approximately $30 to $35 million during 2006 and the remainder during 2007, we expect to achieve annual pretax cost savings of approximately $60 to $70 million within eighteen months of closing the acquisition, with approximately $15 million of such savings realized within twelve months of closing. The amounts are measured relative to actual costs incurred by Alderwoods in 2005. These estimated cost savings are comprised of the following:

	Estimated Annual Cost Savings (Dollars in millions)	
Duplicate systems and infrastructure(a)	$	35
Management structure duplication(b)	$	15
Public company and redundant corporate costs(c)	$	15

(a) Duplicate IT systems and administrative overhead.

(b) Overlapping management and other management restructuring initiatives.

(c) Redundant director fees and expenses, auditor fees, finance, accounting, human resources, and legal costs.

In addition to the $60 to $70 million of cost savings already identified, we believe there is potential for additional cost saving synergies primarily in the areas of purchasing (primarily caskets) and in the combined company s management and sale structure approach.

The foregoing cost savings and synergies are based on estimates and assumptions made by us that are inherently uncertain, though considered reasonable by us. Our expected cost savings and synergies are subject to significant business, economic and competitive uncertainties and contingencies, all of which are difficult to predict and many of which are beyond our control. As a result, there can be no assurance that any such cost-savings or synergies will be achieved. See Risk factors Risks Related to the Acquisition of Alderwoods.

Table of Contents

Factors Affecting Our Results of Operations

Acquisition of Alderwoods

The acquisition of Alderwoods will have a significant impact on our operations. In addition to the effect of including Alderwoods business in our results after the acquisition is completed, we expect to achieve significant cost-savings and other synergies as a result of the Alderwoods acquisition. Based on current estimates and assumptions, we expect to achieve annual pretax cost savings of approximately $60 to $70 million within eighteen months of closing. We will incur one-time integration and other related costs of approximately $60 million (which does not include financing fees and other related transaction costs) of which we expect to incur $30 to $35 million during 2006 and the remainder during 2007. In connection with the acquisition and related financings, we will incur estimated transaction costs of $40.2 million. We will be more highly leveraged and after giving effect to the transactions, our interest expense will increase by approximately $30.4 million per year. See the discussion above for further information regarding synergies and costs associated with our acquisition of Alderwoods.

Demographic Factors

More than 70% of all deaths in the United States occur at age 65 and older. In 2004 people aged 65 and older constituted 12% of the population, according to the U.S. Census Bureau; the U.S. Census Bureau projects that by 2020 the number of Americans aged 65 and older will exceed 16% of the population. We believe these demographic trends will produce a growing demand for our services.

Nevertheless, the number of annual deaths in North America is expected to remain relatively constant for at least another decade because of healthier lifestyles and improved medical care.

In 2003 life expectancy in the United States reached 77.6 years, compared with 74.6 years in 1983, according to the National Center for Health Statistics. Therefore, our near-term strategies do not anticipate any increase in the number of deaths. Rather, they are designed to increase volume and profitability at existing businesses.

Average Revenue per Funeral Service

Average revenue per funeral service is a primary driver of our funeral revenues. We calculate average revenue per funeral service by dividing funeral revenue (excluding general agency (GA) revenue, which are commissions we receive from third-party insurance companies when our customers purchase insurance contracts from them, and Kenyon revenue) by the number of funeral services performed during the period. SCI s comparable average revenue per funeral service totaled $4,316 in fiscal 2004, $4,410 in fiscal 2005, and $4,669 during the six months ended June 30, 2006. The improvement in SCI s average revenue per funeral service is due, in part, to strategic plans initiated in 2005 and 2006 related to pricing and customer segmentation. Over the last twelve months, SCI has realigned its pricing away from its product offerings to its service offerings, concentrating on those areas where its customers believe the most value is added. In early 2006, as a result of its customer segmentation strategy, SCI exited certain activities that generated very low margins. These initiatives, while reducing funeral case volume, have generated significant improvements in both average revenue per funeral service and gross margin. We expect these improvements to continue in the future as we continue to exit other markets and redeploy our resources to more profitable areas. Alderwoods comparable average revenue per funeral service totaled $4,036 in fiscal 2004, $4,160 in fiscal 2005 and $4,294 during the twenty four weeks ended June 17, 2006.

Divestitures

SCI has received over $1.9 billion in asset sale proceeds since 2000, divesting over 2,700 funeral homes and cemeteries. These divestitures included SCI s operations in Europe and South America as well as underperforming businesses in North America. The majority of these transactions were sales of companies with multiple operating locations. Alderwoods has received over $228 million in asset sale proceeds since 2002, divesting over 250 funeral homes and cemeteries and its non-strategic home service insurance company.

SCI expects to execute a consent order with the staff of the FTC in connection with the acquisition, which will identify certain properties the FTC will require us to divest as a result of the acquisition. The consent order will be subject to approval by the FTC commissioners, which approval is a condition to the consummation of the acquisition. No final agreement has been reached with any third party concerning the sale of any such assets. We believe the divestiture of these assets, together with the divestiture of other SCI assets that we have identified for sale, will generate proceeds of approximately $200 million in the near future, which we expect to use to repay debt. There can be no assurance that the divestitures described above will be consummated, or if consummated will generate the proceeds described above. For purposes of the pro forma information in this prospectus the assets to be sold pursuant to the divestitures have been reclassified on the pro forma balance sheet as assets held for sale and the results of operations of these assets have been eliminated from the pro forma statement of operations. No pro forma adjustments have been made to reflect any anticipated gain or loss from the divestitures and no adjustment has been made to reflect any earnings benefit from the reinvestment of any proceeds from the divestitures or any reduction of debt from the application of sales proceeds. In addition, after completion of the acquisition, we intend to undertake a comprehensive review of all our integrated operations and we believe there may be further asset sales in the next six to 18 months.

Preneed Production and Maturities

In addition to selling our products and services to client families at the time of need, we sell price guaranteed preneed funeral and cemetery trust contracts which provide for future funeral or cemetery services and merchandise. Since preneed funeral and cemetery services or merchandise will not be provided until some time in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery contracts be paid into trusts until the merchandise is delivered or the service is performed. In certain situations, where permitted by state or provincial laws, we post a surety bond as financial assurance for a certain amount of the preneed funeral or cemetery contract in lieu of placing funds into trust accounts.

The following table reflects our North America backlog of trust funded deferred preneed funeral and cemetery contract revenues including amounts related to *Non-controlling interest in funeral and cemetery trusts* at December 31, 2005 on a combined historical basis. Additionally, we have reflected our North America backlog of unfulfilled insurance-funded contracts (not included in our consolidated balance sheet) and total North America backlog of preneed funeral contract revenues at December 31, 2005. The backlog amounts presented are reduced by an amount that we believe will cancel before maturity based on our historical experience.

The table also reflects our North America trust funded preneed funeral and cemetery receivables and trust investments associated with our backlog of trust funded deferred preneed funeral and cemetery contract revenues, net of an estimated cancellation allowance, on a combined historical basis

We believe that the table below is meaningful because it sets forth the aggregate amount of future revenues we expect to recognize as a result of preneed sales, on a combined historical basis, as well as the amount of assets associated with those revenues. Because the future revenues exceed the asset amounts, our future revenues will exceed the amount of cash actually received when the revenues are generated.

As of December 31, 2005	SCI	Alderwoods	Total
		(Dollars in millions)	
Backlog of trust funded deferred preneed funeral revenues	$ 1,495.5	$ 355.2	$ 1,850.7
Backlog of third-party insurance funded preneed funeral revenues	2,092.1	657.0	2,749.1
Backlog of subsidiary insurance funded preneed funeral revenues		331.6	331.6
Total backlog of preneed funeral revenues	$ 3,587.6	$ 1,343.8	$ 4,931.4
Assets associated with backlog of trust funded deferred preneed funeral revenues, net of estimated allowance for cancellation	$ 1,158.7	$ 341.4	$ 1,500.1
Insurance policies associated with insurance funded deferred preneed funeral revenues, net of estimated allowance for cancellation	2,092.1	988.6	3,080.7
Total assets associated with backlog of preneed funeral revenues	$ 3,250.8	$ 1,330.0	$ 4,580.8
Backlog of deferred cemetery revenues	$ 1,644.5	$ 282.8	$ 1,927.3
Assets associated with backlog of deferred cemetery revenues, net of estimated allowance for cancellation	$ 1,157.4	$ 314.7	$ 1,472.1

The market value of funeral and cemetery trust investments was based primarily on quoted market prices at December 31, 2005. The difference between the backlog and asset amounts represents the contracts for which we have posted surety bonds as financial assurance in lieu of trusting, the amounts collected from customers that were not required to be deposited to trust or bonded and allowable cash distributions from trust assets. The table also reflects the amounts expected to be received from insurance companies through the assignment of policy proceeds related to insurance funded funeral contracts. For additional information regarding preneed production and maturities, see Critical Accounting Policies below.

The Trend Toward Cremation

In the deathcare industry, there has been a growing trend in the number of cremations performed in North America as an alternative to traditional funeral service dispositions. We believe this presents a significant opportunity for our company, especially since research shows that most people who choose cremation do so for reasons unrelated to cost. We have been a leading provider of cremation services in North America, with cremation representing approximately 37%, 38% and 39% of our funeral services in 2003, 2004 and 2005, respectively, after giving pro forma effect to the transactions. While cremation has traditionally resulted in lower gross profits because it reduces casket sales and because many customers who choose cremation may also decide against purchasing cemetery property, we believe we can improve revenue and profit trends associated with cremation services by realigning our pricing model and offering better and more personalized products and services.

Other Matters

SEC Comment Letters

The Staff of the Securities and Exchange Commission (Staff) issued a letter (Comment Letter) to SCI dated April 19, 2006, commenting on certain aspects of its initial Annual Report on Form 10-K for the year ended December 31, 2005. The Staff requested and SCI provided information regarding the treatment of certain accounting issues. SCI believes that all of the issues raised in the Comment Letter were appropriately addressed, including one deathcare industry-wide issue related to the reporting of trust-related cash flow activities that is still under review by the Staff, as discussed below, and SCI has included required disclosures in this prospectus or will include in future filings to the extent necessary as a result of the SEC s comments.

SCI received follow-up letters from the Staff dated May 19, 2006 and August 8, 2006 requesting additional information on one matter related to its reporting of trust-related activities in its consolidated statement of cash flows.

The Staff requested additional information regarding the treatment of preneed funeral and cemetery merchandise and services trust and cemetery perpetual care trust activity in SCI s consolidated statement of cash flows. SCI has responded to the Staff s request for additional information. To the best of SCI s knowledge, this issue remains unresolved with the Staff. Although SCI believes that its consolidated statement of cash flows is properly presented, there can be no assurance that the Staff will agree with SCI s current presentation.

The Staff issued a Comment Letter to Alderwoods dated May 16, 2006, commenting on certain aspects of its Annual Report on Form 10-K for the fifty-two weeks ended December 31, 2005 and its Form 10-Q for the fiscal quarter ended March 25, 2006. The Staff requested and Alderwoods provided, in response letters dated June 16, 2006 and June 23, 2006, information regarding the treatment of certain accounting issues. Alderwoods believes that all of the issues raised in the Comment Letter were appropriately addressed, including the industry-wide issue related to the reporting of trust-related cash flow activities discussed above. Although Alderwoods believes that its consolidated statement of cash flows is properly presented, there can be no assurance that the Staff will agree with Alderwoods current presentation.

SCI Restatement

In August 2006, SCI restated its previously issued consolidated financial statements as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005, as well as its unaudited quarterly financial data for each of the interim periods of 2005 and 2004. The restatement corrected errors related to (1) the miscalculation of SCI s actuarially determined pension benefit obligation, (2) the accounting for certain leases related to funeral home properties which were previously accounted for as operating leases but should have been accounted for as capital leases, and (3) other out-of-period adjustments previously identified by SCI but deemed to be not material either individually or in the aggregate. For additional information regarding the restatement, see note two to SCI s annual financial statements included elsewhere in this prospectus.

Results of Operations

SCI

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Management Summary

Key highlights for the six months ended June 30, 2006 included:

SCI s announcement, on April 3, 2006, of the execution of the acquisition agreement;

a 3.1% increase in 2006 comparable funeral and cemetery revenue over the same period in 2005;

an 8.0% increase in comparable average revenue per funeral service compared to the first half of 2005, which helped to offset a 5.5% decline in comparable funeral services performed;

SCI s receipt and recognition of $7.9 million, or $4.8 million after tax ($0.02 per diluted share), in cemetery endowment care trust fund income as a result of the resolution of disputes over ownership rights to the funds;

the April 2006 and August 2006 approval by SCI s Board of Directors of a regular quarterly dividend; and

the repurchase of 3.4 million shares of SCI common stock in the second quarter of 2006.

Results of Operations

In the first half of 2006, SCI reported net income of $52.4 million or $0.18 per diluted share. These results were impacted by net losses on dispositions and impairment charges of $6.7 million after tax ($0.02 per diluted share).

Table of Contents

In the first half of 2005, SCI reported a net loss of $141.1 million or $0.45 per diluted share. These results were impacted by accounting changes of $187.5 million after tax, losses on the early extinguishment of debt of $9.3 million after tax, and after tax net losses on dispositions and impairment charges of $3.7 million. During the first half of 2005, discontinued operations produced $4.3 million of earnings.

Actual Versus Comparable Results

Six Months Ended June 30, 2006 and 2005

The table below reconciles SCI s GAAP results to its comparable, or same store, results for the six months ended June 30, 2006 and 2005. For purposes of the table below, SCI defines comparable operations (or same store operations) as those involving locations which were owned for the entire period beginning January 1, 2005 and ending June 30, 2006. The following tables present operating results for SCI funeral and cemetery locations that were owned by SCI throughout this period.

Six Months Ended June 30, 2006	Actual	Less: Activity Associated with Acquisition/ New Construction	Less: Activity Associated with Dispositions	Comparable
		(Dollars in millions)		
North America				
Funeral revenue	$ 576.7	$ 0.8	$ 4.2	$ 571.7
Cemetery revenue	290.5	0.7	0.9	288.9
	867.2	1.5	5.1	860.6
Other foreign				
Funeral revenue	5.9		(0.1)	6.0
Total revenues	$ 873.1	$ 1.5	$ 5.0	$ 866.6
North America				
Funeral gross profits	$ 116.6	$ 0.3	$ (1.1)	$ 117.4
Cemetery gross profits	52.9		(0.7)	53.6
	169.5	0.3	(1.8)	171.0
Other foreign				
Funeral gross profits	1.2		(0.1)	1.3
Total gross profit	$ 170.7	$ 0.3	$ (1.9)	$ 172.3

Table of Contents

Six Months Ended June 30, 2005	Actual (Restated)	Less: Activity Associated with Dispositions	Comparable (Restated)
		(Dollars in millions)	
North America			
Funeral revenue	$ 598.1	$ 28.8	$ 569.3
Cemetery revenue	275.2	10.2	265.0
	873.3	39.0	834.3
Other foreign			
Funeral revenue	6.0		6.0
Total revenues	$ 879.3	$ 39.0	$ 840.3
North America			
Funeral gross profits	$ 130.1	$ 3.3	$ 126.8
Cemetery gross profits	40.0	(0.1)	40.1
	170.1	3.2	166.9
Other foreign			
Funeral gross profits	0.7		0.7
Total gross profit	$ 170.8	$ 3.2	$ 167.6

The following table provides the data necessary to calculate SCI s comparable average revenue per funeral service in North America for the six months ended June 30, 2006 and 2005. SCI calculates average revenue per funeral service by dividing adjusted comparable North America funeral revenue by the comparable number of funeral services performed in North America during the period. In calculating average revenue per funeral service, SCI excludes GA revenues and revenues from its Kenyon subsidiary in order to avoid distorting its funeral case volume averages.

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005 (Restated)
	(Dollars in millions, except average revenue per funeral service)	
Comparable North America funeral revenue	$ 571.7	$ 569.3
Less: GA revenues(1)	16.7	13.8
Kenyon revenues(2)	1.9	13.4
Adjusted Comparable North America funeral revenue	$ 553.1	$ 542.1

Comparable North America funeral services performed:		
Preneed	40,073	41,341
Atneed	78,384	84,026
Total	118,457	125,367
Comparable North America average revenue per funeral service:		
Preneed	$ 4,516	$ 4,244
Atneed	4,748	4,363
Total	4,669	4,324

Table of Contents

(1) GA revenues are commissions we receive from third-party insurance companies when customers purchase insurance contracts from such third-party insurance companies to fund funeral services and merchandise at a future date.

(2) Kenyon is SCI s disaster response subsidiary that engages in mass fatality and emergency response services. Revenues and gross profits associated with Kenyon are subject to significant variation due to the nature of its operations.

Preneed average revenues in the above table represent average comparable revenues recognized for funeral services performed during the six months ended June 30, 2006 pursuant to preneed contractual arrangements made prior to the time of death and, therefore, previously reflected as *Deferred preneed funeral revenues.*

Funeral results

Consolidated Funeral Revenue

Consolidated revenues from funeral operations were $582.6 million in the first half of 2006 compared to $604.1 million in the first half of 2005. Higher average revenue per funeral service and an increase of floral revenues of approximately $6.2 million were more than offset by a decline in funeral services performed. This decline was primarily attributable to a decrease in funeral properties as a result of SCI s efforts to dispose of non-strategic locations. SCI also believes the decline reflects a decrease in the number of deaths. Additionally, Kenyon s revenue fell $11.5 million from $13.4 million to $1.9 million, as Kenyon was not involved in any mass fatality incidents in the first half of 2006.

Comparable Funeral Revenue

North America comparable funeral revenue increased $2.4 million in the first half of 2006 compared to the first half of 2005 reflecting higher average revenue per funeral service and an increase of floral revenues. GA revenue increased $2.9 million, or 21.0%, in the first half of 2006 as a result of a shift in the types of insurance contracts sold. These improvements were partially offset by a decline in comparable funeral volume coupled with the $11.5 million decrease in Kenyon s revenue, as Kenyon was not involved in any mass fatality incidents in the first half of 2006.

Funeral Case Volume

The overall success of SCI s strategic pricing initiative was partially offset by a 5.5% decrease in comparable funeral volume in the first half of 2006 compared to the first half of 2005. SCI believes this decline reflects a decrease in the number of deaths within the markets where it competes due, in part, to an unusually warm winter season in the first quarter of 2006. The decline in deaths was particularly pronounced in the Northeast United States where SCI has a high concentration of operations. Also impacting the decline in volume were certain local business decisions to exit unprofitable business relationships and activities. SCI will continue to evaluate existing relationships and may ultimately choose to exit certain relationships as it maintains focus on its strategy. The cremation rate was 41.3% in the first half of 2006 compared to 40.7% in the same period of 2005.

Average Revenue per Funeral

Despite a 60 basis point increase in cremation rates, SCI s focus on strategic pricing and aligning its resources with its customer segmentation strategy over the preceding twelve months resulted in an increase in comparable average revenue per funeral service of 8.0%, or $345 per funeral service (approximately 6.6% or $283 per service excluding a floral revenue increase) over the prior year. Over the past year, SCI has realigned its pricing away from product offerings to its service offerings, reflecting its competitive advantage and concentrating on those areas where SCI s customers believe SCI adds the most value. As a result of the communication of SCI s future customer segmentation strategy in the fall of 2005, SCI also made local strategic business decisions to exit certain relationships that generated very low gross margin

Table of Contents

percentages. These initiatives, while reducing SCI s funeral cash volumes, have generated significant improvements in average revenue per funeral service. SCI expects these improvements to continue in the future as it redeploys its resources to more profitable areas.

Consolidated Funeral Gross Profit

Consolidated funeral gross profits decreased $13.0 million in the first half of 2006 compared to the same period of 2005 as the funeral revenue increases described above were more than offset by increases in merchandise and floral costs. Kenyon s operations negatively impacted gross profit by $3.5 million compared to the prior year.

Comparable Funeral Gross Profit

Comparable North America funeral gross profit decreased $9.4 million or 8.0% in the first half of 2006 versus the same period of 2005. The comparable funeral gross margin percentage decreased to 20.6% compared to 22.3% in 2005. The revenue increases described above were more than offset by increases in floral and merchandise costs. In addition, Kenyon s operations decreased $3.5 million compared to the prior period.

Cemetery Results

Consolidated Cemetery Revenue

Consolidated revenues from SCI s cemetery operations increased $15.3 million, or 5.6%, in the first half of 2006 compared to the same period of 2005. The increase primarily resulted from higher atneed revenues and increased recognition of preneed merchandise and service sales in the first half of 2006 compared to the prior year period. Also contributing to the increase was a $7.9 million increase in trust fund income.

Comparable Cemetery Revenue

North America comparable cemetery revenue increased $23.9 million or 9.0% compared to the first half of 2005. The increase primarily resulted from higher atneed revenues and increased recognition of preneed merchandise and service sales in the first half of 2006 compared to the prior year period. Also contributing to the increase was the receipt and recognition of $7.9 million of trust fund income coupled with increased recognition of merchandise and services.

Consolidated Cemetery Gross Profits

Consolidated cemetery gross profits increased $12.9 million, or 32.3%, in the first half of 2006 compared to the first half of 2005. Cemetery gross margins, which included $13.2 million in trust fund proceeds received in the second quarter of 2006, increased 25.5% to 18.2%. These improvements were also a result of increases in trust fund income and lower sales and commission expense partially offset by higher maintenance and administrative costs within SCI s cemetery operations.

Comparable Cemetery Gross Profits

North America comparable cemetery gross profits increased $13.5 million in the first half of 2006 compared to the same period of 2005. The comparable cemetery gross profit percentage increased to 18.6% in the first half of 2006 from 15.1% in the first half of 2005. These improvements were a result of increases in trust fund income and lower sales and commission expense partially offset by higher maintenance and administrative costs within SCI s cemetery operations.

Table of Contents

Other Financial Statement Items

General and Administrative Expenses

General and administrative expenses were $42.9 million in the first half of 2006 compared to $42.2 million in the first half of 2005. Increased costs associated with the expensing of stock options, which totaled $2.5 million (pretax), were essentially offset by a decrease in salaries and bonuses. SCI expects stock option expense in the remaining half of 2006 to be approximately $1.6 million in the aggregate.

Interest Expense

Interest expense increased 4.1% to $53.3 million in the first half of 2006, compared to $51.2 million in the first half of 2005. The increase of $2.1 million reflects the modification of the contractual terms of certain transportation leases in January 2006, which resulted in additional interest expense related to these newly reclassified capital leases. Also included in interest expense in the first half of 2006 is $1.4 million of additional interest related to SCI s senior unsecured 7.00% notes due June 15, 2017. Cash interest paid during the first half of 2006 was $48.1 million compared to $49.9 million in the first half of 2005. For additional information, see notes six and ten to SCI s interim financial statements included elsewhere in this prospectus.

Interest Income

Interest income of $12.8 million in the first half of 2006 increased $4.8 million compared to the same period of 2005, reflecting the increase in SCI s cash balances invested in commercial paper and higher interest returns.

Other Income (Expense), Net

Other income (expense), net was a $4.0 million gain in the first half of 2006, compared to an expense of $0.6 million in the first half of 2005. The components of other income (expense) for the periods presented are as follows:

Cash overrides received from a third party insurance provider related to the sale of insurance funded preneed funeral contracts were $3.1 million in the first half of 2006 and $3.1 million in the same period of 2005.

Surety bond premium costs were $2.0 million in the first half of 2006 and 2005.

Favorable adjustments to SCI s allowance on notes receivable were $1.9 million in the first half of 2006.

The remaining income of $1.0 million in the first half of 2006 and expense of $1.7 million in the same period of 2005 are primarily attributable to net gains and losses related to foreign currency transactions.

(Provision) Benefit for Income Taxes

The consolidated effective tax rate in the first half of 2006 resulted in a provision of 37.3%, compared to 39.1% in the same period of 2005. The 2006 and 2005 tax rates were negatively impacted by permanent differences between the book and tax bases of North America asset dispositions.

Weighted Average Shares

The diluted weighted average number of shares outstanding was 297.8 million in the first half of 2006, compared to 312.0 million in the same period of 2005. The decrease in 2006 versus 2005 reflects SCI s share repurchase program initiated during 2005.

