SERVICE CORPORATION INTERNATIONAL
Form 8-K
September 19, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K
CURRENT REPORT
Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): September 19, 2006
Service Corporation International

(Exact name of registrant as specified in its charter)

Texas	**1-6402-1**	**74-1488375**
(State or other jurisdiction of incorporation)	*(Commission File Number)*	*(I.R.S. Employer Identification No.)*

1929 Allen Parkway Houston, Texas	**77019**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code (713) 522-5141

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13a-4(c))

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Item 7.01 Regulation FD Disclosure.

A. INTRODUCTION

On September 19, 2006, Service Corporation International (the Company) issued a press release announcing that it is commencing a private offering of $250 million aggregate principal amount of unsecured Senior Notes due 2014 and $250 million aggregate principal amount of unsecured Senior Notes due 2018 (the Offering). The full text of the press release is attached hereto as Exhibit 99.1. The Company intends to use the net proceeds from the Offering, together with available cash and other financings, to consummate the acquisition of Alderwoods Group, Inc. (Alderwoods) and refinance certain other indebtedness.

The information contained in Item 7.01 of this Current Report on Form 8-K, including the exhibit hereto, is neither an offer to sell nor a solicitation of an offer to purchase any of the securities in the Offering or any other securities of the Company. Any securities to be offered by the Company, in the Offering or in separate financings concurrent with the Offering, will not be registered under the Securities Act of 1933, as amended, or applicable state securities laws and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable state securities laws.

The information in Item 7.01 of this Current Report on Form 8-K shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

B. SUPPLEMENTAL INFORMATION

The following is certain information that will be disclosed by the Company in connection with the Offering.

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(1) Summary Historical and Unaudited Pro Forma Combined Financial Information

SCI

The following tables set forth SCI s summary historical financial information and other data for the periods ended and at the dates indicated below. SCI s summary historical financial information for the fiscal years 2003, 2004 and 2005 has been derived from SCI s audited annual financial statements. The summary historical financial information for the six month periods ended June 30, 2005 and 2006 has been derived from SCI s unaudited interim financial statements, which, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of that information for such unaudited interim periods. The financial information presented for the interim periods has been prepared in a manner consistent with the accounting policies of SCI, 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.

The summary historical financial information should be read in conjunction with the sections entitled Capitalization, Unaudited Pro Forma Combined Financial Information, and Portions of Management s Discussion and Analysis of Financial Condition and Results of Operations .

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 and note two to SCI s interim financial statements.

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(Dollars in thousands)	Year ended December 31, 2003 (restated)	2004 (restated)	2005 (restated)	Six months ended June 30, 2005 (restated)	2006
Statement of operations data:					
Revenues	$ 2,313,177	$ 1,831,225	$ 1,715,737	$ 879,284	$ 873,143
Costs and expenses	(1,956,967)	(1,501,211)	(1,417,592)	(708,440)	(702,399)
Gross profit	356,210	330,014	298,145	170,844	170,744
General and administrative expenses	(178,127)	(130,884)	(84,834)	(42,192)	(42,929)
Gain (loss) on dispositions and impairment charges net[1]	50,677	25,797	(26,093)	(1,213)	(7,391)
Other operating expense[2]	(9,004)				
Operating income	219,756	224,927	187,218	127,439	120,424
Interest expense	(139,964)	(119,293)	(103,733)	(51,229)	(53,337)
Interest income	6,215	13,453	16,706	7,950	12,763
Gain (loss) on early extinguishment of debt net	1,315	(16,770)	(14,258)	(14,258)	
Other income (expense) net[3]	8,345	9,703	2,774	(637)	4,046
Income from continuing operations before income taxes and cumulative effect of accounting changes	95,667	112,020	88,707	69,265	83,896
(Provision) benefit for income taxes	(26,402)	7,650	(33,233)	(27,073)	(31,282)
Income from continuing operations before cumulative effect of accounting changes	69,265	119,670	55,474	42,192	52,614
Income (loss) from discontinued operations[4]	15,809	41,584	4,123	4,288	(238)
Cumulative effect of accounting changes[5]		(50,593)	(187,538)	(187,538)	
Net income (loss)	$ 85,074	$ 110,661	$ (127,941)	$ (141,058)	$ 52,376

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(Dollars in thousands)	Year ended December 31, 2003	2004	2005	Six months ended June 30, 2005	2006
	(restated)	(restated)	(restated)	(restated)	
Financial and other data:					
EBITDA (as defined)(6)	$ 381,622	$ 353,002	$ 252,831	$ 150,065	$ 173,996
Adjusted EBITDA (as defined)(6)	295,233	297,568	321,612	179,839	181,387
Capital expenditures	115,471	95,619	99,416	43,752	40,547
Depreciation and amortization(7)	152,206	135,142	77,097	37,521	49,526
Net cash provided by operating activities	374,259	94,156	312,852	190,428	151,603
Net cash (used in) provided by investing activities	(37,422)	289,524	171,015	33,595	(6,698)
Net cash used in financing activities	(300,300)	(335,986)	(326,385)	(191,713)	(64,601)

(Dollars in thousands)	As of June 30, 2006
Balance sheet data:	
Cash and cash equivalents	$ 529,171
Working capital(8)	438,990
Total assets	7,670,700
Total debt (including current maturities)	1,295,677
Stockholders equity	1,608,858

(1) Gain (loss) on dispositions and impairment charges-net represents gains and losses recognized in connection with the disposition of non-strategic funeral and cemetery businesses in North America in all periods presented. Fiscal 2005 also includes the release of $15.6 million in indemnification liabilities primarily related to the 2004 sale of operations in France and the 2002 sale of operations in the United Kingdom. Fiscal 2004 includes a $41.2 million gain from the sale of debt and equity holdings in the United Kingdom and a $6.4 million gain from the disposition of operations in France. Fiscal 2003 includes a $50.7 million gain from the sale of equity holdings in Australia and Spain.

(2) Other operating expense primarily represents severance costs for former employees.

(3) Other income (expense) includes cash overrides received from a third party insurance provider, surety bond premium costs, and gains and losses related to foreign currency transactions in all periods presented. Additionally, the first half of fiscal 2006 includes a favorable adjustment to SCI s allowance on notes receivable.

(4) Income (loss) from discontinued operations consists of results from operations in South America.

(5) Cumulative effect of accounting changes includes (i) a change in accounting for direct selling costs related to the acquisition of preneed funeral and preneed cemetery contracts effective January 1, 2005, (ii) implementation of FIN 46R effective March 31, 2004, and (iii) a change in accounting for gains and losses on pension plan assets and obligations effective January 1, 2004.

(6) As used in this table, EBITDA represents income from continuing operations before cumulative effect of accounting changes plus (i) provision (benefit) for income taxes, (ii) interest expense, and (iii) depreciation and amortization less (iv) interest income.

Adjusted EBITDA presented in this table represents EBITDA further adjusted to reflect the impact of (i) gains and losses on dispositions and impairment charges in all periods presented, (ii) other operating expense primarily representing severance costs for former employees, (iii) gains and losses on the early extinguishment of debt in the years ended December 31, 2003, 2004 and 2005 and in the six months ended June 30, 2005, (iv) an adjustment for capital leases in the years ended December 31, 2003, 2004 and 2005 and in the six months ended June 30, 2005 (described in