Table of Contents

Years Ended December 31, 2005, 2004 and 2003

Management Summary

By the end of 2005, SCI had made substantial progress toward its goal of selling non-strategic or underperforming businesses. From 2003 to 2005, SCI sold or discontinued more than 1,200 locations, including over 200 in North America and all of its locations in France and South America. As a result, SCI s revenues have decreased from $2.3 billion in 2003 to $1.7 billion in 2005. However, during this same period SCI s gross profit margin improved to 17.4% from 15.4% and its operating cash flow continued to improve. Other key highlights during this three year period include:

- a $500 million reduction of debt,
- a $450 million cash balance at December 31, 2005,
- investment of more than $335 million in share repurchases which reduced SCI s outstanding shares by 47.7 million, and
- payment of a quarterly dividend.

Results of Operations

In 2005, SCI reported a net loss of $127.9 million or $0.42 per diluted share. These results were impacted by large non-recurring items that decreased earnings, including accounting changes of $187.5 million, net losses on asset sales of $31.2 million, and losses on the early extinguishment of debt of $9.3 million, partially offset by an income tax benefit of $11.9 million. During 2005, discontinued operations produced $4.1 million of earnings.

In 2004, SCI reported net income of $110.7 million or $0.34 per diluted share. These results were also impacted by large non-recurring items that decreased earnings, including accounting changes of $50.6 million, losses on the early extinguishment of debt of $10.5 million, and settlements of significant litigation matters of $38.7 million. These reductions to earnings were offset by net gains on asset sales of $53.2 million, an income tax benefit of $7.9 million and interest from a note receivable of $2.7 million. During 2004, discontinued operations produced $41.6 million of earnings.

In 2003, SCI reported net income of $85.1 million or $0.28 per diluted share. These results were also impacted by large non-recurring items that decreased earnings including $61.0 million in expenses related to outstanding litigation matters and other operating expenses related to severance costs of $5.9 million, partially offset by a $32.7 million net gain on dispositions and $15.8 million in earnings from discontinued operations.

Table of Contents

Actual Versus Comparable Results

Years Ended December 31, 2005, 2004 and 2003

The table below reconciles SCI s GAAP results to its comparable, or same store, results for the years ended December 31, 2005, 2004 and 2003. For purposes of the table below, SCI defines comparable operations (or same store operations) as those that were owned for the entire period beginning January 1, 2003 and ending December 31, 2005. The following tables present operating results for SCI funeral and cemetery locations that were owned by SCI all three years.

Year Ended December 31, 2005	Actual (Restated)	Less: Activity Associated with Acquisition/New Construction	Less: Activity Associated with Dispositions	Comparable (Restated)
		(Dollars in millions)		
North America				
Funeral revenue	$ 1,143.6	$ 2.6	$ 36.3	$ 1,104.7
Cemetery revenue	560.3	1.1	11.3	547.9
	1,703.9	3.7	47.6	1,652.6
Other foreign				
Funeral revenue	11.7			11.7
Cemetery revenue	0.1		0.1	
	11.8		0.1	11.7
Total revenues	$ 1,715.7	$ 3.7	$ 47.7	$ 1,664.3
North America				
Funeral gross profits	$ 214.7	$ (0.1)	$ 1.7	$ 213.1
Cemetery gross profits	81.9	0.6	(1.7)	83.0
	296.6	0.5		296.1
Other foreign				
Funeral gross profits	1.5			1.5
Cemetery gross profits				
	1.5			1.5
Total gross profit	$ 298.1	$ 0.5	$	$ 297.6

Table of Contents

Year Ended December 31, 2004	Actual (Restated)	Less: Activity Associated with Acquisition/New Construction	Less: Activity Associated with Dispositions	Comparable (Restated)
		(Dollars in millions)		
North America				
Funeral revenue	$ 1,120.1	$ 0.7	$ 71.8	$ 1,047.6
Cemetery revenue	570.1		19.8	550.3
	1,690.2	0.7	91.6	1,597.9
Other foreign				
Funeral revenue	139.7		127.3	12.4
Cemetery revenue	1.3		1.3	
	141.0		128.6	12.4
Total revenues	$ 1,831.2	$ 0.7	$ 220.2	$ 1,610.3
North America				
Funeral gross profits	$ 214.7	$ (0.2)	$ 7.0	$ 207.9
Cemetery gross profits	102.1		(1.1)	103.2
	316.8	(0.2)	5.9	311.1
Other foreign				
Funeral gross profits	13.1		11.6	1.5
Cemetery gross profits	0.1		0.1	
	13.2		11.7	1.5
Total gross profit	$ 330.0	$ (0.2)	$ 17.6	$ 312.6

Table of Contents

Year Ended December 31, 2003	Actual	Less: Activity Associated with Acquisition/New Construction	Less: Activity Associated with Dispositions	Comparable
	(Restated)			(Restated)
		(Dollars in millions)		
North America				
Funeral revenue	$ 1,143.9	$ 0.4	$ 96.5	$ 1,047.0
Cemetery revenue	572.2		20.5	551.7
	1,716.1	0.4	117.0	1,598.7
Other foreign				
Funeral revenue	595.9		584.6	11.3
Cemetery revenue	1.2		1.2	
	597.1		585.8	11.3
Total revenues	$ 2,313.2	$ 0.4	$ 702.8	$ 1,610.0
North America				
Funeral gross profits	$ 202.6	$ (0.1)	$ 8.8	$ 193.9
Cemetery gross profits	82.4		4.5	77.9
	285.0	(0.1)	13.3	271.8
Other foreign				
Funeral gross profits	71.1		68.2	2.9
Cemetery gross profits	0.1		0.1	
	71.2		68.3	2.9
Total gross profit	$ 356.2	$ (0.1)	$ 81.6	$ 274.7

The following table provides the data necessary to calculate SCI s comparable average revenue per funeral service in North America for the years ended December 31, 2005, 2004 and 2003. SCI calculates average revenue per funeral service by dividing adjusted comparable North America funeral revenue by the comparable number of funeral services performed in North America during the period. In calculating average revenue per funeral service, SCI excludes General Agency (GA) revenues and revenues from its Kenyon subsidiary in order to avoid distorting SCI s averages of normal funeral case volume.

Year Ended December 31,	2003	2004	2005
			(Restated)
	(Dollars in millions, except average		

revenue per funeral service)			
Comparable North America funeral revenue	$ 1,047.0	$ 1,047.6	$ 1,104.7
Less: GA revenues(1)	26.2	27.8	27.7
Kenyon revenues(2)	12.0	3.4	23.9
Adjusted Comparable North America funeral revenue	$ 1,008.8	$ 1,016.4	$ 1,053.1
Comparable North America funeral services performed	239.5	235.5	238.8
Comparable North America average revenue per funeral service	$ 4,212	$ 4,316	$ 4,410

(1) GA revenues are commissions we receive from third-party insurance companies when customers purchase insurance contracts from such third-party insurance companies to fund funeral services and merchandise at a future date.

(2) Kenyon is SCI s disaster response subsidiary that engages in mass fatality and emergency response services. Revenues and gross profits associated with Kenyon are subject to significant variation due to the nature of its operations.

59

Table of Contents

Funeral Results

Consolidated Funeral Revenue

Consolidated revenues from funeral operations declined by $104.5 million in 2005 compared to 2004 primarily due to the sale of funeral operations in France which contributed $127.3 million in revenues during 2004. The decrease in revenues related to SCI s former French operations was offset by an increase in North America revenues of $23.5 million. This increase was primarily due to an increase in Kenyon s revenues of $20.4 million over prior year resulting from disaster management services provided in Asia, Greece and the U.S. gulf coast. Consolidated funeral revenues in 2004 decreased $480.0 million compared to 2003, largely because of the March 2004 disposition of funeral operations in France, which represented $457.3 million of the decline.

North America comparable revenue increased in 2005 $57.1 million over 2004. Increases in Kenyon revenue as described above contributed $20.5 million of the increase. The remaining increase was primarily a result of an increase in comparable atneed revenue resulting from an increase in funeral volume and a higher average revenue per funeral. Comparable funeral revenue in North America in 2004 increased by $0.6 million, or less than 1%, from 2003 levels, primarily due to an $8.6 million decrease in Kenyon revenue from 2003 disaster management services related to the World Trade Center disaster and a decline in funeral volume, which were more than offset by an increase in the average revenue per funeral service and an increase in GA revenue.

Funeral Case Volume

North America comparable funeral volume increased in 2005 compared to 2004. This increase included a 4.8% increase in cremations and a relatively stable number of traditional interments which resulted from increased volume due, in part, to marketing initiatives implemented in 2005. The funeral volumes of SCI s comparable locations in North America were 1.7% less in 2004 than in 2003. Over time, SCI believes the decline in the number of deaths will stabilize because of the aging population.

Average Revenue per Funeral

Part of the increase in North America comparable funeral operating revenue in 2005 described above was driven by a 2.2% increase in average revenue and a 1.4% increase in volume. The North America comparable average revenue per funeral service increased 2.5% in 2004 as compared to 2003. Of the total comparable funeral services performed in 2005, 40.2% were cremation services in 2005 versus 38.9% in 2004 and 37.6% in 2003. Average revenue per North America comparable funeral service was favorably impacted in 2005 by SCI s strategic pricing realignment initiative in the last half of the year.

Consolidated Funeral Gross Profit

Consolidated funeral gross profits decreased $11.6 million in 2005, primarily due to an $11.6 million decline related to the disposition of SCI s French operations in March 2004. In 2004, consolidated funeral gross profits decreased $45.9 million from 2003, primarily because of a $56.7 million decline related to the disposition of French operations early in 2004. Gross profits from the French funeral operations were $11.6 million through March 2004 when compared to $68.3 million for the full year of 2003.

SCI s comparable North America funeral gross profit improved $5.2 million (2.5%) in 2005 versus 2004; however, the comparable funeral gross margin percentage decreased to 19.3% compared to 19.8% in 2004. Despite the improved revenues discussed above, margin percentages declined because of increased costs, which included a $4.7 million effect from SCI s change in accounting for deferred selling costs as well as inflationary increases in merchandise costs, increases in group health and pension costs, and increased costs related to SCI s trust reconciliation projects and Sarbanes-Oxley compliance activities. Comparable funeral gross profits from operations in North America increased $14.0 million in 2004 compared to 2003 despite a decline in North America comparable funeral revenues. This increase was a result of reduced overhead costs and lower pension expenses, which were partially offset by declines in revenue from Kenyon. The comparable funeral gross margin percentage improved to 19.8% in 2004, compared to 18.5% in 2003.

Cemetery Results

Consolidated Cemetery Revenue

Consolidated cemetery revenues decreased $11.0 million in 2005 versus 2004 due to a $9.8 million decline in North America operations. The decrease was primarily due to a decrease in the number of SCI s North America properties as a result of SCI s continued effort to dispose of non-strategic locations. Consolidated cemetery revenues in 2004 were slightly below 2003.

North America comparable cemetery revenue decreased $2.4 million or 1.0% compared to 2004. This decrease primarily resulted from declines associated with constructed cemetery property and interest on trade receivables. Decreases in interest on trade receivables resulted from an increase in the number of contracts that were not financed, increased down payments, and shorter financing terms. North America comparable cemetery revenue in 2004 was relatively flat compared to 2003.

Consolidated Cemetery Gross Profits

Consolidated cemetery gross profits decreased $20.3 million in 2005 as compared to 2004. These declines were due to the decrease in revenue discussed above, coupled with a $9.5 million negative impact from our change in accounting related to deferred selling costs. In 2004, consolidated cemetery gross profits increased $19.7 million from 2003, which resulted primarily from a reduction in North America overhead costs, pension expenses and maintenance expenses.

North America comparable cemetery gross profits decreased $20.2 million in 2005 compared to 2004 due to the decrease in revenue and the change in accounting for deferred selling costs described above. The comparable cemetery gross margin percentage decreased to 15.1% in 2005 from 18.8% in 2004. North America comparable cemetery gross margin increased $25.3 million (32.5%) in 2004 compared to 2003. Gross margin percentages improved from 14.1% to 18.8% for the same period. These improvements were driven by increased revenues as discussed above and reductions in overhead costs, pension expenses and maintenance expenses due to increased focus on SCI s cost structure.

Other Financial Statement Items

General and Administrative Expenses

General and administrative expenses were $84.8 million in 2005 compared to $130.9 million in 2004 and $178.1 million in 2003. Included in 2004 and 2003 are expenses associated with the settlement of certain significant litigation matters. SCI recognized litigation expenses (net of insurance recoveries of $1.6 million in 2004 and $25.0 million in 2003) of $61.1 million in 2004 compared to $95.2 million in 2003. Additionally, in 2003 SCI recognized approximately $14 million of accelerated amortization expense related to its former information technology systems that were replaced beginning in the second half of 2003.

Excluding litigation expenses and accelerated system amortization costs in all periods, general and administrative expenses in 2005 were $84.8 million compared to $69.8 million in 2004 and $68.9 million in 2003. Increased costs associated with Sarbanes-Oxley compliance efforts were partially offset by reductions in information technology and other overhead expenses.

Gains and Impairment (Losses) on Dispositions, Net

In 2005, SCI recognized a $26.1 million net pretax loss from impairments. This loss was primarily associated with the disposition of underperforming funeral and cemetery businesses in North America (including the $30.0 million impairment of assets sold to StoneMor Partners LP in the third quarter of

2005). The net loss was partially offset by the release of approximately $15.6 million in indemnification liabilities primarily related to the 2004 sales of SCI s United Kingdom and French operations.

In 2004, SCI recognized a $25.8 million net pretax gain from its disposition activities, including a $41.2 million gain from the sale of its equity and debt holdings in its former United Kingdom operations and a $6.4 million gain from the disposition of its French funeral operations. These gains were partially offset by net losses associated with various dispositions in North America. In 2003, SCI recognized a net pretax gain of $50.7 million primarily related to the sale of its equity holdings in its former operations in Australia and Spain. For further information regarding gains and impairment losses on dispositions see note twenty to SCI s annual financial statements included elsewhere in this prospectus.

Interest Expense

Interest expense decreased to $103.7 million in 2005, compared to $119.3 million in 2004 and $140.0 million in 2003. The decline of $36.3 million, or 25.9%, in interest expense between 2003 and 2005 reflects SCI s improved capital structure. Between 2003 and 2005, SCI reduced its total debt by more than $500 million by generating improved operating cash flows and through its successful asset divestiture programs, which produced more than $750 million in net cash proceeds.

Interest Income

Interest income of $16.7 million in 2005, compared to $13.5 million in 2004, reflects the increase in SCI s cash balance invested in commercial paper, which contributed $7.2 million. This increase was offset by $4.5 million of reduced interest income related to a note receivable from SCI s former investment in a United Kingdom company collected in full in 2004. Interest income of $13.5 million in 2004 was up from the $6.2 million reported in 2003 primarily due to interest income from SCI s former investment in a United Kingdom company discussed above.

(Loss) Gain on Early Extinguishment of Debt, Net

During 2005, SCI purchased $16.6 million aggregate principal amount of its 7.70% notes due 2009 in the open market, and $0.3 million aggregate principal amount of its 6.00% notes due 2005 in the open market. Also during 2005, SCI redeemed $130.0 million aggregate principal amount of its 6.875% notes due 2007 and $139.3 million aggregate principal amount of its 7.20% notes due 2006 pursuant to a tender offer for those notes. As a result of these transactions, SCI recognized a loss of $14.3 million, which is comprised of the redemption premiums paid of $12.2 million and the write-off of unamortized debt issuance costs of $2.1 million, recorded in *Loss (gain) on early extinguishment of debt* in SCI s consolidated statement of operations during the year ended December 31, 2005.

In 2004, SCI extinguished $200.0 million aggregate principal amount of the 6.00% notes due 2005, pursuant to a tender offer for those notes. SCI also purchased $8.7 million aggregate principal amount of the 6.00% notes due 2005 in the open market. The holders of $221.6 million of SCI s 6.75% convertible subordinated notes due 2008 converted their holdings to equity in June 2004, pursuant to the terms of the notes. Simultaneously, SCI redeemed the remaining outstanding $91.1 million of the notes. As a result of these transactions, SCI recognized a loss on the early extinguishment of debt of $16.8 million recorded in *(Loss) gain on early extinguishment of debt* in the consolidated statement of operations during the year ended December 31, 2004.

Other Income, Net

Other income, net was $2.8 million in 2005, compared to $9.7 million in 2004 and $8.3 million in 2003. The components of other income for the years presented are as follows:

Cash overrides received from a third party insurance provider related to the sale of insurance funded preneed funeral contracts were $6.0 million in 2005, compared to $6.3 million in 2004 and $5.6 million in 2003.

Table of Contents

Surety bond premium costs were $3.6 million in 2005, compared to $4.0 million in 2004 and $4.1 million in 2003.

The remaining income of $0.4 million in 2005, income of $7.4 million in 2004, and income of $6.8 million in 2003 are primarily attributable to net gains and losses related to foreign currency transactions.

(Provision) Benefit for Income Taxes

SCI s consolidated effective tax rate in 2005 resulted in a provision of 37.5%, compared to a benefit of 6.8% in 2004 and a provision of 27.6% in 2003. The 2005 tax rate was negatively impacted by permanent differences between the book and tax bases of North America asset dispositions and was partially offset by state net operating loss benefits. The 2004 tax rate was favorably impacted by tax benefits resulting from the disposition of our operations in France and the United Kingdom and from state net operating losses realized in 2004. The tax benefits from dispositions result from differences between book and tax bases and from the reversal of tax liabilities that were then recorded as warranty indemnification liabilities.

Weighted Average Shares

The weighted average number of shares outstanding was 306.7 million in 2005, compared to 344.7 million in 2004 and 300.8 million in 2003. The decrease in 2005 versus 2004 was mainly due to SCI s share repurchase program, which began in the third quarter of 2004. The increase in 2004 versus 2003 was mainly due to the conversion of SCI s convertible senior notes in June 2004, which resulted in the issuance of approximately 32.0 million shares. The assumed conversion of the notes was antidilutive in 2003. The remaining share increase in 2004 was related to dilutive outstanding stock options and the contribution of common stock to SCI s 401(k) retirement plan, which was partially offset by share repurchases. Effective January 1, 2005, SCI began contributing cash to fund its matching contribution to its 401(k) retirement plan and discontinued funding through the use of common stock.

Alderwoods

The operations of Alderwoods comprise three businesses: funeral activities, cemetery activities and an insurance business in support of its preneed funeral business. Additional segment information is provided in note 7 to Alderwoods interim financial statements and note 16 to Alderwoods annual financial statements included elsewhere in this prospectus.

Alderwoods fiscal year ends on the Saturday nearest to December 31 in each year (whether before or after such date). Alderwoods first and second fiscal quarters each consist of 12 weeks and its third fiscal quarter consists of 16 weeks. In order to cause Alderwoods fourth fiscal quarter to end on the same day as the fiscal year, its fourth fiscal quarter consists of 13 weeks rather than 12 weeks in certain years. Therefore, this prospectus includes Alderwoods annual financial statements as of and for the fifty-two weeks ended December 31, 2005, the fifty-two weeks ended January 1, 2005, and the fifty-three weeks ended January 3, 2004, and its interim financial statements as of and for the twenty-four weeks ended June 17, 2006 and June 18, 2005.

Table of Contents

Twenty-four Weeks Ended June 17, 2006 Compared to Twenty-four Weeks Ended June 18, 2005.

Certain information from continuing operations for the 24 weeks ended June 17, 2006, and 24 weeks ended June 18, 2005, is summarized in the following table:

Twenty-Four Weeks Ended Continuing Operations:	June 17, 2006	June 18, 2005	Increase (Decrease) Amount	Increase (Decrease) Percentages
Funeral other information				
Number of funeral services performed	53,247	56,735	(3,488)	(6.1)%
Number of same site funeral services performed	53,070	55,073	(2,003)	(3.6)%
Average revenue per funeral service	$ 4,294	$ 4,133	$ 161	3.9%
Same site average revenue per funeral service	$ 4,294	$ 4,138	$ 156	3.8%
Preneed funeral contracts written (in millions)	$ 85.5	$ 90.3	$ (4.8)	(5.3)%
Preneed funeral conversion (percentages)	27%	27%		
Cemetery other information				
Number of cemetery interments	21,057	22,501	(1,444)	(6.4)%
Preneed cemetery contracts written (in millions)	$ 45.1	$ 45.8	$ (0.7)	(1.5)%

Hurricane Katrina

During the 52 weeks ended December 31, 2005, some of Alderwoods operations were affected by Hurricane Katrina. Alderwoods operates 30 funeral homes, four cemeteries and a limousine company in those areas of Louisiana and Mississippi that were affected by the hurricane on August 29, 2005. Alderwoods has experienced some damage at all of these locations. Of the 30 funeral homes, seven experienced significant damage, were not in operation at the end of the 2005 fiscal year and are not expected to reopen. All four cemeteries are in operation. The New Orleans limousine company that had provided services both to Alderwoods funeral operations and other third-parties experienced significant damage to its fleet of vehicles and will not be resuming operations.

Alderwoods insurance subsidiary is headquartered in New Orleans and although forced to relocate temporarily to Cincinnati, has resumed operations from New Orleans. The temporary relocation did not significantly affect Alderwoods operating results.

Alderwoods is making every effort to use its existing operating facilities to provide services to customers normally served by Alderwoods closed locations.

Alderwoods purchases insurance coverage for property damage, including damage from wind and flood, subject to separate limits, sub-limits and deductible amounts. Alderwoods, along with its insurance providers, is continuing to assess and estimate the extent of damages. Based on a review of Alderwoods insurance policy, Alderwoods expects to recover a substantial portion of the costs associated with the storm damage through insurance, including the capital costs of rebuilding. For those properties not in operation and requiring significant repair or rebuilding, Alderwoods has considered the properties destroyed or abandoned and based on estimated insurance proceeds of $12.6 million, has realized a gain of $1.0 million in the 12 weeks ended June 17, 2006 on the writeoff of the applicable buildings and contents.

Alderwoods has initiated or completed much of the damage repairs and along with its insurance providers, is continuing to estimate the full extent of repairs and replacement costs. Alderwoods may record additional expense for changes to its expected deductible under its insurance policies and other expenses not expected to be reimbursed under the insurance policy. During the 12 weeks ended June 17, 2006, Alderwoods reduced its expected costs by $0.2 million.

Alderwoods has business interruption insurance that allows the recovery of operating costs and lost profits. Alderwoods is preparing its analysis in support of a claim. Potential proceeds from this claim cannot currently be reasonably estimated and therefore no receivable or recovery has been recorded as of June 17, 2006.

Table of Contents

Additional information regarding Hurricane Katrina is provided in note 12 to Alderwoods interim financial statements and note 22 to Alderwoods annual financial statements included elsewhere in this prospectus.

Continuing Operations

Consolidated revenue of $354.3 million for the 24 weeks ended June 17, 2006, decreased by $6.4 million, or 1.8%, compared to the corresponding period in 2005, reflecting decreases in the funeral and cemetery segments partially offset by an increase in insurance revenue. Consolidated gross margin as a percentage of revenue decreased to 16.6% for the 24 weeks ended June 17, 2006, from 17.9% for the corresponding period in 2005.

Funeral revenue of $228.7 million for the 24 weeks ended June 17, 2006, decreased by $5.8 million, or 2.5%, compared to $234.5 million for the corresponding period in 2005, primarily as a result of a decrease in the number of funeral services performed partially offset by an increase of $161, or 3.9%, in average revenue per funeral service performed. The number of funeral services performed during the 24 weeks ended June 17, 2006 decreased by 6.1% from the corresponding period in 2005. The increase in average revenue per funeral service performed was achieved through adjusting the pricing and mix of merchandise and services offered to customer families designed to both meet customer family needs and to increase average revenues.

Included in the funeral revenue for the 24 weeks ended June 17, 2006 is $12.5 million from 2,690 funeral services performed in New Orleans, Louisiana and on the Gulf Coast of Mississippi compared to $14.4 million of funeral revenue from 3,079 funeral services performed for the 24 weeks ended June 18, 2005. Alderwoods funeral operations in these areas were significantly affected by Hurricane Katrina.

On a same site basis, funeral revenue was $227.9 million for both the 24 weeks ended June 17, 2006 and for the corresponding period in 2005. Same site calls decreased by 2,003 or 3.6% compared to the comparative period. This was offset by an increase in same site average revenue per funeral service of $156 or 3.8% compared to the comparative period in 2005. If the locations affected by Hurricane Katrina were removed, the number of funeral services performed on a same site basis would have declined 4.0% from the corresponding period in 2005.

The number of cremation services performed as a percentage of total services performed increased to 37.5% for the 24 weeks ended June 17, 2006, compared to 36.2% for the corresponding period in 2005, consistent with national trends.

Funeral gross margin as a percentage of revenue decreased to 20.1% for the 24 weeks ended June 17, 2006, compared to 21.3% for the corresponding period in 2005. The decrease in gross margin was primarily due to reduced revenue as a result of a lower number of services performed offset by $1.0 million gain related to the estimated insurance settlement of destroyed or abandoned properties and lower wage and benefit costs of $1.3 million.

Preneed funeral contracts written for the 24 weeks ended June 17, 2006, were $85.5 million, compared to $90.3 million for the corresponding period in 2005. For the 24 weeks ended June 17, 2006, 27% of the funeral services performed were derived from the preneed backlog, consistent with the comparative period in 2005.

Cemetery revenue of $79.3 million for the 24 weeks ended June 17, 2006, was $2.9 million, or 3.5%, lower than cemetery revenue for the corresponding period in 2005, primarily due to lower revenue recognized from preneed space sales.

Cemetery gross margin as a percentage of revenue decreased to 13.7% for the 24 weeks ended June 17, 2006, compared to 15.1% for the corresponding period in 2005, primarily due to lower revenue from preneed space sales offset by lower preneed space cost of goods sold of $1.5 million and decreased wage and benefit costs of $0.6 million.

Table of Contents

Preneed cemetery contracts written for the 24 weeks ended June 17, 2006, were $45.1 million, compared to $45.8 million for the corresponding period in 2005.

Insurance revenue for the 24 weeks ended June 17, 2006, increased $2.3 million, or 5.3%, compared to the corresponding period in 2005, primarily due to increases in premiums of $1.4 million and increased investment income of $1.3 million offset by $0.4 million of capital gains in 2005 not repeated in 2006. Insurance premium revenue is dependent on the level of preneed funeral contracts written over time that are funded by Alderwoods insurance subsidiary. Insurance production represents the insurance segment s participation in Alderwoods preneed funeral contracts and for the 24 weeks ended June 17, 2006 was $60.6 million compared to $64.0 million for the corresponding period in 2005. Insurance gross margin as a percentage of revenue decreased to 4.5% for the 24 weeks ended June 17, 2006, compared to 4.8% for the corresponding period in 2005. The 24 weeks ended June 17, 2006 showed improvement from business growth offset by approximately $0.3 million of expenses from the impact of Hurricane Katrina on outstanding policies.

General and administrative expenses for Alderwoods for the 24 weeks ended June 17, 2006, were $32.6 million, or 9.2% of consolidated revenue, compared to $12.3 million, or 3.4% of consolidated revenue, for the corresponding period in 2005. General and administrative expenses included the following items affecting the comparison of the 24 weeks ended June 17, 2006 to the 24 weeks ended June 18, 2005:

	24 Weeks Ended	
	June 17, 2006	**June 18, 2005**
	(Dollars in millions)	
Legal expenses related to Funeral Consumers Alliance litigation	$ 1.5	$
Legal and other expenses related to the acquisition	2.8	
Equity incentive plan stock based compensation expense related to stock options and restricted stock units	1.6	
Increase in long term executive incentive expense	1.7	
Foreign exchange impact on Canadian based support centre expenses	2.1	
Decrease in retirement allowance accrual	(0.7)	
Reduction in accrual on settlement of US trustee bankruptcy fee		(0.9)
Recovery of corporate receivable previously fully reserved against		(10.9)

Included in general and administrative expenses for the 24 weeks ended June 17, 2006 was $1.6 million of stock based compensation expense from stock options and restricted stock units resulting from the adoption of SFAS 123R using the modified prospective method. For the 24 weeks ended June 18, 2005, Alderwoods applied APB No. 25 and related interpretations to account for stock based compensation and no stock based compensation expense was recognized.

From 2003 to 2005 Alderwoods had a long term incentive plan for its executive officers based on Alderwoods performance targets for which an expense of $1.3 million was recorded in general and administrative expenses for the 24 weeks ended June 18, 2005. In July, 2005 Alderwoods adopted the 2005-2007 Executive Strategic Incentive Plan, a stock price based incentive plan for its executive officers. This stock price based incentive plan is accounted for under SFAS 123R as a liability based award, resulting in the measurement of the estimated fair value at each reporting date. On adoption of SFAS 123R, Alderwoods recorded a cumulative effect of change in accounting principle as of January 1, 2006 of $1.2 million based on a estimated fair value of $6.6 million as at January 1, 2006. On June 17, 2006, additional compensation expense of $3.0 million was recorded for the 24 weeks ended June 17, 2006 based on estimated fair value of $11.2 million as at June 17, 2006.

Table of Contents

Interest expense on long-term debt for the 24 weeks ended June 17, 2006, was $12.9 million, reflecting the effect of principal repayments and lower interest rates compared to interest expense and tender premium in the corresponding period in 2005, as detailed in the following table:

	24 Weeks Ended	
	June 17, 2006	June 18, 2005
	(Dollars in millions)	
Interest on long-term debt	$ 12.0	$ 12.5
Amortization of debt issue costs	0.9	1.7
Tender premium on the repurchase of Alderwoods 12.25% Senior Unsecured Notes due in 2009		0.3
Total interest on long-term debt and refinancing costs	$ 12.9	$ 14.5

Income tax expense for the 24 weeks ended June 17, 2006 was $7.3 million compared to $18.2 million for the corresponding period in 2005. Alderwoods financial statement effective tax rate for the 24 weeks ended June 17, 2006 was 55.4%. The effective tax rate will vary from the statutory rate because, (i) stock option compensation expense recorded as a result of the adoption of SFAS 123R is a permanent difference in certain jurisdictions, (ii) costs related to the acquisition with SCI may not be deductible, (iii) the realization of the benefits of the tax assets that had a corresponding valuation allowance established on January 2, 2002 will result in a reduction to goodwill established on January 2, 2002, (iv) the realization of tax assets that had a corresponding valuation allowance established after January 2, 2002 will result in a benefit, and (v) losses incurred in certain jurisdictions may not offset the tax expense in profitable jurisdictions.

During the 24 weeks ended June 17, 2006, Alderwoods sold five funeral locations for gross proceeds of $1.2 million.

Discontinued Operations

In fiscal years 2002 through 2004, Alderwoods engaged in a strategic market rationalization assessment to dispose of cemetery and funeral operating locations that did not fit into Alderwoods market or business strategies, as well as underperforming locations and excess cemetery land.

As of June 18, 2005, Alderwoods had completed the strategic market rationalization program except for one cemetery which was classified back to continuing operations during the 12 and 24 weeks ended June 18, 2005.

Table of Contents

Preneed Funeral and Cemetery Backlog for Continuing Operations

Alderwoods backlog represents preneed funeral and cemetery arrangements with customer families. These arrangements are subject to trust or insurance funding requirements. The activities in Alderwoods funeral backlog, excluding the effects of unrealized gains and losses on trust investments, were as follows:

	24 Weeks Ended	
	June 17, 2006	**June 18, 2005**
	(Dollars in thousands)	
Funeral backlog:		
Beginning balance	$ 1,336,829	$ 1,275,972
Sales, net of cancellations	81,201	85,019
Maturities	(75,391)	(68,200)
Net increase in insurance benefits and earnings realized on funeral trust balances	7,663	8,741
Change in cancellation reserve	1,691	5,395
Other	(948)	716
Ending balance	$ 1,351,045	$ 1,307,643
Trust funded	$ 344,222	$ 345,921
Third party insurance companies	651,486	660,966
Subsidiary insurance company	355,337	300,756
	$ 1,351,045	$ 1,307,643

The activities in Alderwoods cemetery backlog, excluding the effects of unrealized gains and losses on trust investments, were as follows:

	24 Weeks Ended	
	June 17, 2006	**June 18, 2005**
	(Dollars in thousands)	
Cemetery backlog:		
Beginning balance	$ 276,755	$ 262,825
Sales, net of cancellations	49,910	44,089
Maturities	(46,086)	(41,688)
Earnings realized on cemetery trust balances	3,122	3,635
Change in cancellation reserve	361	1,789
Ending balance	$ 284,062	$ 270,650

Fifty-two Weeks Ended December 31, 2005, Fifty-two Weeks Ended January 1, 2005, and Fifty-three Weeks Ended January 3, 2004.

Detailed below are the operating results of Alderwoods for the 52 weeks ended December 31, 2005, the 52 weeks ended January 1, 2005 and the 53 weeks ended January 3, 2004. The operating results are expressed in dollar amounts as well as relevant percentages, presented as a percentage of revenue.

The following provides a detailed discussion of continuing operations, which consist of those businesses Alderwoods owned and operated both for the entire current and prior fiscal years, and those businesses that have been opened during either the current or prior fiscal years. Discontinued operations consist of those that have been sold or closed during either the current or prior fiscal years. During 2005, Alderwoods had completed the sale of all the locations classified as discontinued operations in its strategic market rationalization program, except for one cemetery which was reclassified to continuing operations.

Table of Contents

Certain information for the 52 weeks ended December 31, 2005, and the 52 weeks ended January 1, 2005, is summarized in the following table:

52 Weeks Ended Continuing Operations:	December 31, 2005	January 1, 2005	Increase (Decrease) Amount	Increase (Decrease) Percentages
Funeral other information				
Number of funeral services performed	115,555	117,525	(1,970)	(1.7)%
Number of same site funeral services performed	113,300	114,062	(762)	(0.7)%
Average revenue per funeral service	$ 4,152	$ 4,024	$ 128	3.2%
Same site average revenue per funeral service	$ 4,160	$ 4,036	$ 124	3.1%
Preneed funeral contracts written (in millions)	$ 191.0	$ 179.5	$ 11.5	6.4%
Preneed funeral conversion (percentages)	27%	26%	1	
Cemetery other information				
Number of cemetery interments	46,794	46,461	333	0.7%
Preneed cemetery contracts written (in millions)	$ 94.5	$ 86.9	$ 7.6	8.7%

Hurricane Katrina

Alderwoods recorded an expense of $1.8 million in the 52 weeks ended December 31, 2005, representing its expected deductible under its insurance policies and other expenses not expected to be reimbursed under the insurance policy. Under its internal risk sharing practice, Alderwoods aggregate deductible costs are charged to all its operations, not just the locations affected by Hurricane Katrina. The effect on funeral and cemetery costs for the 52 weeks ended December 31, 2005 was $1.3 million and $0.5 million respectively.

Alderwoods received in 2005, $4.1 million as an advance payment from its insurance companies for claims submitted. This was not recorded as income but as insurance proceeds to be applied against incurred and anticipated repair and rebuilding costs.

Alderwoods is self-insured for physical damage to its owned and leased automobiles and charges the aggregate resulting costs to all of its operations. Hurricane Katrina resulted in estimated damages across Alderwoods vehicles aggregating $0.6 million. The effect of Hurricane Katrina vehicle damage on funeral and cemetery costs for the 52 weeks ended December 31, 2005 was $0.5 million and $0.1 million respectively.

Additional information regarding Hurricane Katrina is provided in note 22 to Alderwoods annual financial statements included elsewhere in this prospectus.

Continuing Operations

Consolidated revenue of $748.9 million for the 52 weeks ended December 31, 2005, increased by $31.8 million, or 4.4%, compared to the 52 weeks ended January 1, 2005, reflecting increases in all business segment revenues. Consolidated gross margin as a percentage of revenue decreased to 15.3% for the 52 weeks ended December 31, 2005, from 17.4% for the corresponding period in 2004.

Funeral revenue of $479.8 million for the 52 weeks ended December 31, 2005, increased by $6.9 million, compared to $472.9 million for the 52 weeks ended January 1, 2005, primarily as a result of an increase of $128, or 3.2%, in average revenue per funeral service performed, partially offset by a decrease in the number of funeral services performed. The number of funeral services performed during the 52 weeks ended December 31, 2005 decreased by 1.7% from the 52 weeks ended January 1, 2005. The increase in average revenue per funeral service performed was achieved through adjusting the pricing and mix of merchandise and services offered to customer families designed to both meet customer family needs and to increase average revenues.

Table of Contents

Included in the funeral revenue for the 52 weeks ended December 31, 2005 is $29.5 million from 6,389 funeral services performed in New Orleans, Louisiana, and on the Gulf Coast of Mississippi compared to $29.7 million of funeral revenue from 6,371 funeral services performed for the 52 weeks ended January 1, 2005. Although Alderwoods funeral operations in these areas were affected significantly by Hurricane Katrina, including seven locations not expected to be reopened, Alderwoods has continued to perform funeral services through its remaining locations, including many services that would have been performed in the closed locations or at competing locations that were not in operation. As a result, much of the impact of Hurricane Katrina on funeral revenue during 2005 was mitigated.

On a same site basis, funeral revenue was $468.8 million for the 52 weeks ended December 31, 2005, an increase of $11.4 million compared to $457.4 million for the 52 weeks ended January 1, 2005, as a result of an increase of $124, or 3.1%, in average revenue per funeral service performed, partially offset by a decrease of 0.7% in the number of funeral services performed from the 52 weeks ended January 1, 2005. If the locations affected by Hurricane Katrina were removed, the number of funeral services performed on a same site basis would have declined 1.2% from the 52 weeks ended January 1, 2005 as the impacted locations were performing well prior to Hurricane Katrina and during the 12 weeks ended December 31, 2005.

The number of cremation services performed as a percentage of total services performed increased to 36% for the 52 weeks ended December 31, 2005, compared to 35% for the 52 weeks ended January 1, 2005, consistent with national trends. The number of cremation services performed may impact funeral revenue, as the average revenue per cremation service is typically lower than the average revenue for a traditional funeral service.

Funeral gross margin as a percentage of revenue decreased to 18.2% for the 52 weeks ended December 31, 2005, compared to 20.4% for the 52 weeks ended January 1, 2005. The decrease in gross margin is primarily due to higher expenses compared to the prior year as detailed in the following table:

	52 Weeks Ended December 31, 2005
	(Dollars in millions)
Wage inflation, increased employee benefits expense, and increased wages, training and advertising costs related to Alderwoods expanded field management structure and investment in programs designed to build local brand awareness and generate growth in future services	$4.5
Incentive bonus expense for funeral operations previously included in general and administrative expenses	1.9
Increased insurance costs, including expenses not expected to be reimbursed under Alderwoods insurance policy for damages effected by Hurricanes Katrina, Wilma and Rita	2.4
Increased utility costs	1.1

Preneed funeral contracts written for the 52 weeks ended December 31, 2005, were $191.0 million, compared to $179.5 million for the 52 weeks ended January 1, 2005. For the 52 weeks ended December 31, 2005, 27% of the funeral services performed were derived from preneed backlog, an increase from 26% in the 52 weeks ended January 1, 2005.

Cemetery revenue of $174.1 million for the 52 weeks ended December 31, 2005, was $10.1 million, or 6.1%, higher than cemetery revenue for the 52 weeks ended January 1, 2005, primarily due to increased space sales of $6.1 million at Alderwoods Rose Hills subsidiary, increased atneed service revenue of $1.7 million from a greater number of cemetery interments at a higher average service revenue per interment, and increased endowment care income of $1.0 million from its investments.

Cemetery gross margin as a percentage of revenue decreased to 12.7% for the 52 weeks ended December 31, 2005, compared to 14.6% for the 52 weeks ended January 1, 2005. The decrease in gross margin was primarily due to higher expenses as detailed in the following table:

	52 Weeks Ended December 31, 2005
	(Dollars in millions)
Wage inflation, increased employee benefits and workers compensation expense	$2.6
Incentive bonus expense for cemetery operations previously included in general and administrative expenses	0.8
Increased insurance costs including expenses not expected to be reimbursed under Alderwoods insurance policy for damages effected by Hurricanes Katrina, Wilma and Rita	1.2
Increased utility costs	0.4

Preneed cemetery contracts written for the 52 weeks ended December 31, 2005, were $94.5 million, compared to $86.9 million for the 52 weeks ended January 1, 2005. The increase in preneed cemetery contracts written was primarily due to increased sales of cemetery spaces.

Insurance revenue for the 52 weeks ended December 31, 2005, increased $14.9 million, or 18.6%, compared to the 52 weeks ended January 1, 2005, primarily due to increases in premiums of $14.1 million. Insurance premium revenue is dependent on the level of preneed funeral contracts written over time that are funded by Alderwoods insurance subsidiary. Insurance production represents the insurance segment s participation in Alderwoods preneed funeral contracts and for the 52 weeks ended December 31, 2005 was $133.2 million compared to $111.7 million for the 52 weeks ended January 1, 2005. Insurance gross margin as a percentage of revenue decreased to 5.3% for the 52 weeks ended December 31, 2005, compared to 5.9% for the 52 weeks ended January 1, 2005, due to a decrease in investment gains of $1.7 million compared to the 52 weeks ended January 1, 2005.

General and administrative expenses decreased $8.4 million for the 52 weeks ended December 31, 2005, to $42.8 million, or 5.7% of consolidated revenue, compared to $51.2 million, or 7.1% of consolidated revenue, for the 52 weeks ended January 1, 2005. General and administrative expenses included the following items affecting the comparison of the 52 weeks ended December 31, 2005 to the 52 weeks ended January 1, 2005:

	52 Weeks Ended	
	December 31, 2005	January 1, 2005
	(Dollars in millions)	
Recovery of corporate receivable previously fully reserved against	$(10.9)	$(1.2)
Interest income on refunds from an amended tax return	(2.0)	
Reduction in accrual on settlement of U.S. trustee bankruptcy fee	(0.9)	
Increased wage expense related to wage inflation and additional positions related to Sarbanes-Oxley compliance	1.1	
Decreased capital tax expense	(0.5)	
Decrease in incentive bonus expense	(0.8)	
Increased retirement allowance expense	1.2	
Foreign exchange impact on Canadian dollar based support centers	2.3	
		(0.9)

Reversal of legal claim accrual due to approvals obtained for insurance coverage of the costs

Interest expense on long-term debt for the 52 weeks ended December 31, 2005, was $30.1 million, a decrease of $48.0 million from the 52 weeks ended January 1, 2005 expense of $78.1 million, reflecting the effect of principal repayments, lower interest rates and the effects of the debt refinancings in 2004, as detailed in the following table:

	52 Weeks Ended	
	December 31, 2005	**January 1, 2005**
	(Dollars in millions)	
Interest on long-term debt	$ 26.6	$ 38.7
Amortization of debt issue costs	3.2	10.1
Tender premiums on the repurchase of the 12.25% Senior Unsecured Notes due in 2009	0.3	32.5
Refinancing fees and costs on Credit Agreement that was refinanced		3.3
Unamortized deferred finance costs expensed relating to payments made on Credit Agreement during 2004		2.3
Unamortized deferred finance costs expensed relating to the Credit Agreement that was refinanced		1.2
Unamortized deferred finance costs expensed relating to the subordinated bridge loan due in 2005 that was fully repaid		0.9
Unamortized premium credited to interest expense on 12.25% Convertible Subordinated Notes due in 2012 that were fully retired		(7.2)
Allocation of interest to discontinued operations		(3.7)
Total interest on long-term debt and refinancing costs	$ 30.1	$ 78.1

Income tax expense for the 52 weeks ended December 31, 2005 was $4.8 million compared to a recovery of $1.5 million for the 52 weeks ended January 1, 2005. During the 52 weeks ended December 31, 2005, Alderwoods recorded the non-cash resolution of an outstanding tax liability by reducing its tax expense by $12.1 million and in the fourth quarter Alderwoods recorded an income tax refund of $3.2 million as a result of a resolution of an IRS tax audit. The effective tax rate for the 52 weeks ended December 31, 2005 before the above benefits was approximately 42%.

During the 52 weeks ended December 31, 2005, Alderwoods reduced the valuation allowance against certain deferred tax assets as a result of assuming certain future income, resulting in a benefit of $3.1 million being recorded in income tax expense and $9.1 million recorded as a reduction of goodwill. This benefit was primarily offset by increases in other deferred tax assets for which a valuation allowance was established. The effective tax rate also varied from the statutory tax rate for the 52 weeks ended December 31, 2005, because in certain jurisdictions, losses incurred may not offset the tax expense in profitable jurisdictions.

During the 52 weeks ended December 31, 2005, Alderwoods sold seven funeral locations and one combination location and excess real estate for gross proceeds of $17.6 million.

Discontinued Operations

Over the previous three fiscal years, Alderwoods engaged in a strategic market rationalization assessment to dispose of cemetery and funeral operating locations that did not fit into Alderwoods market or business strategies, as well as under-performing locations and excess cemetery land.

Discontinued operations in 2005 and the prior years consisted of those businesses that have been closed or sold in prior fiscal years and those businesses identified by Alderwoods in its strategic market rationalization and not sold as of January 1, 2005. Alderwoods completed the sale of all these locations during 2005, except for one cemetery which was reclassified to continuing operations.

Alderwoods classified all the locations identified in its strategic market rationalization program for disposal as assets held for sale in the consolidated balance sheets and recorded any related operating results, long-lived asset impairment provisions, and gains or losses recorded on disposition within

Table of Contents

discontinued operations. Depreciation and amortization is not recorded once an asset has been identified as held for sale. Alderwoods has also reclassified the prior fiscal periods to reflect any comparative amounts on a similar basis. All discontinued operations financial information presented under the insurance segment relates to Security Plan Life Insurance Company.

During the 52 weeks ended December 31, 2005, Alderwoods sold classified discontinued operations of 18 funeral, five cemetery and four combination locations for gross proceeds of $7.1 million.

Fifty-Two Weeks Ended January 1, 2005 Compared to Fifty-Three Weeks Ended January 3, 2004

Certain information for the 52 weeks ended January 1, 2005, and the 53 weeks ended January 3, 2004, is summarized in the following table. The impact of the 53rd week for the 53 weeks ended January 3, 2004, was estimated by calculating the weekly average of the 13 weeks ended January 3, 2004. Alderwoods believes the discussion below regarding the impact of the 53rd week facilitates direct comparability of fiscal year results.

Continuing Operations:	**January 1, 2005**	**January 3, 2004**
Funeral other information		
Number of funeral services performed	117,525	124,798
Estimated impact of the 53rd week on the number of funeral services performed		(2,421)
Number of funeral services performed adjusted for the impact of the 53rd week	117,525	122,377
Average revenue per funeral service	$ 4,024	$ 3,939
Preneed funeral contracts written (in millions)	$ 179.5	$ 164.8
Estimated impact of the 53rd week on preneed funeral contracts written (in millions)	$	$ (3.0)
Preneed funeral contracts written adjusted for the impact of the 53rd week (in millions)	$ 179.5	$ 161.8
Preneed funeral conversion (percentages)	26	26
Cemetery other information		
Preneed cemetery contracts written (in millions)	$ 86.9	$ 83.3
Estimated impact of the 53rd week on preneed cemetery contracts written (in millions)	$	$ (1.7)
Preneed cemetery contracts written adjusted for the impact of the 53rd week (in millions)	$ 86.9	$ 81.6
Number of cemetery interments	46,461	47,924
Estimated impact of the 53rd week on the number of cemetery interments		(909)
Number of cemetery interments adjusted for the impact of the 53rd week	46,461	47,015

Continuing Operations

As there were no material acquisitions or construction of new locations in 2004 and 2003, results from continuing operations reflect those of same site locations.

Consolidated revenue of $717.1 million for the 52 weeks ended January 1, 2005, decreased by $3.7 million, or 0.5%, compared to $720.8 million for the 53 weeks ended January 3, 2004. After adjusting for an estimated impact of $14.4 million due to the additional fifty-third week in fiscal 2003 over fiscal 2004, consolidated revenue increased by $10.7 million. This increase is primarily due to a $20.1 million increase in insurance revenue, partially offset by an $8.9 million and $0.3 million decrease in funeral and cemetery revenue, respectively. Consolidated gross margin as a percentage of revenue decreased to 17.4% for the 52 weeks ended December 31, 2005, from 20.0% in 2003.

Funeral revenue of $472.9 million for the 52 weeks ended January 1, 2005, decreased by $18.7 million, compared to $491.6 million in 2003, partially as a result of an estimated decrease of

$9.7 million due to the additional fifty-third week in 2003 over 2004. After adjusting for the effect of the fifty-third week, funeral revenue decreased by $8.9 million, primarily as a result of a decrease of 4,852, or 4.0%, in the number of funeral services performed, partially offset by an increase of $85, or 2.2%, in average revenue per funeral service performed. The increase in average revenue per funeral service performed was the result of Alderwoods efforts to adjust the Alderwoods mix of merchandise and services.

The number of cremation services performed as a percentage of total services performed increased to 35% for the 52 weeks ended January 1, 2005, compared to 34% for 2003, consistent with national trends.

Funeral gross margin as a percentage of revenue decreased to 20.4% for the 52 weeks ended January 1, 2005, compared to 23.1% in 2003. The decrease in gross margin was primarily due to the decrease in funeral revenue and increases in cost of goods sold, wages, and facilities costs, partially offset by decreases in operating costs and selling expenses.

Preneed funeral contracts written for the 52 weeks ended January 1, 2005, were $179.5 million. After adjusting for the effect of the fifty-third week, preneed funeral contracts written for the 53 weeks ended January 3, 2004, were $161.8 million. For both the 52 weeks ended January 1, 2005, and 53 weeks ended January 3, 2004, 26% of funeral volume was derived from backlog.

Cemetery revenue of $164.1 million for the 52 weeks ended January 1, 2005, was $4.0 million, or 2.4%, lower than cemetery revenue in 2003, primarily due to the following:

An estimated increase of $3.5 million due to the additional fifty-third week in 2003 over 2004. After adjusting for the effect of the fifty-third week, cemetery revenue of $164.1 million for the 52 weeks ended January 1, 2005, was $0.5 million, or 0.3%, lower than cemetery revenue for the corresponding period in 2003.

The increase in cemetery atneed service revenue during the 52 weeks ended January 1, 2005, compared to the corresponding period in 2003, was partially offset by a decrease in other cemetery revenue. Other cemetery revenue for the 52 weeks ended January 1, 2005, decreased compared to 2003, because Alderwoods revised its estimates of accrued perpetual care liabilities and recorded a one-time $3.9 million increase in other cemetery revenue for the 53 weeks ended January 3, 2004. The one-time $3.9 million adjustment to increase other cemetery revenue was necessary, because in 2001, in response to a state regulator inquiry, Alderwoods determined that it had not properly calculated the amount to be trusted for endowment care on the sale of plots. Endowment care is recorded as a reduction in other cemetery revenue, as amounts trusted are never available to Alderwoods in the future. To properly recalculate the appropriate perpetual care liability and its corresponding effect on other cemetery revenue, a significant number of individual contracts across several states needed to be reviewed, and the perpetual care liability was recalculated against the balance already paid in order to determine the amount of Alderwoods additional liability. Alderwoods prepared its best estimate of the perpetual care liability based on a sample of contracts from each state in which the issue existed, and in 2001, Alderwoods accrued an estimate for the perpetual care liability of additional required funding of $6.9 million, with the offset adjusting other cemetery revenue. In 2003, Alderwoods completed its review and calculation of the required additional funding and adjusted other cemetery revenue and the perpetual care liability accordingly.

As preneed cemetery interment rights are recorded in cemetery revenue when sold, an estimate of the related uncollectible amounts is charged to cemetery revenue. During 2002 and 2003, Alderwoods focused collection efforts resulted in higher collections than anticipated on the pre-emergence receivables. As a result of Alderwoods improvement in actual collections, Alderwoods reversed $3.9 million of the allowance for contract cancellations and refunds on receivables arising from preneed cemetery interment rights with a corresponding increase to cemetery revenue for the 53 weeks ended January 3, 2004.

Cemetery gross margin as a percentage of revenue decreased to 14.6% for the 52 weeks ended January 1, 2005, compared to 17.1% for 2003. For the 52 weeks ended January 1, 2005, wages and

Table of Contents

regional management costs decreased, while cost of goods sold, selling costs, and advertising and promotion increased compared to 2003. In addition, there was a one-time $3.9 million increase in other cemetery revenue for the 53 weeks ended January 3, 2004, as discussed above.

Preneed cemetery contracts written for the 52 weeks ended January 1, 2005, were $86.9 million. After adjusting for the effects of the fifty-third week in 2003, preneed cemetery contracts for the 52 weeks ended January 1, 2005, were $5.6 million higher than in 2003. For the 52 weeks ended January 1, 2005, 67% of interments were atneed and 33% were preneed fulfillments.

Insurance revenue for the 52 weeks ended January 1, 2005, increased $19.0 million, or 31.1%, compared to 2003. After adjusting for the estimated effect of the fifty-third week in 2003, insurance revenue increased $20.1 million, or 33.6%, primarily due to increases in premiums of $16.6 million, interest, dividend and other investment income of $1.9 million, and realized investment gains of $1.6 million. Insurance premium revenue increased in 2004 primarily due to the impact of Alderwoods subsidiary, Rose Hills, beginning to sell Alderwoods insurance products. Insurance premiums are dependent on insurance production, as increases in insurance production generate increased insurance premiums over time. Insurance production, which represents the insurance segment s participation in Alderwoods preneed funeral contracts for the 52 weeks ended January 1, 2005, was $102.8 million compared to $69.5 million for corresponding period in 2003. Insurance gross margin as a percentage of revenue increased to 5.9% for the 52 weeks ended January 1, 2005, compared to 2.9% for the corresponding period in 2003, primarily due to the revenue increase being at a rate higher than that of the cost increase.

Interest expense on long-term debt and refinancing costs for the 52 weeks ended January 1, 2005, was $78.1 million, an increase of $1.6 million compared to the corresponding period in 2003. The effect of lower effective interest rates and debt repayments made by Alderwoods during 2003 and the 52 weeks ended January 1, 2005, were partially offset by costs associated primarily with Alderwoods refinancing of long-term debt that occurred during the 52 weeks ended January 1, 2005, as detailed in the following table.

	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
	(Dollars in millions)	
Interest on long-term debt	$ 45.1	$ 72.3
Tender premium on the repurchase of the 12.25% Senior unsecured notes due in 2009	32.5	
Unamortized deferred finance costs expensed relating to the Credit Agreement that was refinanced	1.2	
Unamortized deferred finance costs expensed relating to payments made on the Credit Agreement during 2004	2.3	
Refinancing fees and costs on the Credit Agreement that was refinanced	3.3	
Unamortized deferred finance costs expensed relating to the subordinated bridge loan due in 2005 that was fully repaid	0.9	
Unamortized premium credited to interest expense on 12.25% Convertible subordinated notes due in 2012 that was fully retired	(7.2)	
Tender premium on the repurchase of the 9.5% Senior subordinated notes due in 2004		1.3
Unamortized discount expensed relating to the 9.5% Senior subordinated notes due in 2004 that was fully repaid		1.4
Fees and costs for early termination of Alderwoods previous credit facility entered into on January 2, 2002		1.5

Total interest on long-term debt and refinancing costs	$	78.1	$	76.5

Table of Contents

General and administrative expenses for the 52 weeks ended January 1, 2005, were $51.2 million, or 7.1% of consolidated revenue, compared to $56.3 million, or 7.8% of consolidated revenue in 2003. For the 52 weeks ended January 1, 2005, general and administrative expenses included the following items:

Incentive compensation for management performance was lower by $2.9 million compared to 2003.

Legal fees were lower by $1.3 million compared to fiscal 2003, primarily due to a smaller number of outstanding legal claims and improved management of legal costs by Alderwoods s internal legal department.

Alderwoods collected $1.2 million of corporate receivables that were previously fully reserved against.

Accounting costs including audit fees increased by $2.1 million compared to 2003, due to additional accounting and audit work required pursuant to the Sarbanes-Oxley Act of 2002 and FIN No. 46R.

Alderwoods has a significant portion of its corporate and administrative functions in Canada. Expenses for these functions are paid principally in Canadian dollars. Due to the weakening of the US dollar against the Canadian dollar during 2004, Alderwoods estimates that foreign exchange rate movements resulted in an additional $3.5 million in general and administrative expenses for the 52 weeks ended January 1, 2005, compared to 2003, partially offset by $0.8 million in foreign exchange gains that resulted from Alderwoods foreign exchange derivatives program to hedge a portion these Canadian corporate and administrative costs.

For the 53 weeks ended January 3, 2004, general and administrative expenses included the following items affecting the comparison with 2004:

General and administrative expenses were increased by a $10.0 million reserve for a receivable from a disposition of assets in 2001.

General and administrative expenses were reduced by a $5.0 million reversal of accrued legal expense, which resulted from a settlement by Alderwoods of an automobile accident suit. In 2000, the suit was filed against Alderwoods claiming both compensation and punitive damages, as a result of the automobile accident. Alderwoods assessment indicated its insurance did not cover punitive damages and as such, Alderwoods accrued an estimated liability for probable punitive damages. In 2003, Alderwoods and its insurance company settled with the plaintiffs for amounts within Alderwoods insurance coverage, which included no punitive damages.

At the time of filing for bankruptcy, Loewen Group International, Inc. (the Predecessor) had a promissory note and non-compete obligation owing to a group of individuals that was secured by various funeral and cemetery properties. During the bankruptcy, a dispute arose as to whether the obligations owed by the Predecessor were fully secured. In the bankruptcy, secured claims were paid in cash; unsecured claims were paid out of the unsecured claim pool established in the Predecessor s Plan. The Predecessor argued the maximum collateral value was less than the amount of the claim and that therefore, the claim was not fully secured. The individuals argued that the collateral value exceeded the value of the claim and that therefore, the claim was fully secured.

This dispute could not be resolved before Alderwoods emergence from bankruptcy on January 2, 2002, and Alderwoods recorded the $9.0 million accrual as if the claims would be considered fully secured.

During 2003, Alderwoods reached a settlement to pay $4.7 million in cash and in addition, to allow a portion of the settlement as an unsecured claim to be paid out of the unsecured claim pool established in the Predecessor s Plan. As a result of the settlement, Alderwoods reversed its remaining accrual of $4.3 million.

General and administrative expenses were reduced by $3.1 million as a result of net interest income received from a tax refund in connection with the audit of the Predecessor s 1993 through 1998 federal income tax returns.

Income tax benefit for the 52 weeks ended January 1, 2005, was $1.4 million compared to income tax benefit of $6.5 million for the corresponding period in 2003. The effective tax benefit rate was 27.7% for the 52 weeks ended January 1, 2005, compared to the effective tax benefit rate of 235.0% for the 53 weeks ended January 3, 2004. The effective tax rate varied from the statutory rate for the 52 weeks ended January 1, 2005, primarily due to changes in the ratio of permanent differences to income before income taxes, losses incurred in certain jurisdictions that did not offset tax expenses in profitable jurisdictions, and the favorable settlement of income tax audits. For the 53 weeks ended January 3, 2004, the effective income tax rate varied from the statutory rate, primarily because of a $9.7 million favorable settlement of a federal income tax audit. Future income and losses may require Alderwoods to record a change in the valuation allowance of tax assets that were taken into account in determining the net amount of liability for deferred income taxes recorded on its balance sheet at January 1, 2005. If this occurs, any resulting increase in the valuation allowance would generally be treated as an additional income tax expense in the period in which it arises, while any resulting decrease reflecting realization of the benefits of tax assets that had a corresponding valuation allowance established on January 2, 2002, would be treated as a reduction of goodwill established on January 2, 2002, with any excess over the value assigned to such goodwill recognized as a capital transaction.

In accordance with FAS 142, Alderwoods undertook its annual goodwill impairment review during the 16 weeks ended October 9, 2004. As a result of Alderwoods annual goodwill impairment review, there was no indication of goodwill impairment, as the estimated fair value of the funeral reporting unit exceeded its carrying amount as at October 9, 2004.

At December 31, 2001, Alderwoods had accrued $57.1 million of reorganization costs related to costs incurred during the Predecessor s reorganization, as well as costs incurred in connection with the actual emergence and various related activities. As of January 1, 2005, the balance of $11.9 million of reorganization costs, primarily consisting of accruals for a trustee fee dispute and legal fee reimbursements, has been included in accounts payable and accrued liabilities.

Discontinued Operations

Discontinued operations consist of those businesses that have been closed or sold in prior fiscal years and those businesses identified by Alderwoods in its strategic market rationalization and not sold as of January 1, 2005. Alderwoods completed the sale of all these locations during 2005, except for one cemetery which was classified back to continuing operations.

During 2003, Alderwoods identified Security Plan Life Insurance Company, its wholly-owned home service insurance company, as a non-strategic asset as it did not support Alderwoods preneed funeral sales efforts. Alderwoods s continuing wholly-owned preneed life insurance company is Mayflower National Life Insurance Company. On June 17, 2004, Alderwoods announced the signing of an agreement by its subsidiary Mayflower National Life Insurance Company to sell all the outstanding shares of Security Plan Life Insurance Company for $85.0 million. The sale concluded on October 1, 2004. After payment of applicable taxes and expenses, and the recapitalization of Mayflower National Life Insurance Company, Alderwoods utilized $65.0 million of the proceeds to reduce long-term debt. Alderwoods recorded a pre-tax gain on the sale of $16.0 million for the 52 weeks ended January 1, 2005.

During the 12 weeks ended March 27, 2004, Alderwoods reduced its estimated proceeds on the group of assets held for sale and as a result recorded an $11.3 million long-lived asset impairment provision. At that time and previously, Alderwoods expected certain locations to sell as two distinct groups. One group (Group A) included 23 locations while another group (Group B) consisted of 93 locations. Alderwoods had a commitment from a single purchaser to purchase all of Group A, and had interest shown by six different purchasers in bidding on all of Group B. The impairment reviews done for each of Group A and Group B for the first quarter of the 2004 fiscal year aggregated the carrying values of the locations within each group to compare against the group s estimated fair value. In the second quarter of the 2004 fiscal year, the initial purchaser of Group A declined to purchase some of the locations in Group A. In addition, the bids received on Group B were significantly below Alderwoods expectations, and

Alderwoods determined that the locations would generate higher proceeds if sold in smaller groups or as individual locations.

The impairment review done in second quarter of the 2004 fiscal year looked at either individual locations or aggregated locations into different groups than used previously for the impairment review. Expected proceeds were estimated for each location or new groups of aggregated locations based on current purchase commitments, offers or comparable transactions. The aggregate expected proceeds for all locations held for sale did not change significantly from that used in the previous impairment review. However, the impairment review of each location or new groups of aggregated locations resulted in proceeds being higher or lower than the relevant carrying values.

As a result, Alderwoods was required to record a long-lived asset impairment provision of $11.5 million within discontinued operations for the 12 weeks ended June 19, 2004. During the balance of the year, most of these assets were sold, resulting in a gain on sale of approximately $11.0 million. Overall, Alderwoods has recorded an aggregate $15.4 million long-lived asset impairment provision within discontinued operations for the 52 weeks ended January 1, 2005.

Alderwoods has classified all the locations identified for disposal as assets held for sale in the consolidated balance sheets and recorded any related operating results, long-lived asset impairment provisions, and gains or losses recorded on disposition as income from discontinued operations. Depreciation and amortization is not recorded once an asset has been identified as held for sale. Alderwoods has also reclassified the prior fiscal periods to reflect any comparative amounts on a similar basis. All discontinued operations financial information presented under the insurance segment relate to Security Plan Life Insurance Company.

During the 52 weeks ended January 1, 2005, Alderwoods closed 27 funeral homes and sold 52 funeral homes, 67 cemeteries and one combination location for gross proceeds of $32.4 million.

Preneed Funeral and Cemetery Backlog for Continuing Operations

Alderwoods backlog represents preneed funeral and cemetery arrangements with customer families. These arrangements are subject to trust or insurance funding requirements. The activities in Alderwoods funeral backlog, excluding the effects of unrealized gains and losses on trust investments, were as follows:

	12 Weeks Ended	
	December 31, 2005	**January 1, 2005**
	(Dollars in thousands)	
Funeral backlog:		
Beginning balance	$ 1,333,186	$ 1,275,058
Sales, net of cancellations	32,434	38,877
Maturities	(29,709)	(34,180)
Net increase in insurance benefits and earnings realized on funeral trust balances	4,811	12,831
Change in cancellation reserve	(853)	(7,978)
Other	(3,040)	(4,644)
Ending balance	$ 1,336,829	$ 1,279,964
Trust funded	$ 348,218	$ 351,577
Third party insurance companies	657,028	656,981
Subsidiary insurance company	331,583	271,406
	$ 1,336,829	$ 1,279,964

Table of Contents

		52 Weeks Ended		
		December 31, 2005		January 1, 2005
		(Dollars in thousands)		
Funeral backlog:				
Beginning balance	$	1,279,964	$	1,227,126
Sales, net of cancellations		166,194		156,466
Maturities		(132,384)		(130,129)
Net increase in insurance benefits and earnings realized on funeral trust balances		20,858		25,214
Change in cancellation reserve		1,713		(4,025)
Other		484		5,312
Ending balance	$	1,336,829	$	1,279,964
Trust funded	$	348,218	$	351,577
Third party insurance companies		657,028		656,981
Subsidiary insurance company		331,583		271,406
	$	1,336,829	$	1,279,964

The activities in Alderwoods cemetery backlog, excluding the effects of unrealized gains and losses on trust investments, were as follows:

		12 Weeks Ended		
		December 31, 2005		January 1, 2005
		(Dollars in thousands)		
Cemetery backlog:				
Beginning balance	$	274,801	$	262,380
Sales, net of cancellations		17,993		19,452
Maturities		(19,754)		(21,776)
Earnings realized on cemetery trust balances		1,990		2,654
Change in cancellation reserve		386		115
Other		(9)		
Ending balance	$	275,407	$	262,825

		52 Weeks Ended		
		December 31,		January 1,

		2005		2005
		(Dollars in thousands)		
Cemetery backlog:				
Beginning balance	$	262,825	$	260,811
Sales, net of cancellations		88,675		79,800
Maturities		(87,470)		(83,658)
Earnings realized on cemetery trust balances		10,657		5,884
Change in cancellation reserve		2,445		(12)
Other		(1,725)		
Ending balance	$	275,407	$	262,825

Financial Condition, Liquidity and Capital Resources

Combined Company

Our principal ongoing uses of cash are to meet working capital and capital expenditure requirements and to fund debt obligations. Our primary sources of liquidity are cash flow from operations, cash on hand, proceeds from asset sales and our available capacity under our new senior credit facility, which we believe are adequate to meet our operating needs for the foreseeable future.

Financing for the acquisition. In connection with the closing of the acquisition, we will enter into a new $450 million senior credit facility, consisting of a $150 million 3-year term loan, all of which will be borrowed in connection with the transactions, and a $300 million 5-year revolving credit facility, none of which is expected to be drawn in connection with the transactions based on expected cash balances at closing. In addition, we will issue $500 million aggregate principal amount of notes in a private placement and an additional $200 million aggregate principal amount of privately placed debt securities. Upon consummation of the acquisition, SCI and Alderwoods will terminate all commitments and Alderwoods will repay all outstanding borrowings under their existing credit facilities.

In connection with the acquisition, on September 7, 2006, Alderwoods commenced a tender offer to purchase $200 million of its outstanding 7.75% Senior Notes due 2012 (the Alderwoods 7.75% Notes) and a solicitation of consents to eliminate substantially all of the restrictive covenants and certain events of default and to modify certain other provisions of the indenture relating to the Alderwoods 7.75% Notes. This tender offer was originally scheduled to expire on October 5, 2006, but has been extended to October 26, 2006, to coincide with the anticipated closing of the acquisition. The tender offer may be further extended if the closing date of the acquisition is later than October 26, 2006. The tender offer is conditioned upon, among other things, the tender of a majority of the outstanding principal amount of the Alderwoods 7.75% Notes, the consummation of the acquisition and the financing transactions described above and other customary conditions. As of October 5, 2006, approximately $194,190,000 in aggregate principal amount of the Alderwoods 7.75% Notes, or 97.10% of the outstanding principal amount of the Alderwoods 7.75% Notes, and the consents related thereto, were validly tendered. Withdrawal rights of tendering holders of the Alderwoods 7.75% Notes that tendered prior to the expiration of the consent solicitation on September 20, 2006 (the Alderwoods Consent Date), have expired. The total consideration payable in respect of Alderwoods 7.75% Notes that were accepted for payment and validly tendered and not withdrawn prior to the Alderwoods Consent Date is $1,080.03 per $1,000 principal amount, which includes a $20.00 consent payment payable only in respect of Alderwoods 7.75% Notes that were tendered with consents on or prior to the Alderwoods Consent Date. The total consideration payable in respect of Alderwoods 7.75% Notes that are validly tendered after the Alderwoods Consent Date and on or prior to the expiration date is $1,060.03 per $1,000 principal amount. Accrued and unpaid interest to but excluding the settlement date will also be paid with respect to all existing Alderwoods 7.75% Notes purchased in the tender offer.

In addition, on September 7, 2006, SCI commenced a tender offer to purchase $144.5 million aggregate principal amount of its outstanding 7.7% Senior Notes due 2009, CUSIP Nos: 817565AXZ; 817565AV6; 817565AW4 (the SCI 7.7% Notes), and a solicitation of consents to eliminate substantially all of the restrictive covenants and certain events of default and to modify certain other provisions of the indenture relating to the SCI 7.7% Notes. This tender offer was originally scheduled to expire on October 5, 2006, but has been extended to October 26, 2006, to coincide with the anticipated closing of the acquisition. The tender offer may be further extended if the closing date of the acquisition is later than October 26, 2006. The tender offer is conditioned upon, among other things, the tender of a majority of the outstanding SCI 7.7% notes, the consummation of the acquisition and the financing transactions described above and other customary conditions. As of October 5, 2006, approximately $138,932,000 in aggregate principal amount of SCI 7.7% Notes, or 96.17% of the outstanding principal amount of the SCI 7.7% Notes, and the consents related thereto, were validly tendered. Withdrawal rights of tendering holders of the SCI 7.7% Notes that tendered prior to the expiration of the consent solicitation on September 20, 2006 (the SCI Consent Date), have expired. The total consideration payable in respect of SCI 7.7%

Notes that were accepted for payment and validly tendered and not withdrawn prior to the SCI Consent Date is $1,058.11 per $1,000 principal amount, which includes a $20.00 consent payment payable only in respect of SCI 7.7% Notes that were tendered with consents on or prior to the SCI Consent Date. The total consideration payable in respect of SCI 7.7% Notes that are validly tendered after the SCI Consent Date and on or prior to the expiration date is $1,038.11 per $1,000 principal amount. Accrued and unpaid interest to but excluding the settlement date will also be paid with respect to all existing SCI 7.7% Notes purchased in the tender offer. SCI currently has outstanding a separate series of 7.7% Notes due 2009, which have different CUSIP numbers. SCI is not making a tender offer or consent solicitation for those notes.

Liquidity after the acquisition. After the consummation of the transactions, we will be highly leveraged. On a pro forma basis as of June 30, 2006 and after giving effect to the transactions, we will have outstanding indebtedness of approximately $2,034.0 million, with reduced near-term maturities and a more balanced overall maturity schedule. Based on expected cash balances at closing, we expect to have approximately $229.9 million available for additional borrowing under our revolving credit facility (after giving effect to approximately $70.1 million of outstanding letters of credit). Our new senior credit facility agreement and the note purchase agreement evidencing our new privately placed debt securities contain both affirmative and negative covenants, including limitations, subject to certain exceptions, on our ability to incur additional indebtedness (including guarantee obligations); create liens on assets; enter into sale and leaseback transactions; engage in mergers, liquidations and dissolutions; sell assets; enter into leases; pay dividends, distributions and other payments in respect of capital stock, and purchase our capital stock in the open market; make investments, loans or advances; repay subordinated indebtedness or amend the agreements relating thereto; engage in certain transactions with affiliates; change our fiscal year; create restrictions on our ability to receive distributions from subsidiaries; and change our lines of business; and require us to meet or exceed certain leverage and interest coverage ratios. No pro forma adjustments have been made to reflect a reduction of debt from the application of proceeds expected to be received in connection with the divestitures.

Upon completion of the acquisition, we intend to focus on the near-term reduction of our outstanding indebtedness to our long-term target levels. Through the application of operating cash flow and proceeds from asset sales to retire pre-payable debt, we expect to reduce our outstanding debt to approximately $1.7 billion within the next several years.

SCI expects to execute a consent order with the staff of the FTC in connection with the acquisition, which will identify certain properties the FTC will require us to divest as a result of the acquisition. The consent order will be subject to approval by the FTC commissioners, which approval is a condition to the consummation of the acquisition. No final agreement has been reached with any third party concerning the sale of any such assets. We believe the divestiture of these assets, together with the divestiture of other SCI assets that we have identified for sale, will generate proceeds of approximately $200 million in the near future, which we expect to use to repay debt. There can be no assurance that the divestitures described above will be consummated, or if consummated will generate the proceeds described above. For purposes of the pro forma information in this prospectus, the assets to be sold pursuant to the divestitures have been reclassified on the pro forma balance sheet as assets held for sale and the results of operations of these assets have been eliminated from the pro forma statement of operations. No pro forma adjustments have been made to reflect any anticipated gain or loss from the divestitures and no adjustment has been made to reflect any earnings benefit from the reinvestment of any proceeds from the divestitures or any reduction of debt from the application of sales proceeds. In addition, after completion of the acquisition, we intend to undertake a comprehensive review of all our integrated operations and we believe there may be further asset sales as a result of that review in the next six to 18 months. There can be no assurance that these asset sales will occur or if they occur that they will be on terms favorable to us.

We will continue to focus on funding disciplined growth initiatives that generate increased profitability, revenue and cash flows. These capital investments include the construction of high-end cemetery property (such as private family estates) and the construction of funeral home facilities at existing cemeteries. Over the next twelve months, giving pro forma effect to the transactions, we expect to

Table of Contents

spend approximately $25 million on capital expenditures to construct new funeral homes, and we expect our total maintenance capital expenditures to be approximately $125 million. We will also consider acquisitions that fit our long-term customer focused strategy, if the expected returns exceed our cost of capital.

In August 2004, SCI s Board of Directors authorized a $400.0 million share repurchase program. Under this program, SCI has purchased 51.1 million shares at an average cost of $7.10 per share and currently have $36.7 million authorized for future repurchases. Once we achieve our leverage targets, we intend to make purchases from time to time in the open market or through privately negotiated transactions, subject to market conditions and normal trading restrictions. Since April 2005, SCI has paid a quarterly cash dividend of $.025 per share to its shareholders. While we intend to pay regular quarterly cash dividends for the foreseeable future, all subsequent dividends are subject to final determination by our Board of Directors each quarter after its review of our financial performance.

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

SCI

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

The following table details SCI s known future cash payments (on an undiscounted basis) related to various contractual obligations as of December 31, 2005.

	Payments Due by Period				
Contractual Obligations	**2006**	**2007 2008**	**2009 2010**	**Thereafter**	**Total**
	(Dollars in millions)				
Current maturities of long-term debt(1)	$ 20.7	$	$	$	$ 20.7
Long-term debt maturities(1)		225.6	347.6	613.3	1,186.5
Interest obligation on long-term debt(1)	90.2	158.2	96.9	250.4	595.7
Casket purchase agreement(2)	48.0				48.0
Operating lease agreements(3)	34.1	54.9	35.1	57.7	181.8
Employment, consulting and non-competition agreements(4)	21.6	21.5	4.2	2.3	49.6
Total contractual obligations	$ 214.6	$ 460.2	$ 483.8	$ 923.7	$ 2,082.3

(1) SCI s outstanding indebtedness contains standard provisions, such as payment delinquency default clauses and change of control clauses. In addition, SCI s new senior credit facility contains a maximum leverage ratio and a minimum interest coverage ratio.

(2) SCI has executed a purchase agreement with a major casket manufacturer for its North America operations with an original minimum commitment of $750 million, covering a six-year period that expired in 2004. The agreement contained provisions for annual price adjustments and provided for a one-year extension to December 31, 2005, which SCI elected to extend in order to satisfy its commitment. In January 2005, SCI again amended the original purchase agreement to allow it to continue purchasing caskets through 2006, subject to price increase limitations. At December 31, 2005, SCI s remaining casket purchase commitment under the agreement was $48.0 million. See note thirteen to SCI s annual financial statements included in this prospectus for

additional details related to this purchase agreement.

(3) The majority of SCI s operating leases contain options to (i) purchase the property at fair value on the exercise date, (ii) purchase the property for a value determined at the inception of the leases, or

Table of Contents

(iii) renew for the fair rental value at the end of the primary lease term. SCI s operating leases at December 31, 2005, primarily related to funeral service locations, automobiles, limousines, hearses, cemetery operating and maintenance equipment and two aircraft. At December 31, 2005, SCI has residual value exposure related to certain operating leases of $22.2 million. SCI believes that is it unlikely that it will have to make future cash payments related to these residual value exposures. In order to eliminate the variable interest rate risk in SCI s operating margins and improve the transparency of its financial statements, SCI amended certain of its transportation lease agreements in the first quarter of 2006. Based on the amended terms, these leases have been converted from operating leases to capital leases for accounting purposes in 2006.

(4) SCI has entered into management employment, consulting and non-competition agreements which contractually require SCI to make cash payments over the contractual period. The agreements have been primarily entered into with certain officers and employees of SCI and former owners of businesses acquired. The contractual obligation amounts pertain to the total commitment outstanding under these agreements and may not be indicative of future expenses to be incurred related to these agreements due to cost rationalization programs completed by SCI. Agreements with contractual periods less than one year are excluded. See note thirteen to SCI s annual financial statements included in this prospectus for additional details related to these agreements.

SCI has not included amounts in this table for payments of pension contributions and payments for various postretirement welfare plans and postemployment benefit plans, as such amounts have not been determined beyond 2005.

The following table details SCI s known potential or possible future cash payments (on an undiscounted basis) related to various commercial and contingent obligations as of December 31, 2005.

	Expiration by Period						
Commercial and Contingent Obligations	**2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
			(Dollars in millions)				
Surety obligations(1)	$ 285.7	$		$		$	$ 285.7
Letters of credit(2)	54.7						54.7
Representations and warranties(3)	9.4		24.1				33.5
Income distributions from trust(4)	15.8						15.8
Total commercial and contingent obligations	$ 365.6	$	24.1	$		$	$ 389.7

(1) To support its operations, SCI has engaged certain surety companies to issue surety bonds on SCI s behalf for customer financial assurance or as required by state and local regulations. The surety bonds are primarily obtained to provide assurance for SCI s preneed funeral and preneed cemetery obligations, which are appropriately presented as liabilities in the consolidated balance sheet as *Deferred preneed funeral contract revenues* and *Deferred cemetery contract revenues.* The total outstanding surety bonds at December 31, 2005 were $329.3 million. Of this amount, $313.6 million was related to preneed funeral and preneed cemetery obligations. When SCI uses surety bonds for preneed funeral and cemetery obligations, the bond amount required is based on the calculated trusting requirements as if the contract was paid in full at the time of sale. When SCI deposits funds into state-mandated trust funds, however, the amount deposited is generally based on the amount of cash received and payment application rules in the state trust requirements. Therefore, in the event all of the surety companies canceled or did not renew SCI s outstanding surety bonds, which are generally renewed for twelve-month periods, SCI would be required to either obtain replacement assurance or fund approximately

$285.7 million, as of December 31, 2005, primarily into state-mandated trust accounts. At this time, SCI does not believe it will be required to fund material future amounts related to these surety bonds.

(2) SCI is occasionally required to post letters of credit, issued by a financial institution, to secure certain insurance programs or other obligations. Letters of credit generally authorize the financial institution to make a payment to the beneficiary upon the satisfaction of a certain event or the failure to satisfy

Table of Contents

an obligation. The letters of credit are generally posted for one-year terms and are usually automatically renewed upon maturity until such time as SCI has satisfied the commitment secured by the letter of credit. SCI is obligated to reimburse the issuer only if the beneficiary collects on the letter of credit. SCI believes that it is unlikely it will be required to fund a claim under its outstanding letters of credit.

(3) In addition to the letters of credit described above, SCI currently has contingent obligations of $33.5 million related to its asset sale and joint venture transactions. SCI has agreed to guarantee certain representations and warranties associated with such disposition transactions with letters of credit or interest-bearing cash investments. SCI has interest-bearing cash investments of $6.8 million included in *Deferred charges and other assets* pledged as collateral for certain of these contingent obligations. SCI does not believe it will ultimately be required to fund to third parties any claims against these representations and warranties. During the year ended December 31, 2004, SCI recognized $35.8 million of contractual obligations related to representations and warranties associated with the disposition of its funeral operations in France. The remaining obligations of $24.1 million at December 31, 2005 is primarily related to taxes and certain litigation matters. At June 30, 2006, the remaining obligations totaled $23.7 million. This amount is recorded in *Other liabilities* in SCI s consolidated balance sheet. See note nineteen to SCI s annual financial statements included in this prospectus for addition information related to the disposition of SCI s French operations.

(4) In certain states and provinces, SCI has withdrawn allowable distributable earnings including unrealized gains prior to the maturity or cancellation of the related contract. In the event of market declines, SCI may be required to re-deposit portions or all of these amounts into the respective trusts in some future period.

Combined Company

The following table details our known future cash payments (on an undiscounted basis) related to various contractual obligations as of June 30, 2006, after giving pro forma effect to the transactions.

	Payments Due by Period				
Contractual Obligations	**Remainder of 2006**	**2007 2008**	**2009 2010**	**Thereafter**	**Total**
	(Dollars in millions)				
Current maturities of long-term debt(1)	$ 24.3	$	$	$	$ 24.3
Long-term debt maturities(1)(4)		264.9	390.3	1,354.5	2,009.7
Interest obligation on long-term debt(2)	72.7	274.4	213.4	479.6	1,040.1
Casket purchase agreement(3)	12.8				12.8
Operating lease agreements(4)	9.9	24.2	18.7	67.6	120.4
Employment, consulting and non-competition agreements(5)	10.8	21.5	4.2	2.3	38.8
Total contractual obligations	$ 130.5	$ 585.0	$ 626.6	$ 1,904.0	$ 3,246.1

(1) Our outstanding indebtedness contains standard provisions, such as payment delinquency default clauses and, in some cases, change of control clauses. In addition, SCI s bank credit agreement contains a maximum leverage ratio and a minimum interest coverage ratio. Current and long-term debt maturities include capital leases.

(2) Interest on revolving credit facility, term loan and privately placed debt securities assume LIBOR remaining at 5.40% throughout all periods.

(3) SCI has executed a purchase agreement with a major casket manufacturer for its North America operations with an original minimum commitment of $750 million, covering a six-year period that expired in 2004. The agreement contained provisions for annual price adjustments and provided for a one-year extension to December 31, 2005, which SCI elected to extend in order to satisfy its commitment. In January 2005, SCI again amended the original purchase agreement to allow it to

Table of Contents

continue purchasing caskets through 2006, subject to price increase limitations. At June 30, 2006, SCI s remaining casket purchase commitment under the agreement was $12.8 million.

(4) Our operating leases at December 31, 2005, primarily related to funeral service locations, automobiles, limousines, hearses, cemetery operating and maintenance equipment and two aircraft. In order to eliminate the variable interest rate risk in SCI s operating margins and improve the transparency of its financial statements, SCI amended certain of its transportation lease agreements in the first quarter of 2006. Based on the amended terms, these leases have been converted from operating leases to capital leases for accounting purposes in 2006. As a result the Company acquired $108,703 of transportation equipment utilizing capital leases, of which $102,322 were classified as operating leases in prior periods. All capital leases are included in current and long-term debt maturities.

(5) SCI has entered into management employment, consulting and non-competition agreements which contractually require SCI to make cash payments over the contractual period. The agreements have been primarily entered into with certain officers and employees of SCI and former owners of businesses acquired. The contractual obligation amounts pertain to the total commitment outstanding under these agreements and may not be indicative of future expenses to be incurred related to these agreements due to cost rationalization programs completed by SCI. Agreements with contractual periods less than one year are excluded.

We have not included amounts in this table for payments of pension contributions and payments for various postretirement welfare plans and postemployment benefit plans, as such amounts have not been determined beyond 2005.

The following table details our known potential or possible future cash payments (on an undiscounted basis) related to various commercial and contingent obligations as of December 31, 2005, after giving pro forma effect to the transactions.

			Expiration by Period				
Commercial and Contingent Obligations	**2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
			(Dollars in millions)				
Surety obligations(1)	$ 285.7	$		$		$	$ 285.7
Letters of credit(2)	72.3						72.3
Representations and warranties(3)	9.4		24.1				33.5
Income distributions from trust(4)	15.8						15.8
Total commercial and contingent obligations	$ 383.2	$	24.1	$		$	$ 407.3

(1) To support its operations, SCI has engaged certain surety companies to issue surety bonds on SCI s behalf for customer financial assurance or as required by state and local regulations. The surety bonds are primarily obtained to provide assurance for SCI s preneed funeral and preneed cemetery obligations, which are appropriately presented as liabilities in the consolidated balance sheet as *Deferred preneed funeral contract revenues* and *Deferred cemetery contract revenues.* The total outstanding surety bonds at December 31, 2005 were $329.3 million. Of this amount, $313.6 million was related to preneed funeral and preneed cemetery obligations. When SCI uses surety bonds for preneed funeral and cemetery obligations, the bond amount required is based on the calculated trusting requirements as if the contract was paid in full at the time of sale. When SCI deposits funds into state-mandated trust funds, however, the amount deposited is generally based on the amount

of cash received and payment application rules in the state trust requirements. Therefore, in the event all of the surety companies canceled or did not renew SCI s outstanding surety bonds, which are generally renewed for twelve-month periods, SCI would be required to either obtain replacement assurance or fund approximately $285.7 million, as of December 31, 2005, primarily into state-mandated trust accounts. At this time, SCI does not believe it will be required to fund material future amounts related to these surety bonds.

Table of Contents

(2) We are occasionally required to post letters of credit, issued by a financial institution, to secure certain insurance programs or other obligations. Letters of credit generally authorize the financial institution to make a payment to the beneficiary upon the satisfaction of a certain event or the failure to satisfy an obligation. The letters of credit are generally posted for one-year terms and are usually automatically renewed upon maturity until such time as we have satisfied the commitment secured by the letter of credit. We are obligated to reimburse the issuer only if the beneficiary collects on the letter of credit. We believe that it is unlikely we will be required to fund a claim under its outstanding letters of credit.

(3) In addition to the letters of credit described above, SCI currently has contingent obligations of $33.5 million related to its asset sale and joint venture transactions. SCI has agreed to guarantee certain representations and warranties associated with such disposition transactions with letters of credit or interest-bearing cash investments. SCI has interest-bearing cash investments of $6.8 million included in *Deferred charges and other assets* pledged as collateral for certain of these contingent obligations. SCI does not believe it will ultimately be required to fund to third parties any claims against these representations and warranties. During the year ended December 31, 2004, SCI recognized $35.8 million of contractual obligations related to representations and warranties associated with the disposition of its funeral operations in France. The remaining obligations of $24.1 million at December 31, 2005 is primarily related to taxes and certain litigation matters. At June 30, 2006, the remaining obligations totaled $23.7 million. This amount is recorded in *Other liabilities* in SCI s consolidated balance sheet. See note nineteen to SCI s annual financial statements included in this prospectus for addition information related to the disposition of SCI s French operations.

(4) In certain states and provinces, SCI has withdrawn allowable distributable earnings including unrealized gains prior to the maturity or cancellation of the related contract. In the event of market declines, SCI may be required to re-deposit portions or all of these amounts into the respective trusts in some future period.

Financial Assurances

SCI

In support of SCI s operations, SCI has entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on its behalf as financial assurance and/or as required by existing state and local regulations. The surety bonds are used for various business purposes; however, the majority of the surety bonds issued and outstanding have been used to support our preneed funeral and cemetery sales activities. The obligations underlying these surety bonds assure are recorded on the consolidated balance sheet as *Deferred preneed Funeral revenues* and *deferred preneed cemetery revenues*. The breakdown of surety bonds between funeral and cemetery preneed arrangements, as well as surety bonds for other activities, are described below. The decrease in preneed funeral and preneed cemetery surety bonds is primarily the result of the completion of pre-construction projects, divested locations, and a change in the type of sales in Florida.

	December 31, 2005	December 31, 2004	June 30, 2006
		(Dollars in millions)	
Preneed funeral	$ 139.3	$ 146.7	$ 132.1
Preneed cemetery:			
Merchandise and services	161.8	186.7	159.6
Pre-construction	12.5	8.3	11.1
Bonds supporting preneed funeral and cemetery obligations	313.6	341.7	302.8
Bonds supporting preneed business permits	4.7	5.3	4.5

Other bonds		11.0		5.5		11.0
Total surety bonds outstanding	$	329.3	$	352.5	$	318.3

86

When selling preneed funeral and cemetery contracts, SCI may post surety bonds where allowed by state law, except as noted below for Florida. SCI posts the surety bonds in lieu of trusting a certain amount of funds received from the customer. The amount of the bond posted is generally determined by the total amount of the preneed contract that would otherwise be required to be trusted, in accordance with applicable state law. For the year ended December 31, 2005 and 2004, SCI had $64.0 million and $102.7 million, respectively, of cash receipts attributable to bonded sales. For the six months ended June 30, 2006, SCI had $28.2 million of cash receipts attributable to bonded sales. These amounts do not consider reductions associated with taxes, obtaining costs, or other costs.

Surety bond premiums are paid annually and are automatically renewable until maturity of the underlying preneed contracts, unless SCI is given prior notice of cancellation. Except for cemetery pre-construction bonds (which are irrevocable), the surety companies generally have the right to cancel the surety bonds at any time with appropriate notice. In the event a surety company was to cancel the surety bond, SCI is required to obtain replacement surety assurance from another surety company or fund a trust for an amount generally less than the posted bond amount. SCI does not expect it will be required to fund material future amounts related to these surety bonds because of lack of surety capacity.

The applicable Florida law that allowed posting of surety bonds for preneed contracts expired December 31, 2004; however, it allowed for preneed contracts entered into prior to December 31, 2004 to continue to be bonded for the remaining life of those contracts. Of the total cash receipts attributable to bonded sales for the years ended December 31, 2005 and 2004, approximately $29.9 million and $63.0 million, respectively, were attributable to the state of Florida. On February 1, 2004, SCI elected to begin trusting as a financial assurance mechanism in Florida, rather than surety bonding, on new Florida sales of preneed funeral and cemetery merchandise and services. SCI s net trust deposits required in 2005 for new Florida sales since changing to trust funding were $21.4 million. SCI s net trust deposits required during 2004 for new trust funded sales were $15.4 million.

Historical Cash Flow

SCI

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Highlights of cash flow for the first six months of 2006 compared to the same period of 2005 are as follows:

Operating activities Cash flows from operating activities in the first six months of 2006 were $151.6 million, a decrease of $38.8 million compared to the first six months of 2005. The first six months of 2005 included a federal income tax refund of $29.0 million. Additionally, in the first six months of 2006, there were $16.5 million of long-term incentive compensation payments related to a 2003 award program. Excluding these items, cash flows from operating activities for the first six months of 2006 increased $6.7 million compared to the same period in 2005 primarily as a result of the second quarter 2006 receipt of $7.9 million of previously disputed trust fund proceeds described in Results of Operations above and improvements in SCI s DSO for the first half of 2006.

Investing activities Cash flows from investing activities decreased by $40.3 million in the first six months of 2006 compared to the same period of 2005 due to a decline in proceeds from divestitures and sales of property and equipment, reduced distributions from SCI s French equity investment, and an increase in acquisitions, partially offset by a favorable change in restricted cash.

In the first six months of 2006, SCI received $27.0 million from divestitures and sales of property and equipment compared to $56.1 million in the first six months of 2005. In 2006, SCI also received $11.0 million of proceeds held as an income tax receivable related to the 2005 sale of its operations in Chile. SCI also paid $14.7 million in 2006 in cash for selected strategic acquisitions.

In the first six months of 2005, SCI received $21.6 million in proceeds and distributions from the disposition of its businesses in Argentina and Uruguay, $32.1 million from its equity investment in

France and $2.4 million from other sales of property and equipment. The $20.0 million net source from restricted cash for the first six months of 2006 compared to the first six months of 2005 included an $18.1 million deposit of payroll funds into a restricted account in 2005, partially offset by a return of $9.2 million in cash collateral previously pledged in connection with various commercial commitments. In addition, $11.0 million related to pending deposits that are no longer reported as restricted cash based on discussions with the SEC regarding their comment letter.

Financing activities Cash used in financing activities decreased $127.1 million in the first six months of 2006 compared to the first six months of 2005 primarily due to a $161.9 million reduction in share repurchases and a $275.5 million decrease in debt repayments, partially offset by $291.5 million of proceeds from the issuance of debt in 2005. SCI also had a $10.5 million increase in capital lease payments reflecting new capital leases for certain transportation assets and a $7.0 million increase in dividend payments in 2006 compared to 2005.

During the first six months of 2005, SCI repurchased 26.7 million shares of common stock for $189.8 million compared to 3.4 million shares for $27.9 million in 2006.

SCI s efforts in 2004 and 2005 to extend its debt maturity schedule resulted in significant decreases in debt payments in 2006. During the second quarter of 2005, SCI issued $300 million of senior unsecured 7.0% notes due 2017, and received $291.5 million in net proceeds. SCI used these proceeds to extinguish $286.2 million of outstanding debt. SCI did not issue or early retire any debt in 2006. SCI also paid $3.0 million in scheduled debt payments in the first half of 2005 compared to $13.7 million in scheduled debt payments in 2006.

Year Ended December 31, 2005 Compared to Years Ended December 31, 2004 and 2003

Highlights of cash flow for the year ended December 31, 2005 compared to the same periods of 2004 and 2003 are as follows:

Operating activities Cash flows from operating activities increased by $218.7 million to $312.9 million in 2005 compared to 2004. The 2004 cash flows from operating activities of $94.2 million declined by $280.1 million as compared to the operating cash flows in 2003. Included in 2005 was a federal income tax refund of $29.0 million. Included in 2004 was the payment of $131.1 million related to the resolution of certain litigation matters, a $20.0 million voluntary cash contribution to SCI s pension plan, and the payment of $11.4 million to retire life insurance policy loans related to SCI s SERP and Senior SERP retirement programs. Included in 2003 was a tax refund of $94.5 million and disbursements of $27.1 million (net of insurance recoveries) related to the resolution of certain litigation matters.

In addition to the items mentioned above, the increase in operating cash flows in 2005 as compared to 2004 is the result of an extra bi-weekly cash payroll payment of approximately $19.0 million in 2004, an approximate $13.0 million decrease in bonus payments, an increase in net trust withdrawals, and a $16.7 million decrease in cash interest paid. These net sources of cash were partially offset by cash outflows of $16.0 million associated with SCI s cash funding of its 401(k) matches in 2005 (compared with funding through the use of stock in 2004) and a $10.2 million increase in cash outflows to improve internal controls in order to comply with Section 404 of the Sarbanes-Oxley Act. Cash receipts from Kenyon increased $15.0 million (offset by an $18.8 million increase in Kenyon expenses) in 2005 compared to the same period in 2004 due to Kenyon s involvement with the incidents in Asia, Greece and the U.S. gulf coast. Additionally, cash flows from operating activities provided by SCI s former operations in France decreased $18.3 million in 2005 as a result of the sale of its French operations in March 2004.

The decrease in operating cash flows in 2004 as compared to 2003 was also driven by the extra bi-weekly cash payroll payment in 2004 and the divestiture of SCI s operations in France. Cash flow from operating activities in France declined $14.7 million from $33.0 million in 2003 to $18.3 million for the short period in 2004 prior to the disposition. The remaining decline was attributable to the replacement of bonding with trust funding for new preneed sales in Florida and working capital increases primarily associated with decreases in accounts receivable collections. These net cash outflows were partially offset by a $25.6 million decrease in cash interest payments due to significant debt reductions during 2004.

SCI did not pay federal income taxes in 2005, 2004 or 2003. Because of its significant net operating loss carryforwards SCI does not expect to pay federal income taxes until 2007. Foreign, state and local income tax payments declined $4.2 million to $6.6 million in 2005 as compared to $10.8 million in 2004 and $14.5 million in 2003 primarily as a result of less foreign taxes paid due to the disposition of SCI s French operations in 2004.

Investing activities Cash flows from investing activities declined by $118.5 million in 2005 compared to 2004 primarily due to a decline in proceeds from sales of international businesses and equity investments and a decrease in net withdrawals from restricted funds primarily related to various commercial commitments. Partially offsetting these decreases was the payment in 2004 of $51.7 million to satisfy a contingent purchase obligation associated with the 1998 acquisition of SCI s operations in Chile. The $326.9 million improvement in investing cash flows in 2004 as compared to 2003 was driven by proceeds from dispositions and an increase in net withdrawals from restricted funds, partially offset by the 2004 payment of the contingent purchase obligation previously mentioned.

In 2005, SCI received $90.4 million from the disposition of its cemetery operation in Chile, $42.7 million related to the collection of a 10,000 note receivable and the redemption of preferred equity certificates related to SCI s equity investment in its former French operations (of which $39.7 million is reported as an investing activity), and $21.6 million from the disposition of its Argentina and Uruguay businesses.

In March 2004, SCI sold its funeral operations in France and received net cash proceeds of $281.7 million. Following a successful public offering transaction of SCI s former United Kingdom affiliate during the second quarter of 2004, SCI liquidated its debt and equity holdings in its former United Kingdom affiliate and collected $53.8 million in aggregate, of which $49.2 million is reported as an investing activity.

Financing activities Cash used in financing activities decreased $9.6 million in 2005 compared to 2004 primarily due to an increase in proceeds from the issuance of debt and a decrease in debt extinguishments, partially offset by an increase in share repurchases and dividend payments. The $35.7 million increase in cash used for financing in 2004 as compared to 2003 was driven by debt extinguishments and stock repurchases.

Payments of debt were $85.8 million in 2005 primarily related to the $63.5 million final payment of 6.00% notes due December 2005 and $14.5 million in note payments. Payments of debt were $177.8 million in 2004 primarily related to the repayment of $111.2 million of the 7.375% notes due 2004 and $50.8 million of 8.375% notes due in 2004.

Proceeds from the issuance of debt were $291.5 million in 2005 due to the issuance of senior unsecured 7.00% notes due June 15, 2017 for $300.0 million, net of $1.0 million of debt issue costs. In 2004, proceeds of $241.4 million were due to the issuance of 6.75% notes due April 1, 2016 in the amount of $250.0 million, net of $0.4 million of debt issue costs.

SCI repurchased 31.0 million shares of its common stock for $225.1 million in 2005 and 16.7 million shares of common stock for $110.3 million in 2004.

SCI paid $22.6 million of cash dividends during 2005 related to the quarterly cash dividend recently reinstated by the Board of Directors. There were no dividend payments in 2004 or 2003.

Table of Contents

Alderwoods

Alderwoods derives the majority of its cash from atneed funeral and cemetery activities. Cash flow is also impacted by the funeral and cemetery preneed activities.

Twenty-Four Weeks Ended June 17, 2006 Compared to Twenty-Four Weeks Ended June 18, 2005

Net cash from continuing operating activities was $40.3 million for the 24 weeks ended June 17, 2006, compared to $70.9 million for the corresponding period in 2005. The decrease was primarily due to the following three components from the corresponding period in 2005 (i) a $18.1 million in withdrawals of excess funds from funeral and cemetery trusts resulting from Alderwoods s ongoing review process; (ii) $16.1 million related to collateral for liability lines of insurance coverage replaced with a letter of credit and (iii) a $9.1 million payment in connection with the US Trustee bankruptcy fee.

Alderwoods s insurance subsidiary is subject to certain state regulations that restrict distributions, loans and advances from the subsidiary to Alderwoods and its other subsidiaries. Dividends are only distributable after regulatory approval is obtained. The cash inflows from operations of the insurance subsidiary are primarily generated from insurance premiums, all of which are invested in insurance invested assets.

Net cash used in continuing investing activities was $24.9 million for the 24 weeks ended June 17, 2006, compared to $22.9 million for the corresponding period in 2005.

Net cash used in continuing financing activities was $14.5 million for the 24 weeks ended June 17, 2006, compared to $52.7 million for the corresponding period in 2005. The decrease of $38.2 million was primarily due to lower repayments of debt during the 24 weeks ended June 17, 2006, compared to the corresponding period in 2005.

Fifty-Two Weeks Ended December 31, 2005 Compared to Fifty-Two Weeks Ended January 1, 2005

Net cash from continuing operating activities was $147.4 million for the 52 weeks ended December 31, 2005, compared to $104.3 million for the 52 weeks ended January 1, 2005. The increase was primarily due to $25.4 million in withdrawals of excess funds from funeral and cemetery trusts resulting from Alderwoods s ongoing review of these trusts (which is substantially complete), $16.1 million related to collateral for liability lines of insurance coverage replaced with a letter of credit and the collection of an $11.5 million settlement for notes receivables previously recorded as an allowance. The increase is partially offset by the payment of $9.1 million as settlement of the U.S. trustee bankruptcy fee.

Net cash used in continuing investing activities was $69.0 million for the 52 weeks ended December 31, 2005, compared to $67.9 million for the 52 weeks ended January 1, 2005. The increase was primarily due to the increase of $5.3 million in purchase of property and equipment partially offset by a decrease of $4.4 million in net purchase of insurance assets.

Net cash used in continuing financing activities was $87.7 million for the 52 weeks ended December 31, 2005, compared to $192.5 million for the 52 weeks ended January 1, 2005. The decrease of $104.8 million was primarily due to the lower net repayment of debt during the 52 weeks ended December 31, 2005, compared to the 52 weeks ended January 1, 2005.

For the 52 weeks ended December 31, 2005, the majority of the net proceeds of $23.7 million from the sale of Alderwoods s operating locations and excess real estate were used to further reduce long term debt.

Critical Accounting Policies

After the acquisition, the critical accounting policies of SCI will be the critical accounting policies of the combined company. Set forth below are the critical accounting policies of each of SCI and Alderwoods prior to the acquisition.

SCI

SCI s consolidated financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. Estimates and assumptions affect the carrying values of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date. Actual results could differ from such estimates due to uncertainties associated with the methods and assumptions underlying SCI s critical accounting measurements. The following is a discussion of SCI s critical accounting policies pertaining to revenue recognition, preneed funeral and cemetery contracts, the impairment or disposal of long-lived assets, and the use of estimates.

Revenue Recognition

Funeral revenue is recognized when funeral services are performed. SCI s trade receivables primarily consist of amounts due for funeral services already performed. Revenue associated with cemetery merchandise and services is recognized when the service is performed or merchandise is delivered. Revenue associated with cemetery property interment rights is recognized in accordance with the retail land sales provision of SFAS No. 66, *Accounting for the Sales of Real Estate* (SFAS 66). Under SFAS 66, revenue from constructed cemetery property is not recognized until a minimum percentage (10%) of the sales price has been collected. Revenue related to the preneed sale of unconstructed cemetery property is deferred until it is constructed and 10% of the sales price is collected.

When a customer enters into a preneed funeral trust contract, the entire purchase price is deferred and the revenue is recognized at the time of maturity. The revenues associated with a preneed cemetery contract, however, may be recognized as different contract events occur. Preneed sales of cemetery interment rights (cemetery burial property) are recognized when a minimum of 10% of the sales price has been collected and the property has been constructed or is available for interment. For personalized marker merchandise, with the customer s direction generally obtained at the time of sale, SCI can choose to order, store, and transfer title to the customer. Upon the earlier of vendor storage of these items or delivery in SCI s cemetery, SCI recognizes the associated revenues and record the cost of sale. For services and non-personalized merchandise (such as vaults), SCI defer the revenues until the services are performed and the merchandise is delivered.

Preneed Funeral and Cemetery Activities

In addition to selling SCI s products and services to client families at the time of need, SCI sells price guaranteed preneed funeral and cemetery contracts which provide for future funeral or cemetery services and merchandise. A preneed arrangement is a means through which a customer contractually agrees to the terms of a funeral service, cremation service, and/or cemetery burial interment right, merchandise or cemetery service to be performed or provided in the future (that is, in advance of when needed or preneed).

While some customers may pay for their preneed funeral or cemetery contract in a single payment, most preneed funeral and cemetery contracts are sold on an installment basis over a period of one to seven years. On these installment contracts, SCI receives, on average, a down payment at the time of sale of approximately 10%. SCI revised its policy for finance charges on preneed cemetery installment contracts in the second half of 2005. Based on this revision, preneed cemetery installment contracts generally now include a finance charge ranging from 9.9% to 10.9% depending on the payment period and state or provincial laws. Unlike cemetery installment contracts, the majority of SCI s preneed funeral installment contracts have not included a finance charge. After test marketing a finance charge program for preneed funeral trust contracts during the fourth quarter of 2004, SCI implemented a finance charge program in five core trust states during 2005, which represent approximately 55% of its preneed funeral trust production.

Since preneed funeral and cemetery services or merchandise will not be provided until some time in the future, most states and provinces require that all or a portion of the funds collected from customers on preneed funeral and cemetery contracts be paid into merchandise and service trusts until the merchandise is delivered or the service is performed. In certain situations, where permitted by state or provincial laws, SCI posts a surety bond as financial assurance for a certain amount of the preneed funeral or cemetery contract in lieu of placing funds into trust accounts. Alternatively, where allowed, customers may choose to purchase a life insurance or annuity policy from third party insurance companies to fund their preneed funeral. Only certain of these customer funding options may be applicable in any given market we serve. SCI does not fund preneed cemetery contracts with insurance policies.

Trust funded preneed funeral and cemetery contracts: The funds deposited into trust (in accordance with various state and provincial laws) are invested by independent trustees in accordance with the investment guidelines established by statute or, where the prudent investor rule is applicable, the guidelines established by the Investment Committee of our Board of Directors. The trustees utilize professional investment advisors to select and monitor the money managers that make the individual investment decisions in accordance with the guidelines. SCI retains any funds above the amounts required to be deposited into trust accounts and uses them for working capital purposes, generally to offset the selling and administrative costs of the preneed programs. State or provincial law governs the timing of the required deposits into the trust accounts, which generally ranges from five to 45 days after receipt of the funds from the customer.

Investment earnings associated with the trust investments are expected to mitigate the inflationary costs of providing the preneed funeral and cemetery services and merchandise in the future for the prices that were guaranteed at the time of sale. As a result of the adoption of the revised Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46R) in 2004, the preneed funeral and cemetery trust assets have been consolidated and are recorded in SCI s consolidated balance sheet at market value in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). Investment earnings on trust assets are generally accumulated in the trust and distributed as the revenue associated with the preneed funeral or cemetery contract is recognized or cancelled by the customer. In certain states and provinces, the trusts are allowed to distribute a portion of the investment earnings to us prior to that date.

Prior to January 1, 2005, direct selling costs incurred pursuant to the sales of trust funded preneed funeral and cemetery contracts were deferred and included in *Deferred charges and other assets* in the consolidated balance sheet. The deferred selling costs were expensed in proportion to the corresponding revenues when recognized. Other selling costs associated with the sales and marketing of preneed funeral and cemetery contracts (e.g., lead procurements costs, brochures and marketing materials, advertising and administrative costs) were expensed as incurred.

Beginning January 1, 2005, SCI made an accounting change to expense as incurred all direct selling costs associated with the sales of trust funded preneed funeral and cemetery contracts.

If a preneed funeral or cemetery contract is cancelled prior to delivery, state or provincial law determines the amount of the refund owed to the customer, if any, including the amount of the attributed investment earnings. Upon cancellation, SCI receives the amount of principal deposited to trust and previously undistributed net investment earnings and, where required, issue a refund to the customer. SCI retains excess funds, if any, and recognize the attributed investment earnings (net of any investment earnings payable to the customer) as revenue in our consolidated statement of operations. In certain jurisdictions, SCI may be obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust. Based on its historical experience, SCI has included a cancellation reserve for preneed funeral and cemetery contracts in its consolidated balance sheet of $112.0 million as of December 31, 2005 and of $113.8 million as of June 30, 2006.

The cash flow activity over the life of a trust funded preneed funeral or cemetery contract from the date of sale to its recognition or cancellation is captured in the line item *Net effect of preneed funeral or cemetery production and maturities/deliveries* and *Net income (loss)* in the consolidated statement of cash flows. While the contract is outstanding, cash flow is provided by the amount retained from funds collected from the customer and any distributed investment earnings. Prior to January 1, 2005, this amount

Table of Contents

was reduced by the payment of preneed deferred selling costs. The effect of amortizing preneed deferred selling costs was reflected in *Depreciation and amortization* in the consolidated statement of cash flows. Effective January 1, 2005, the payment of direct selling costs associated with trust funded preneed contracts is reflected in the consolidated statement of cash flows as cash flows from operating activities in the line item Net income (loss), since such direct selling costs are expensed as incurred. At the time of death maturity, SCI receives the principal and undistributed investment earnings from the funeral trust and any remaining receivable due from the customer. At the time of delivery or storage of cemetery merchandise and service items for which we were required to deposit funds to trust, SCI receives the principal and undistributed investment earnings from the cemetery trust. There is generally no remaining receivable due from the customer, as our policy is to deliver preneed cemetery merchandise and service items only upon payment of the contract balance in full. This cash flow at the time of service, delivery or storage is generally less than the associated revenue recognized, thus reducing cash flow from operating activities.

The tables below detail the North America results of trust funded preneed funeral and cemetery production for the years ended December 31, 2005 and 2004. The increase in preneed funeral trust production in 2005 relates primarily to a significant shift from the sale of insurance contracts to trust contracts in California and Colorado.

	North America		
	Year Ended December 31,		
	2005	2004	Six Months Ended June 30, 2006
	(Dollars in millions)		
Funeral			
Preneed trust funded (including bonded):			
Sales production	$ 131.9	$ 113.9	$ 64.6
Sales production (number of contracts)	35,490	33,286	15,241
Sales maturities	$ 160.9	$ 161.7	$ 86.9
Sales maturities (number of contracts)	40,368	39,418	20,294
Cemetery			
Sales production:			
Preneed	$ 307.4	$ 303.4	$ 160.9
Atneed	210.5	197.7	111.0
Total sales production	$ 517.9	$ 501.1	$ 271.9

Insurance funded preneed funeral contracts: Where permitted, customers may arrange their preneed funeral contract by purchasing a life insurance or annuity policy from third party insurance companies, for which SCI earns a commission for being the general agent for the insurance company. These general agency commissions (GA revenues) are based on a percentage per contract sold and are recognized as funeral revenues when the insurance purchase transaction between the customer and third party insurance provider is completed. Direct selling costs incurred pursuant to the sale of insurance funded preneed funeral contracts are expensed as incurred. The policy amount of the insurance contract between the customer and the third party insurance company generally equals the amount of the preneed funeral contract. However, SCI does not reflect the unfulfilled insurance funded preneed funeral contract amounts in our consolidated balance sheet.

The third party insurance company collects funds related to the insurance contract directly from the customer. The life insurance contracts include increasing death benefit provisions, which are expected to offset the inflationary costs of providing the preneed funeral services and merchandise in the future for the prices that were guaranteed at the time of the preneed sale. These death benefits payable by third party insurance companies increase annually pursuant to the terms of the life insurance policies purchased in advance of need by SCI s customers to fund their funerals. The customer/policy holder assigns the policy benefits to SCI s funeral home to pay for the preneed funeral contract at the time of need. Approximately 60% of SCI s 2005 North America preneed funeral production is insurance funded preneed funeral contracts.

Additionally, SCI may receive cash overrides based on achieving certain dollar volume targets of life insurance policies sold as a result of marketing agreements entered into in connection with the sale of SCI s insurance subsidiaries in 2000. These overrides are recorded in Other income, net in the consolidated statement of operations.

If a customer cancels the insurance funded preneed funeral contract prior to death, the insurance company pays the cash surrender value under the insurance policy directly to the customer. If the contract was outstanding for less than one year, the insurance company generally charges back the GA revenues and overrides SCI received on the contract. An allowance for these charge backs is included in the consolidated balance sheet based on SCI s historical charge back experience totaling $3.1 million and $3.6 million in 2005 and 2004, respectively.

Because insurance funded preneed funeral contracts are not reflected in SCI s consolidated balance sheet, the cash flow activity associated with these contracts generally occurs only at the time of sale and at death or cancellation, and is recorded as cash flows from operating activities within SCI s funeral segment. Upon execution of the contract, the GA revenues and overrides received net of the direct selling costs provide a net source of cash flow. If the insurance contract cancels within one year following the date of sale, our cash flow is reduced by the charge back of GA revenues and overrides. At death maturity, the insurance funded preneed funeral contracts are included in funeral trade accounts receivable and funeral revenues when the funeral service is performed. Proceeds from the life insurance policies are used to satisfy the receivables due. The insurance proceeds (which include the increasing death benefit) less the funds used to provide the funeral goods and services provide a net source of cash flow.

The table below details the North America results of insurance funded preneed funeral production for the years ended December 31, 2005 and 2004, and the number of contracts associated with that net production. In 2005, SCI began charging back preneed funeral insurance production for all cancellations of contracts greater than one year old. These charge backs amounted to $21.2 million in 2005. The decrease in preneed funeral insurance production in 2005 relates to the change related to cancellations coupled with a significant shift from the sale of insurance contracts to trust contracts in California and Colorado.

	North America		
	Years Ended December 31,		**Six Months Ended June 30,**
	2005	**2004**	**2006**
	(Dollars in millions)		
Funeral			
Preneed trust funded (including bonded):			
Sales production(1)	$ 193.4	$ 238.6	$ 96.1
Sales production (number of contracts)	42,221	51,533	18,729
General agency revenue	$ 27.6	$ 28.3	$ 16.6
Sales maturities	$ 194.0	$ 197.2	$ 96.0
Sales maturities (number of contracts)	41,640	43,508	20,189

(1) Amounts are not included in the consolidated balance sheet

North America backlog of preneed funeral and cemetery contracts: The following table reflects the North America backlog of trust funded deferred preneed funeral and cemetery contract revenues (market and cost bases) including amounts related to *Non-controlling interest in funeral and cemetery trusts* at December 31, 2005 and 2004. Additionally, SCI has reflected the North America backlog of unfulfilled insurance funded contracts (not included in our consolidated balance sheet) and total North America backlog of preneed funeral contract revenues at December 31, 2005 and 2004. The backlog amounts presented are reduced by an amount that SCI believes will cancel before maturity based on its historical experience.

Table of Contents

The table also reflects the North America trust funded preneed funeral and cemetery receivables and trust investments (investments at market and cost bases) associated with the backlog of trust funded deferred preneed funeral and cemetery contract revenues, net of an estimated cancellation allowance. The cost and market values associated with funeral and cemetery trust investments included in the assets associated with the backlog of trust funded deferred preneed funeral and cemetery revenues at December 31, 2005 and 2004 are computed as follows:

Cost reflects the investment (net of redemptions) of control holders in common trust funds, mutual funds and private equity investments.

Market reflects the fair market value of securities or cash held by the common trust funds, mutual funds at published values and the estimated market value of private equity investments (including debt as well as the estimated fair value related to the contract holders equity in majority owned real estate investments).

The market value of funeral and cemetery trust investments was based primarily on quoted market prices at December 31, 2005 and 2004. The difference between the backlog and asset amounts represents the contracts for which SCI has posted surety bonds as financial assurance in lieu of trusting, the amounts collected from customers that were not required to be deposited to trust and allowable cash distributions from trust assets. The table also reflects the amounts expected to be received from insurance companies from the assignment of policy proceeds related to insurance funded funeral contracts.

	North America Funeral					
	December 31, 2005		**December 31, 2004**		**June 30, 2006**	
	Market	**Cost**	**Market**	**Cost**	**Market**	**Cost**
	(Dollars in millions)					
Backlog of trust funded deferred preneed funeral revenues(1)	$ 1,495.5	$ 1,482.6	$ 1,475.9	$ 1,440.8	$ 1,508.6	$ 1,507.7
Backlog of insurance funded preneed funeral revenues(2)	$ 2,092.1	$ 2,092.1	$ 2,129.5	$ 2,129.5	$ 2,132.8	$ 2,132.8
Total backlog of preneed funeral revenues	$ 3,587.6	$ 3,574.7	$ 3,605.4	$ 3,570.3	$ 3,641.4	$ 3,640.5
Assets associated with backlog of trust funded deferred preneed funeral revenues, net of estimated allowance for cancellation	$ 1,158.7	$ 1,145.9	$ 1,165.8	$ 1,130.6	$ 1,164.4	$ 1,163.4
Insurance policies associated with insurance funded deferred preneed funeral revenues, net of estimated allowance for cancellation(2)	$ 2,092.1	$ 2,092.1	$ 2,129.5	$ 2,129.5	$ 2,132.8	$ 2,132.8
Total assets associated with backlog of preneed funeral revenues	$ 3,250.8	$ 3,238.0	$ 3,295.3	$ 3,260.1	$ 3,297.2	$ 3,296.2

North America Cemetery

	December 31, 2005		December 31, 2004		June 30, 2006	
	Market	Cost	Market	Cost	Market	Cost
			(Dollars in millions)			
Backlog of deferred cemetery revenues(1)	$ 1,644.5	$ 1,600.5	$ 1,682.3	$ 1,605.4	$ 1,672.3	$ 1,637.3
Assets associated with backlog of deferred cemetery revenues, net of estimated allowance for cancellation	$ 1,157.4	$ 1,119.3	$ 1,237.4	$ 1,170.8	$ 1,151.1	$ 1,120.7

(1) Includes amounts reflected as *Non-controlling interest in funeral and cemetery trusts* in the consolidated balance sheet, net of estimated allowance for cancellation.

(2) Insurance funded preneed funeral contracts, net of estimated allowance for cancellation are not included in the consolidated balance sheet.

Table of Contents

Impairment or Disposal of Long-Lived Assets

SCI tests for impairment of goodwill using a two-step approach as prescribed in SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). The first step of SCI s goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. SCI does not record an impairment of goodwill in instances where the fair value of a reporting unit exceeds its carrying amount. The second step of SCI s goodwill impairment test is required only in situations where the carrying amount of the reporting unit exceeds its fair value as determined in the first step. In such instances, SCI compares the implied fair value of goodwill (as defined in SFAS 142) to its carrying amount of goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Fair market value of a reporting unit is determined using a calculation based on multiples of revenue and multiples of EBITDA, or earnings before interest, taxes, depreciation and amortization, of both SCI and its competitors. Based on SCI s impairment tests at September 30, 2005 and September 30, 2004, SCI concluded that there was no impairment of goodwill in accordance with SFAS 142.

SCI reviews its remaining long-lived assets for impairment when changes in circumstances indicate that the carrying amount of the asset may not be recoverable, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). SFAS 144 requires that long-lived assets to be held and used are reported at the lower of their carrying amount or fair value. Assets to be disposed of and assets not expected to provide any future service potential are recorded at the lower of their carrying amount or fair value less estimated cost to sell.

In November 2005, SCI sold 21 cemeteries and six funeral homes to StoneMor Partners LP. In the third quarter of 2005, SCI committed to a plan to sell these locations and classified these properties as held for sale. Pursuant to its impairment policy under SFAS 144, we recorded an impairment charge of $25.3 million in our cemetery segment and $4.7 million in its funeral segment.

During the second quarter of 2004, SCI committed to a plan to divest its funeral and cemetery operations in Argentina and Uruguay. Upon this triggering event, in June 2004, SCI tested these operations for impairment in accordance with SFAS 144. As a result of this impairment test, SCI recorded an impairment charge of $15.2 million in its second quarter 2004 consolidated financial statements. At December 31, 2003, SCI had no recorded goodwill associated with Argentina and Uruguay. As a result, SCI did not perform a SFAS 142 test in 2003 for these operations.

In January 2003, SCI classified the France operating assets held for sale and ceased depreciation. In 2004, SCI sold its funeral operations in France and then purchased a 25% equity interest in the total equity capital of the newly formed entity.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the carrying values of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date. Actual results could differ from such estimates due to uncertainties associated with the methods and assumptions underlying our critical accounting measurements. Key estimates used by management, among others, include:

Allowances SCI provides various allowances and/or cancellation reserves for our funeral and cemetery preneed and at need receivables, as well as for its preneed funeral and preneed cemetery deferred revenues. These allowances are based on an analysis of historical trends and include, where applicable, collection and cancellation activity. After 30 days, atneed funeral receivables are considered past due. Collections are managed by the locations until a receivable is 180 days delinquent, at which time it is written off and sent to a collection agency. These estimates are impacted by a number of factors, including changes in economy, relocation, and demographic or competitive changes in our areas of operation.

Valuation of trust investments With the implementation of revised FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46R), as of March 31, 2004, SCI replaced receivables due from trust assets recorded at cost with the actual trust investments recorded at market value. The trust investments include marketable securities that are classified as available-for-sale in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Where quoted market prices are not available, SCI obtains estimates of fair value from the managers of the private equity funds, which are based on the market value of the underlying real estate and private equity investments. These market values are based on contract offers for the real estate or the managers appraisals of the venture capital funds.

Legal liability reserves Contingent liabilities, principally for legal liability matters, are recorded when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Liabilities accrued for legal matters require judgments regarding projected outcomes and range of loss based on historical experience and recommendations of legal counsel. However, litigation is inherently unpredictable, and excessive verdicts do occur. SCI s legal exposures and the ultimate outcome of these legal proceedings could be material to operating results or cash flows in any given quarter or year.

Depreciation of long-lived assets SCI depreciates its long-lived assets over their estimated useful lives. These estimates of useful lives may be affected by such factors as changing market conditions or changes in regulatory requirements.

Income taxes SCI ability to realize the benefit of certain of its deferred tax assets requires it to achieve certain future earnings levels. SCI has established a valuation allowance against a portion of its deferred tax assets and could be required to further adjust that valuation allowance if market conditions change materially and future earnings are, or are projected to be, significantly different from our current estimates. SCI intends to permanently reinvest the unremitted earnings of certain of its foreign subsidiaries in those businesses outside the United States and, therefore, have not provided for deferred federal income taxes on such unremitted foreign earnings.

A number of years may elapse before particular tax matters, for which SCI has established accruals, are audited and finally resolved. The number of tax years with open tax audits varies depending on the tax jurisdiction. In the United States, the Internal Revenue Service is currently examining SCI s tax returns for 1999 through 2002 and various state jurisdictions are auditing years through 2004. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, SCI believes that its accruals reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue would reduce a deferred tax asset or require the use of cash. Favorable resolution could result in reduced income tax expense reported in the financial statements in the future. Our tax accruals are presented in the balance sheet within *Deferred income taxes* and *Other liabilities.*

Pension cost SCI s pension plans are frozen with no benefits accruing to participants except interest. SCI s pension costs and liabilities are actuarially determined based on certain assumptions, including the discount rate used to compute future benefit obligations. On January 1, 2004, SCI changed its method of accounting for gains and losses on pension assets and obligations to recognize such gains and losses in our consolidated statement of operations during the year in which they occur. Therefore, in 2005 and 2004, the concept of an expected rate of return on plan assets is not applicable. In 2003 and prior years, it was SCI s policy to use an expected rate for return on assets comparable to rates of return on high-quality fixed income investments available and expected to be available during the period to maturity of SCI s pension benefits. SCI used a 9.0% assumed rate of return on plan assets in 2003 as a result of a high allocation of equity securities within the plan assets.

Discount rates used to determine pension obligations for SCI s pension plans were 5.75%, 6.00% and 6.25% for the years ended 2005, 2004, and 2003, respectively. SCI bases the discount rate used to compute future benefit obligations using an analysis of expected future benefit payments. SCI verifies

97

Table of Contents

the reasonableness of the discount rate by comparing its rate to the rate earned on high-quality fixed income investments, such as the Moody s Aa index, high-quality fixed income investments. At December 31, 2005, 55% of SCI s plan assets were invested in core diversified and market neutral hedge funds, 33% of the plan assets were invested in equity securities and the remaining 12% of plan assets were fixed income securities. As of December 31, 2005, the equity securities were invested approximately 58% in U.S. Large Cap investments, 21% in international equities and 21% in U.S. Small Cap investments. In connection with a $20 million infusion of funds into SCI s plan in early 2004, SCI rebalanced the plan assets to have a lower percentage invested in traditional equity securities and fixed income securities and instead incorporate investments into hedge funds. SCI believes that over time this reallocation will reduce the volatility and limit the negative impact of its investment returns.

A sensitivity analysis of the net periodic benefit cost was modeled to assess the impact that changing discount rates could have on pre-tax earnings. The sensitivity analysis assumes a 0.25% adverse change to the discount rate with all other variables held constant. Using this model, SCI s pre-tax earnings would have decreased by less than $1.0 million, or less than $.01 per diluted share, for the year ended December 31, 2005.

Insurance loss reserves SCI purchases comprehensive general liability, morticians and cemetery professional liability, automobile liability and workers compensation insurance coverages structured with high deductibles. This high deductible insurance program results in SCI being primarily self-insured for claims and associated costs and losses covered by these policies. Historical insurance industry experience indicates a high degree of inherent variability in assessing the ultimate amount of losses associated with casualty insurance claims. This is especially true with respect to liability and workers compensation exposures due to the extended period of time that transpires between when the claim might occur and the full settlement of such claim, often many years. SCI continually evaluates loss estimates associated with claims and losses related to these insurance coverages and falling within the deductible of each coverage through the use of qualified and independent actuaries. Assumptions based on factors such as claim settlement patterns, claim development trends, claim frequency and severity patterns, inflationary trends and data reasonableness will generally effect the analysis and determination of the best estimate of the projected ultimate claim losses. The results of these actuarial evaluations are used to both analyze and adjust our insurance loss reserves.

SCI s independent actuaries used five actuarial methods generally accepted by the Casualty Actuarial Society to arrive at an estimate of a range that we refer to as reasonably possible . The Actuarial Standard of Practice No. 36 (ASOP 36 published by the American Academy of Actuaries) states: A range of reasonable estimates is a range of estimates that could be produced by appropriate actuarial methods or alternative sets of assumptions that the actuary judges to be reasonable. Methods used to determine SCI s reasonably possible range are: paid and incurred loss development methods; frequency-severity methods; and paid and incurred Bornhuetter-Ferguson methods. All of these methods were used to determine SCI s reasonably possible range of insurance loss reserves for the years ended December 31, 2005, 2004 and 2003.

SCI has not changed its methodologies for determining the reasonably possible range; however, there are changes made to the assumptions as the loss development factors are updated. These loss development factors are determined based on SCI s historical loss development data(1) and are updated annually as new data becomes available. As a result, the loss development factors used in the December 31, 2004 analysis could be different from the loss development factors used in the December 31, 2005 analysis. SCI considers these changes in loss development factors synonymous to changes in assumptions . The final loss estimate is not determined by weighting the methodologies, but instead is subjectively arrived at by SCI s independent actuary considering the relative merits of the various methods and the truncated average of the various methods.

For each loss type (workers compensation, general liability, and auto liability) loss triangles are generated, which show the cumulative valuation of each loss period over time. The loss components evaluated include incurred losses, paid losses, reported claim counts, and average incurred loss. The actuarial analysis of losses uses this data to estimate future loss development or settlement value of the losses. Since these loss development factors are an estimate about future loss development, the calculation of ultimate losses is also an estimate. The actual ultimate loss value may not be known for many years, and may differ significantly from the estimated value of the ultimate losses.

As of December 31, 2005, reported losses within SCI s retention for workers compensation, general liability and auto liability incurred during the period May 1, 1987 through December 31, 2005 were approximately $203.0 million. The selected fully developed ultimate settlement value estimated by SCI s independent actuary was $238.6 million. Paid losses were $189.6 million indicating a reserve requirement of $49.0 million. After considering matters discussed with SCI s independent actuary related to this calculation, SCI estimated the reserve to be $49.0 million as of December 31, 2005.

At December 31, 2005 and 2004, the balances in the reserve and the related activity were as follows:

		(Dollars in millions)
Balance at December 31, 2003	$	(46.8)
Additions		(38.3)
Payments		37.8
Balance at December 31, 2004	$	(47.3)
Additions		(20.1)
Payments		18.4
Balance at December 31, 2005	$	(49.0)

SCI s independent actuary performed a sensitivity analysis that was modeled to assess the impact of changes to the reserve pertaining to workers compensation, general liability, and auto liability. The sensitivity analysis assumes an instantaneous 10% adverse change to the loss development factors as summarized below.

		Sensitivity Analysis (Dollars in millions)
Workers Compensation	$	2.7
General Liability	$	1.6
Auto Liability	$	0.3
Total Sensitivity	$	4.6

(1) The loss development factors used in the December 31, 2005 calculation are based on SCI s actual claim history by policy year for the period beginning May 1, 1991 May 1, 2005.

Recent Accounting Pronouncements and Accounting Changes

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No. 3* (SFAS 154). SFAS 154 primarily requires retrospective application to prior period financial statements for the direct effects of changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (January 1, 2006 for us). The impact of SFAS 154 will depend on the nature and extent of any voluntary accounting changes or error corrections after the effective date, but SCI does not expect SFAS 154 to have a material impact on its consolidated financial statements.

Table of Contents

Other-than-Temporary Impairments

In June 2005, the FASB decided not to provide additional guidance on the meaning of other-than-temporary impairment, and directed the staff to issue proposed FSP EITF 03-1-a, *Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1*, as final. The final FSP supersedes EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, and EITF Topic No. D-44, *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value.* The final FSP (retitled FSP FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*) replaces the guidance set forth in paragraphs 10-18 of EITF Issue 03-1 with references to existing other-than-temporary impairment guidance. FSP FAS 115-1 codifies the guidance set forth in EITF Topic D-44 and clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. FSP FAS 115-1 is effective for other-than-temporary analysis conducted in periods beginning after December 15, 2005. SCI adopted the provisions of FSP FAS 115-1 as of January 1, 2006 and as of the date of adoption, this statement had no material impact on its consolidated financial statements.

Deferred Selling Costs

Effective January 1, 2005, SCI changed its method of accounting for direct selling costs related to the acquisition of preneed funeral and preneed cemetery contracts. Prior to this change, SCI capitalized such direct selling costs and amortized these deferred selling costs in proportion to the revenue recognized. Under SCI s new method of accounting, SCI expenses these direct selling costs as incurred. SCI believes the new method is preferable because it better reflects the economics of its business.

As of January 1, 2005, SCI recorded a cumulative effect charge of $187.5 million, net of tax of $117.4 million. This amount represents the cumulative balance of deferred selling costs recorded on SCI s consolidated balance sheet in *Deferred charges and other assets* at the time of the accounting change. If we had not changed its method of accounting for direct selling costs as described above, net income for the year ended December 31, 2005 would have been approximately $10.5 million or $.03 per basic and diluted share higher than currently reported.

The pro forma amounts for the years ended December 31, 2004 and 2003 in the table below reflect SCI s new policy to expense selling costs as incurred. The effect of the change for the years ended December 31, 2004 and December 31, 2003 would have decreased net income from continuing operations

Table of Contents

before cumulative effects of accounting changes by approximately $9.4 million and $6.5 million or $.03 and $.02 per diluted share, respectively.

	Year Ended December 31, 2004			Year Ended December 31, 2003		
	Historical	Deferred Selling Costs Net(1)	Pro Forma	Historical	Deferred Selling Costs Net(1)	Pro Forma
	(Restated)		(Restated)	(Restated)		(Restated)
	(Dollars in millions, except per share data)					
Gross profits:						
Funeral	$ 227.8	$ (4.7)	$ 223.1	$ 273.7	$ (4.3)	$ 269.4
Cemetery	102.2	(9.6)	92.6	82.5	(6.4)	76.1
	$ 330.0	$ (14.3)	$ 315.7	$ 356.2	$ (10.7)	$ 345.5
Income (loss) from continuing operations before income taxes and cumulative effects of accounting changes	$ 112.0	$ (14.3)	$ 97.7	$ 95.7	$ (10.7)	$ 85.0
Net income (loss)	$ 110.7	$ (9.4)	$ 101.3	$ 85.1	$ (6.5)	$ 78.6
Amounts per common share:						
Net income (loss) basic	$ .35	$ (.03)	$ .32	$ .28	$ (.02)	$ .26
Net income (loss) diluted	$ .34	$ (.03)	$ .31	$ .28	$ (.02)	$ .26

(1) Represents net deferred selling costs that would have been expensed under the new method of accounting adopted on January 1, 2005.

Inventory Costs

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs an amendment of ARB 43, Chapter 4* (SFAS 151). SFAS 151 amends the guidance in Accounting Research Bulletin (ARB) No. 43, Chapter 4, *Inventory Pricing,* to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS 151 requires that those items be recognized as current-period charges, rather than as a portion of the inventory cost. In addition, SFAS 151 requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. SCI adopted the provisions of SFAS 151 as of January 1, 2006 and as of the date of adoption, this statement had no material impact on its consolidated financial position, results of operations, or cash flows.

Share-Based Payment

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment* (SFAS 123R). SFAS 123R is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* , and supersedes APB 25, *Accounting for Stock Issued to Employees* . Among other items, SFAS 123R eliminates the use of the intrinsic value method of accounting, and requires companies to recognize in the statement of operations the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. SCI will continue to utilize the Black-Scholes option pricing model to measure the fair value of its stock options. SCI has adopted SFAS 123R on January 1, 2006 and will use the modified-prospective transition method. SCI has calculated our historical pool of windfall tax benefits by comparing the book expense for individual stock grants and the related tax deduction for options granted after January 1, 1995. Additionally, adjustments were made to exclude windfall tax benefits which were not realized due to SCI s net operating loss position. SCI has completed this calculation and has determined an additional paid in capital pool of approximately $2.1 million. The

Table of Contents

adoption of SFAS 123R is expected to negatively impact SCI s after-tax earnings by approximately $2.6 million or $.01 per diluted share for the year ending December 31, 2006.

Under the modified-prospective method, SCI will recognize compensation expense in its consolidated financial statements issued subsequent to the date of adoption for all share-based payments granted, modified or settled after December 31, 2005, as well as for any awards that were granted prior to December 31, 2005 for which requisite service will be provided after December 31, 2005. The compensation expense on awards granted prior to December 31, 2005 will be recognized using the fair values determined for the pro forma disclosures on stock-based compensation included in prior filings. The amount of compensation expense that will be recognized on awards that have not fully vested will exclude the compensation expense cumulatively recognized in the pro forma disclosures on stock-based compensation.

Variable Interest Entities

In January 2003, the FASB issued FIN 46. This interpretation clarifies the application of ARB No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In December 2003, the FASB revised FIN 46.

Under the provisions of FIN 46R, we are required to consolidate certain cemeteries and trust assets. Merchandise and service trusts and cemetery perpetual care trusts are considered variable interest entities because the trusts meet the conditions of paragraphs 5(a) and 5(b)(1) of FIN 46R. That is, as a group, the equity investors (if any) do not have sufficient equity at risk and do not have the direct or indirect ability through voting or similar rights to make decisions about the trusts activities that have a significant effect on the success of the trusts. FIN 46R requires us to consolidate merchandise and service trusts and cemetery perpetual care trusts for which we are the primary beneficiary (i.e., those for which we absorb a majority of the trusts expected losses). SCI is the primary beneficiary of a trust whenever a majority of the assets of the trust are attributable to deposits of our customers.

SCI implemented FIN 46R as of March 31, 2004. Prior to the implementation, we operated certain cemeteries in Michigan which it managed but did not own. During its evaluation of FIN 46R, SCI evaluated these cemeteries to determine whether such cemeteries were within the scope of FIN 46R. The investment capital of these cemeteries was financed by SCI in exchange for a long-term sales, accounting, and cash management agreement. In accordance with this agreement, SCI receives the majority of the cash flows from these cemeteries. Additionally, SCI absorbs the majority of these cemeteries expected losses and receive a majority of the cemeteries residual returns. As a result, SCI concluded that we were the primary beneficiary of these cemeteries and that the long-term sales, accounting, and cash management agreement is a variable interest as defined by FIN 46R. Given the circumstances above, SCI consolidated such cemeteries as of March 31, 2004. SCI recognized an after tax charge of $14.0 million, representing the cumulative effect of an accounting change, as a result of consolidating these cemeteries. The results of operations and cash flows of these cemeteries are included in SCI s consolidated statements of operations and cash flows beginning March 31, 2004. Excluding the cumulative effect of accounting change, the effect of consolidating these entities did not have a significant impact on SCI s reported results of operations.

Pension Plans

Effective January 1, 2004, SCI changed our accounting for gains and losses on our pension plan assets and obligations. SCI now recognizes pension gains and losses in its consolidated statement of operations as such gains and losses are incurred under pension accounting. Prior to January 1, 2004, SCI amortized the difference between actual and expected investment returns and actuarial gains and losses over seven years (except to the extent that settlements with employees required earlier recognition). SCI believes the new method of accounting better reflects the economic nature of its pension plans and recognize gains and

Table of Contents

losses on the pension plan assets and obligations in the year the gains or losses occur. As a result of this accounting change, SCI recognized a cumulative effect charge of an accounting change of $36.6 million (net of tax) as of January 1, 2004. This amount represented accumulated unrecognized net losses related to SCI s pension plan assets and liabilities. Under its new accounting policy, SCI records net pension expense or income reflecting estimated returns on plan assets and obligations for its interim financial statements, and SCI recognizes actual gains and losses on plan assets and obligations for its full-year (annual) financial statements as actuarial information becomes available upon review of the annual remeasurement.

Accounting for Uncertainty in Income Taxes

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty of income tax positions recognized in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take. It presumes the taxing authorities full knowledge of the position, including all relevant facts. The provisions of FIN 48 are effective beginning January 1, 2007 for SCI, with any potential cumulative effect of change in accounting principle recorded as an adjustment to beginning retained earnings. SCI is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

Alderwoods

Alderwoods consolidated financial statements are prepared in accordance with United States GAAP, which require management to make estimates and assumptions (see note 2 to Alderwoods Consolidated Financial Statements for the 52 weeks ended December 31, 2005) that impact all of its business segments. Management believes that, of the significant accounting policies described in Note 2 to Alderwoods Consolidated Financial Statements, the following are the most important to the representation of the Company s financial position, results of operations and cash flows. These require management s most difficult, subjective and complex judgment efforts. All of these critical accounting policies have been discussed and reviewed with Alderwoods Audit Committee. While Alderwoods believes that its assumptions and estimates are reasonable and appropriate, different assumptions and estimates could materially impact Alderwoods reported financial results.

Collectability of Customer Receivables

Management must make estimates of the allowance for uncollectible amounts of customer receivables arising from at-need funeral services. Alderwoods estimates this allowance based primarily on historical experience of collections and write-offs, as well as other analytical procedures, such as assessment of the change in the aging of receivables. Alderwoods has historically estimated the allowance for uncollectible amounts at 0.75% to 1.2% of funeral revenue on a period basis with quarterly analysis and assessment to reduce or increase allowance for doubtful accounts to approximate the accounts receivable outstanding for more than 180 days.

Management must make estimates of the allowance for contract cancellations and refunds of customer receivables arising from pre-need funeral contracts. However, any change to the estimated rate or balance would be offset by a corresponding adjustment in the allowance for contract cancellations and refunds against deferred pre-need funeral revenue. There would be no impact on net income or cash flows. Accordingly, such allowance for contract cancellations and refunds is not considered a critical accounting policy.

Management must make estimates of the allowance for contract cancellations and refunds arising from pre-need cemetery contracts. Pre-need cemetery contracts may contain both pre-need cemetery interment rights and pre-need cemetery merchandise and services. As pre-need cemetery interment rights are recognized in income when sold, an estimate of the related uncollectible amounts is charged to income. The estimate of the allowance for contract cancellations and refunds related to the pre-need cemetery merchandise and service portion of the contracts is offset with a corresponding adjustment in the allowance for contract cancellations and refunds against deferred pre-need cemetery revenue.

Estimates of the allowance for contract cancellations and refunds arising from pre-need cemetery contracts are based primarily on historical experience of collections and write-offs, as well as other analytical procedures, such as assessment of the change in the aging of receivables. Alderwoods has estimated the allowance for contract cancellations and refunds of current sales of pre-need cemetery contracts at 5% to 10% of pre-need cemetery sales. Alderwoods s experience has not indicated any change to this rate is necessary.

Alderwoods customer receivables arising from pre-need cemetery contracts includes receivables with balances outstanding entered into by Loewen Group. During Loewen Group s reorganization proceedings, it began to change the pre-need cemetery contract terms to include larger mandatory down payments and shorter contract maturities. Alderwoods estimated the allowance for contract cancellations and refunds using the best information available at December 31, 2001.

During 2002 and 2003, Alderwoods focused collection efforts resulted in higher collections than anticipated on the pre-emergence receivables. As a result of the improvement in actual collections, Alderwoods reversed $3.9 million of the allowance for contract cancellations and refunds on receivables arising from pre-need cemetery interment rights during the 53 weeks ended January 3, 2004. As of December 31, 2005, Alderwoods had approximately $7.2 million (2004 $11.8 million) of pre-emergence customer receivables remaining, of which an allowance for contract cancellations and refunds of $5.6 million (2004 $7.5 million) had been established. Due to the significant number of estimates and projections utilized in determining an expected rate of uncollectible receivables, actual results of collections could be materially different from these estimates.

Changes in customer circumstances outside of Alderwoods control may also impact the collectibility of customer receivables.

Valuation of Long-Lived Assets

During 2002, 2003, and 2004, Alderwoods engaged in a strategic market rationalization assessment to dispose of funeral and cemetery operating locations that did not fit into Alderwoods market or business strategies, as well as under-performing locations and excess cemetery land. Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS No. 144) requires that long-lived assets to be disposed of are to be recorded at the lower of carrying amount or fair market value, less estimated costs to sell. Alderwoods determines the fair market value of its discontinued operations by specific offer or bid, or an estimate based on comparable sales transactions. Such offers or bids are outside of Alderwoods s control.

The estimated fair market values may change due to offers or bids changing as a result of continued negotiations with buyers or bids or offers being different than management estimates based on previous comparable sales transactions. Such changes in fair market values will be reflected by Alderwoods recording corresponding impairment charges or reversals of previous impairment charges.

In many cases, Alderwoods receives offers or bids for groups of operating locations. The evaluation for possible impairment aggregates the carrying amounts of the relevant operating locations and compares this against the corresponding offer or bid. It is possible that although the aggregate expected proceeds may not change, the group of locations comprising the various bids or offers may change such that a subsequent impairment evaluation may consider the operating locations grouped differently. As a result, Alderwoods may record additional impairment on some of the changed groups while other changed groups may result in deferred gains (estimated proceeds are greater than the carrying amount).

As of December 31, 2005, Alderwoods had one cemetery and two funeral locations for disposal with an aggregate carrying amount of $341,000, which approximates the estimated net proceeds after selling costs. Changes to the carrying amounts or estimated net proceeds may result in impairment charges or reversals or gains or losses upon final sale.

The identification of cemetery and funeral operating locations that do not fit into the Alderwoods s market or business strategies, as well as under-performing locations and excess cemetery land, is complete.

Valuation of Goodwill

Goodwill of the funeral reporting unit is not amortized. It is tested annually, as well as on the occurrence of certain significant events, as prescribed by relevant accounting requirements, to determine whether or not the carrying value has been impaired. Such testing entails determining an estimated fair value of goodwill (implied goodwill) for comparison to the carrying amount of goodwill, to assess whether or not impairment has occurred. Impairment occurs when the estimated fair value of goodwill associated with the funeral reporting unit is less than the respective carrying amount of such goodwill, resulting in a write down of the carrying value to the estimated fair value of goodwill. Determination of the estimated fair value of goodwill entails determining the estimated fair value of the funeral reporting unit in total, and allocating such value to the estimated fair value of the assets and liabilities of the funeral reporting unit, in a method similar to purchase accounting. The determination of the estimated fair value of the funeral reporting unit involves many complex assumptions, including underlying cash flow projections, estimated discount rates and residual values.

While Alderwoods believes that its assumptions and estimates have been reasonable and appropriate, different assumptions and estimates could materially impact the Alderwoods reported financial results. Alderwoods assessment as of October 4, 2003, determined that the estimated fair value of the funeral reporting unit exceeded its carrying value. Alderwoods carried forward the 2003 goodwill valuation to 2004 and 2005, as there were no significant changes in the key parameters used in the valuation exercise and no significant change in Alderwoods continuing operations from 2003 to 2005.

The discount rate used for the analysis as of October 4, 2003, was determined based on assumptions regarding the current interest rate environment and desired capital structure. If the discount rate had been estimated at 0.5% higher, the estimated fair value of the funeral reporting business unit would have been approximately $50 million lower, and the fair value of the funeral reporting unit would have been equal to its carrying value. The estimated cash flows used for the analysis as of October 4, 2003, were determined based on Alderwoods projections. If the annual cash flows were reduced by 3% and the discount rate was left unchanged, the estimated fair value of the funeral reporting unit would have been approximately $50 million lower and the fair value of the funeral reporting unit would have been equal to its carrying value. Alderwoods valuation of the funeral reporting unit was prepared with the assistance of independent advisors.

Accounting for Income Taxes

Alderwoods must estimate income taxes for its business segments in each of the jurisdictions in which such business segments operate. This involves estimating actual current tax expense, assessing temporary differences resulting from different treatment of various assets and liabilities for book and tax purposes, such as depreciation and pre-need contracts, and evaluating potential tax exposures based on current relevant facts and circumstances.

The determination of temporary differences associated with assets and liabilities results in deferred tax assets or liabilities, which are recorded in the Alderwoods s consolidated financial statements. Alderwoods then assesses the likelihood that it will recover or realize its deferred tax assets from expected future taxable income and, to the extent that recovery is not considered to be more likely than not, establishes a corresponding valuation allowance. In general, to the extent that a valuation allowance increases or decreases in a period, it will be included as an expense or recovery within the tax provision for such period. If the relevant valuation allowance was established upon emergence from bankruptcy, any decrease as a result of the utilization of benefits must reduce goodwill and, if insufficient goodwill exists, be credited to additional paid-in capital. The majority of Alderwoods valuation allowances were established upon emergence from bankruptcy.

Significant management judgment is required in determining our provision for income taxes and in determining whether the deferred tax assets will be realized in full or in part. Alderwoods established a valuation allowance against substantially all of its net federal deferred tax assets, excluding those of its insurance operations, upon emergence from bankruptcy as it did not have sufficient history of income to support realization of the net deferred tax assets. The valuation allowance was determined in accordance with the provisions of SFAS No. 109 which requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction-by-jurisdiction basis. The valuation allowance is subject to change due to matters such as timing and manner of reversals of deferred tax liabilities, sales of operations and future actual income or losses. For 2005, Alderwoods has estimated future accounting income from its United States operations for each of the next 3 years for purposes of assessing the valuation allowance. As a result of this assumption, Alderwoods has realized a benefit in tax expense of $3.1 million and a reduction in goodwill of $9.1 million.

To the extent that the effective tax rate increases or decreases by 1% of income from continuing operations before income taxes, consolidated income from continuing operations would have declined or improved by less than $0.5 million in the 52 weeks ended December 31, 2005.

Liabilities for Future Insurance Policy Benefits

Alderwoods calculates and maintains liabilities for future insurance policy benefits for the estimated future payment of claims to policyholders based on actuarial assumptions, such as mortality (life expectancy), persistency, and interest rates. The assumptions used are based on best estimates of future experience at the time the policies are issued (or, if applicable, on the date fresh start accounting was implemented) with an adjustment for the risk of adverse deviation. Once established, assumptions are generally not changed.

Alderwoods estimates of mortality and persistency are based on historical experience. Alderwoods has estimated an assumed weighted average investment yield of 4.5%. For the 52 weeks ended December 31, 2005, Alderwoods achieved an investment yield of 5.25%. Because the liabilities are based on extensive estimates, assumptions and historical experience, it is possible that actual experience may differ materially from that resulting from actuarial assumptions. However, the risk of a material change in assumptions causing a material impact to the Alderwoods financial position and results of operations is mitigated by the type and small dollar nature of the policies. The pre-need insurance products have discretionary growth that accrues to the policy holder, and to the extent investment returns are significantly below those assumed, Alderwoods has the ability to reduce the future policy growth.

Annually, Alderwoods evaluates the collective adequacy of its insurance policy liabilities by determining whether the insurance premiums expected to be collected over the life of the insurance contracts are sufficient to recover the current unamortized balance in deferred acquisition costs, as well as to provide for expected future benefits and expense, based on current assumptions. If the recoverability tests indicate a deficiency in the ability to pay all future benefits and expenses, including the deferred acquisition costs, the loss is recognized and charged to expense as an adjustment to the current year s deferred acquisition costs balance, or if the loss is greater than the deferred acquisition costs balance, by an increase in its liabilities for future policy benefits. Alderwoods recoverability tests have indicated no deficiency in its reserves during the past three years.

Recent Accounting Pronouncements and Accounting Changes

Accounting for Certain Hybrid Financial Instruments

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 155, *Accounting for Certain Hybrid Financial Instruments an* *amendment of FASB Statements No. 133 and 140* (SFAS 155). SFAS 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). This Statement also resolves issues addressed in Statement No. 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.* SFAS 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133. SFAS 140 is amended to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued during fiscal years beginning after September 15, 2006 (January 1, 2007 for us). Alderwoods does not expect this statement to have a material impact on its consolidated financial statements.

Quantitative and Qualitative Disclosures About Market Risk

SCI

The information presented below should be read in conjunction with notes eleven and twelve to SCI s annual financial statements included in this prospectus.

SCI has historically used derivatives primarily in the form of interest rate swaps, cross-currency interest rate swaps, and forward exchange contracts in combination with local currency borrowings in order to manage its mix of fixed and floating rate debt and to hedge its net investment in foreign assets. SCI does not participate in derivative transactions that are leveraged or considered speculative in nature. None of SCI s market risk sensitive instruments are entered into for trading purposes. All of the instruments described below are entered into for other than trading purposes.

At June 30, 2006 and December 31, 2005, 95% and 99%, respectively, of SCI s total debt consisted of fixed rate debt at a weighted average rate of 7.23% and 7.11%, respectively. At June 30, 2006, after giving pro forma effect to the transactions, 79% of our total debt consisted of fixed rate debt at a weighted average rate of 7.16%.

At June 30, 2006 and December 31, 2005, approximately 4% of SCI s stockholders equity and 9% and 8%, respectively of its operating income were denominated in foreign currencies, primarily the Canadian dollar. Approximately 2% of SCI s stockholders equity and 23% of its operating income were denominated in foreign currencies, primarily the Canadian dollar, at December 31, 2004. SCI does not have a significant investment in foreign operations that are in highly inflationary economies. We do not have a significant investment in foreign operations that are in highly inflationary economies.

Marketable Equity and Debt Securities Price Risk

In connection with SCI s preneed funeral operations and preneed cemetery merchandise and service sales, the related funeral and cemetery trust funds own investments in equity securities and mutual funds, which are sensitive to current market prices. Cost and market values as of December 31, 2005 are presented in notes four, five and six to SCI s annual financial statements included elsewhere in this prospectus.

Market-Rate Sensitive Instruments Interest Rate and Currency Risk

SCI performs a sensitivity analysis to assess the impact of interest rate and exchange rate risks on earnings. This analysis determines the effect of a hypothetical 10% adverse change in market rates. In actuality, market rate volatility is dependent on many factors that are impossible to forecast. Therefore, the adverse changes described below could differ substantially from the hypothetical 10% change.

SCI is currently not subject to significant interest rate risk on its outstanding debt as 95% of such debt has fixed rate interest terms. The fair market value of SCI s debt was approximately $16.6 million less than its carrying value at June 30, 2006.

A similar model was used to assess the impact of changes in exchange rates for foreign currencies on SCI s consolidated statement of operations. At December 31, 2005 and 2004, SCI s foreign currency exposure was primarily associated with the Canadian dollar, the Chilean peso and the euro. A 10% adverse change in the strength of the U.S. dollar relative to the foreign currency instruments would have negatively affected SCI s net income (excluding discontinued operations), on an annual basis, by less than $0.5 million on December 31, 2005 and less than $1.5 million on December 31, 2004. For the six months ended June 30, 2006 a 10% adverse change would have negatively impacted SCI s net income less than $0.5 million.

Alderwoods

There have been no material changes in market risks for the 52 weeks ended December 31, 2005, compared to the 52 weeks ended January 1, 2005.

Alderwoods major market risk exposures are to changing interest rates, currency exchange rates and to equity prices. The market risk exposure discussion below provides information about market-sensitive financial instruments and constitutes forward-looking statements, which involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

Alderwoods exposure to interest rate fluctuations resides primarily in the United States, and Alderwoods exposure to currency exchange rate fluctuations resides primarily in investments and operations in Canada, which is generally stable politically and economically and is not highly inflationary.

Alderwoods has a significant portion of its corporate and administrative functions in Canada. Expenses for these functions are paid principally in Canadian dollars and have predictable future cash outflows. Alderwoods has a program to hedge the variability in the United States dollar equivalent of a portion of the foreign currency expenditure due to the fluctuation in the exchange rate between the United States dollar and Canadian dollar. Alderwoods uses forward foreign exchange contracts and foreign exchange option contracts to partially mitigate foreign exchange variability. Under the Foreign Currency Hedge Program, losses or gains in Alderwoods underlying foreign exchange exposure are partially offset by gains or losses on the forward foreign exchange contracts and foreign exchange option contracts, so as to reduce the magnitude of foreign exchange transaction gains or losses.

A 1% change in exchange rates would cause approximately $0.5 million change in Alderwoods general and administrative expenses and approximately $0.1 million change in the aggregate fair value of Alderwoods forward foreign exchange contracts and foreign exchange option contracts. The table below presents the notional amounts, weighted average foreign exchange rates, and fair values of the outstanding forward foreign exchange contracts and foreign exchange option contracts, as of December 31, 2005.

Forward Foreign Exchange Contracts	Exchange United States Dollars for Foreign Currency	Notional Weighted Average Exchange Rate	Asset Fair Value
	(Foreign currency notional amount in thousands)		(Dollars in thousands)
Functional currency:			
Canadian dollar	$16,000	US$0.8254	US$576

Table of Contents

As of December 31, 2005, forward foreign exchange contracts with fair values of $0.5 million and $0.01 million mature during 2006 and 2007, respectively.

Foreign Exchange Option Contracts	Exchange United States Dollars for Foreign Currency	Notional Weighted Average Exchange Rate on Cdn. Calls	Notional Weighted Average Exchange Rate on Cdn. Puts	Asset Fair Value
	(Foreign currency notional amount in thousands)			(Dollars in thousands)
Functional currency:				
Canadian dollar	$13,000	US$0.8446	US$0.8105	US$365

As of December 31, 2005, foreign exchange option contracts with fair values of $0.4 million and $0.01 million mature during 2006 and 2007, respectively.

Derivative financial instruments involve credit and market risk. Credit risk arises from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where Alderwoods would incur a loss in replacing the defaulted transaction. Alderwoods minimizes this risk by diversifying through counterparties that are of strong credit quality. Alderwoods does not enter into derivative financial instruments for trading purposes.

Table of Contents

BUSINESS

General

We are North America s leading provider of deathcare products and services, with a network of funeral homes and cemeteries unequalled in geographic scale and reach. We hold leading positions in each of the U.S. and Canada and, in 2005, giving pro forma effect to the transactions, we estimate that we represented approximately 14% of the funeral and cemetery services business in North America based on industry revenues, which was approximately five times the share of our next largest North American competitor. At June 30, 2006, on a pro forma basis giving effect to the transactions, we owned and operated 1,438 funeral service locations and 235 cemeteries in North America, which are geographically diversified across 46 states, eight Canadian provinces, the District of Columbia and Puerto Rico. In addition, after giving pro forma effect to the transactions, we own and operate an insurance company that supports our funeral operations.

Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria and related businesses. We provide all professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles and preparation and embalming services. Funeral related merchandise, including caskets, burial vaults, cremation receptacles, flowers and other ancillary products and services, is sold at each of our funeral service locations. Our cemeteries provide cemetery property interment rights, including mausoleum spaces, lots and lawn crypts, and sell cemetery related merchandise and services, including stone and bronze memorials, burial vaults, casket and cremation memorialization products, merchandise installations and burial openings and closings. We also sell preneed funeral and cemetery products and services whereby a customer contractually agrees to the terms of certain products and services to be provided in the future. Finally, Alderwoods insurance subsidiary sells a variety of insurance products, primarily for the funding of preneed funerals sold by Alderwoods funeral locations.

At June 30, 2006, on a pro forma basis giving effect to the transactions, we owned 243 funeral service/cemetery combination locations in which a funeral service location is physically located within or adjoining a cemetery that we own. Combination locations allow certain facility, personnel, and equipment costs to be shared between the funeral service location and cemetery and typically can be cost competitive and still have higher gross margins than if the funeral and cemetery operations were operated separately. Combination locations also create synergies between funeral and cemetery sales force personnel and give families added convenience to purchase both funeral and cemetery products and services at a single location.

Our Competitive Strengths

Industry leader. We believe that our estimated 14% North America share, on a pro forma basis giving effect to the transactions, based on 2005 industry revenues, is approximately five times that of our next largest North American competitor and approximately two times that of the estimated 6% combined share of the remaining five publicly traded deathcare companies. We believe that our size provides us the benefits of standardized training, industry best practices and efficiencies of scale.

Geographic reach. After giving pro forma effect to the transactions, our combined network of more than 1,900 funeral and cemetery locations is diversified over 46 states, eight Canadian provinces, the District of Columbia and Puerto Rico, and allows us to serve a broad population base. We believe our scale differentiates us from our competition by allowing us to implement a national brand strategy and to pursue strategic affinity partnerships with national groups that can influence their members choice of deathcare provider. For example, our strategic affinity partnerships today include the Veterans of Foreign Wars and Ladies Auxiliary, whose combined membership exceeds two million. We believe that our extensive national network enhances purchasing scale and provides us with an advantage in selling preneed funeral and cemetery products and services by allowing us to offer our customers the ability to transfer their preneed contracts to any of the providers in our network.

Table of Contents

National brand. In 2000, we introduced the first coast-to-coast funeral service brand in North America, Dignity Memorial®. We believe that a national brand name is increasingly important as North American consumers continue to become more geographically mobile. We believe that consumers are less likely now than they have been historically to live in the same community as their parents and grandparents or to know a local funeral director. By building favorable associations with the Dignity Memorial® brand through funeral services, advertising and community outreach programs we strive to create an image of consistency, dependability and excellence that makes consumers more likely to choose our providers. We expect the acquisition of Alderwoods to provide additional opportunities for us to expand the Dignity Memorial® brand. In addition, we are currently developing a second brand, Funeraria del Angel™, to serve North America s growing Hispanic population. As of June 30, 2006, Funeraria del Angel™ had 23 locations in California, Texas, Illinois and Kansas.

Innovative offerings. Using our Dignity Memorial® brand, we augment our range of traditional products and services with more contemporary and comprehensive offerings. In addition to a wide range of funeral, memorial, burial and cremation options, we offer assistance with many of the legal and administrative details that burden customers at times of loss. We also offer grief counseling for survivors and a bereavement travel program, which obtains special rates on airfare, car rentals and hotel accommodations for family and friends traveling from out of town to attend services, and an internet memorialization. In addition, we offer packaged plans for funerals and cremations that are designed to simplify customer decision-making. Since our packaged plans were introduced in 2004, they have achieved consistently high customer satisfaction ratings.

Reputation and service excellence. We believe that we have established a strong reputation for consistency and service excellence, which sets us apart from many of our competitors, serves as a key advantage to attracting customers and enhances our standing as an employer of choice within the industry. Continuing our commitment to excellence, in 2004 we established Dignity University™, a virtual school for SCI employees at all levels. It offers a comprehensive curriculum of professional development and ethics training that is designed to help employees upgrade skills, advance their careers and implement ethical standards at every level of performance. We believe that the acquisition of Alderwoods will allow us to expand and build our reputation for service excellence.

Our Strategies for Growth

In recent years, we have strengthened our balance sheet, lowered our cost structure, introduced more efficient systems and processes and strengthened our management team. We believe these improvements, together with our acquisition of Alderwoods, present us with significant opportunities to achieve future growth. Our principal strategies are as follows:

Approach the business by customer preference. We believe customer attitudes and preferences are essential to our business. We are replacing the industry s traditional one-size-fits-all approach with a flexible operating and marketing strategy that categorizes customers according to personal needs and preferences. Using this new approach, we will tailor our product and service offerings based on four variables:

- convenience and location,
- religious and ethnic customs,
- quality and prestige, and
- price.

By identifying customers based on these variables, we can focus our resources on the most profitable customer categories and improve our marketing effectiveness. We will continue to refine our pricing, product and marketing strategies to support this approach.

Consistent with this strategy, we have begun to analyze existing business relationships to determine whether they are consistent with our strategic goals. As a result, SCI made certain local business decisions to exit unprofitable business relationships and activities in late 2005 and early 2006, which resulted in an initial decrease in total funeral services performed. However, SCI has also experienced significant improvements in both average revenue per funeral service and gross margins. We expect these improvements to continue in the future as we redeploy resources to more profitable areas. We continue to analyze our operations and may exit certain business relationships or activities that do not fit our customer segmentation strategy.

Realign pricing to reflect current market environment. SCI, Alderwoods and other competitors in the deathcare industry have historically generated most of their profits from the sale of traditional products (including caskets, vaults and markers), while placing less emphasis on the services involved in funeral and burial preparation. However, because of increased customer preference for comprehensive and personalized deathcare services, as well as increased competition from retail outlets and websites for the sale of traditional products, SCI has realigned its pricing strategy from product to service offerings in order to focus on services that are most valued by customers. SCI s initial results from the realignment strategy have been favorable based on increases in the overall average revenue per funeral service performed. Upon completion of the acquisition, we expect to evaluate Alderwoods pricing, and, if necessary, make any adjustments to align the pricing strategy at the Alderwoods locations to the current SCI locations.

Drive operating discipline and take advantage of our scale. Although we have already made substantial improvements in our infrastructure, we believe we can continue to achieve operating improvements through centralization and standardization of processes for staffing, central care, fleet management and cemetery maintenance. The acquisition of Alderwoods provides further opportunities for synergies and operating efficiencies, which will allow us to utilize our scale and increase profitability. We are developing clear, yet flexible, operating standards that will be used as benchmarks for productivity in these areas. In conjunction with these standards, we will develop and track shared best practices to support higher productivity. We also intend to continue to capitalize on our nationwide network of properties by pursuing strategic affinity partnerships. Over the longer term, we believe these relationships can be a key influence in the funeral home selection process.

Manage and grow the footprint. We will manage our network of business locations by positioning each business location to support the preferences of its local customer base while monitoring each region for changing demographics and competitive dynamics. We will primarily target customers who value quality and prestige or adhere to specific religious or ethnic customs. In addition, we expect to pursue selective business expansion through construction or targeted acquisitions of cemeteries and funeral homes with a focus on the highest-return customer categories. In particular, we will focus cemetery expansion efforts on large cemeteries that are or may be combined with funeral home operations, which allow facility, personnel, and equipment costs to be shared between the funeral services location and cemetery.

History

SCI

SCI was incorporated in Texas in July of 1962. Prior to 1999, SCI focused on the acquisition and consolidation of independent funeral homes and cemeteries in the fragmented deathcare industry in North America. During the 1990s, SCI also expanded its operations through acquisitions in Europe, Australia, South America and the Pacific Rim. During the mid to late 1990s, acquisitions of deathcare facilities became extremely competitive resulting in increased prices for acquisitions and substantially reduced returns on invested capital. In 1999, SCI significantly reduced the level of acquisition activity and focused on identifying and addressing non-strategic or underperforming businesses. This focus resulted in the divestiture of several North America and international operations. During 2001 and 2002, SCI completed joint ventures of operations in Australia, the United Kingdom, Spain and Portugal. In 2003, SCI sold its equity investment in its operations in Australia, Spain and Portugal. During 2004, SCI sold its funeral operations in France and obtained a 25% minority interest in the acquiring entity. SCI also sold its minority interest equity investment in the United Kingdom. During 2005, SCI divested of all of its operations in Argentina, Uruguay, and Chile.

Table of Contents

Alderwoods

From the inception of Loewen Group, Inc. in 1985 until 1998, Loewen Group s business philosophy centered on a growth strategy in the funeral home and cemetery businesses. Beginning in 1998, in light of negative cash flows from its businesses and increasing difficulties in meeting its debt service obligations, Loewen Group virtually ceased its acquisition program and began attempting to sell various operations. On June 1, 1999, Loewen Group and certain of its subsidiaries voluntarily filed a petition for creditor protection under Chapter 11 of the United States Bankruptcy Code. Loewen Group and certain of its Canadian subsidiaries also filed concurrently for creditor protection under the Companies Creditors Arrangement Act. Under the Fourth Amended Joint Plan of Reorganization of Loewen Group, (also recognized by the Canadian court,) Alderwoods succeeded to the business previously conducted by Loewen Group on January 2, 2002 and emerged from bankruptcy. Since 2002, Alderwoods has significantly reduced its outstanding debt, streamlined its operations by divesting businesses that did not fit into its business strategies, and finalized the resolution of all outstanding bankruptcy claims and other related reorganization issues.

Operations

Following the acquisition of Alderwoods, we expect that our funeral and cemetery operations will be organized into a North America division covering the United States and Canada and an Other Foreign division including operations in Germany and Singapore. We currently intend to sell our operations in Germany and Singapore when economic values and conditions are conducive to a sale.

Following the acquisition of Alderwoods, our operations in the North America division are expected to be organized into approximately 31 major regions and 42 middle regions (including four Hispana regions). Each region will be led by a regional director with responsibility for funeral and/or cemetery operations and preneed sales. Within each region, the funeral homes and cemeteries share common resources such as personnel, preparation services and vehicles. There are four regional support centers in North America to assist regional directors with financial, administrative and human resource needs. These support centers are located in Houston, Miami, New York, and Los Angeles. The primary functions of the regional support centers are to help facilitate the execution of corporate strategies, coordinate communication between the field and corporate offices, and serve as liaisons for the implementation of policies and procedures.

The deathcare industry in North America is highly fragmented. To be successful, we believe our funeral service locations and cemeteries must maintain good reputations and high professional standards in the industry, as well as offer attractive products and services at competitive prices. We believe we have an unparalleled network of funeral service locations and cemeteries that offer high quality products and services at prices that are competitive with local competing funeral homes, cemeteries and retail locations.

We have multiple funeral service locations and cemeteries in a number of metropolitan areas. Within individual metropolitan areas, the funeral service locations and cemeteries operate under various names as most operations were acquired as existing businesses. Our wholly owned subsidiary, Kenyon International Emergency Services, provides disaster management services in mass fatality incidents. Some of our international funeral service locations operate under certain brand names specific for a general area or country. We have branded our funeral operations in North America under the name Dignity Memorial®. We believe that our national branding strategy gives us a competitive advantage in the industry. While this branding process is intended to emphasize our seamless national network of funeral service locations and cemeteries, the original names associated with acquired operations, and their inherent goodwill and heritage, generally remain the same. For example, Geo. H. Lewis & Sons Funeral Directors is now Geo. H. Lewis & Sons Funeral Directors, a Dignity Memorial® provider.

In the deathcare industry, there has been a growing trend in the number of cremations performed in North America as an alternative to traditional funeral service dispositions. Cremation services usually result in lower revenue and gross profit dollars than traditional funeral services. In North America during 2005, after giving pro forma effect to the transactions, approximately 39% of all funeral services we performed were cremation services, compared to approximately 38% performed in 2004. We have

Table of Contents

expanded our cremation memorialization products and services which has resulted in higher average sales for cremation services compared to historical levels.

We do not manufacture the merchandise and other products sold to our customers, but acquire them from third party manufacturers.

Our financial stability is enhanced by our approximately $6.8 billion backlog of future revenues, as of June 30, 2006 on a pro forma basis giving effect to the transactions, which is a result of our preneed funeral and cemetery sales in North America. These unfulfilled preneed contracts are primarily supported by investments in trust funds, which are included in our consolidated balance sheet, and third-party insurance policies, which are not included in our balance sheet. Preneed sales contribute to profitability and volume, and increase the predictability and stability of our revenues and cash flow.

Properties

At June 30, 2006, on a pro forma basis giving effect to the transactions, we owned and operated 1,438 funeral service locations and 235 cemeteries in North America, which are geographically diversified across 46 states, eight Canadian provinces, the District of Columbia and Puerto Rico.

SCI

At June 30, 2006, SCI owned approximately 88% of the real estate and buildings used at its facilities, and the remainder of these facilities were leased. SCI owns its corporate headquarters in Houston, Texas, which consists of approximately 127,000 square feet of office space and 185,000 square feet of parking space. SCI owns and utilizes two additional buildings located in Houston, Texas for corporate activities containing a total of approximately 207,000 square feet of office space.

At June 30, 2006, SCI s 351 cemeteries (including combination locations) contained a total of approximately 25,407 acres, of which approximately 59% was developed.

The following table provides the number of SCI funeral homes and cemeteries by state and country as of June 30, 2006:

Country, State/Province	Number of Funeral Homes	Number of Cemeteries	Number of Combination Locations	Total
United States				
Alabama	25	9	6	40
Alaska	4		2	6
Arizona	17	1	9	27
Arkansas	8	3		11
California	80	8	26	114
Colorado	16	3	9	28
Connecticut	17			17
District of Columbia	1			1
Florida	67	12	30	109
Georgia	21	8	2	31
Hawaii	2	2	0	4
Illinois	32	5	8	45
Indiana	20	6	2	28
Iowa	6	3	1	10
Kansas	5	1	3	9
Kentucky	11	3	2	16

114

Table of Contents

Country, State/Province	Number of Funeral Homes	Number of Cemeteries	Number of Combination Locations	Total
Louisiana	12	1	4	17
Maine	12			12
Maryland	10	7	1	18
Massachusetts	23			23
Michigan	17	12		29
Mississippi	9	1	1	11
Missouri	20	4	5	29
Nebraska	4			4
New Hampshire	3			3
New Jersey	20			20
New York	56			56
North Carolina	27	4	1	32
Ohio	14	9	3	26
Oklahoma	4	2	4	10
Oregon	8	1	6	15
Pennsylvania	9	17	2	28
Rhode Island	1			1
South Carolina	1	3	2	6
South Dakota	2			2
Tennessee	13	5	7	25
Texas	89	15	29	133
Utah	1	1	2	4
Virginia	12	8	4	24
Washington	13	2	7	22
West Virginia	2	4	2	8
Wisconsin	10			10
Canada				
Alberta	15			15
British Columbia	16	3	2	21
New Brunswick	5			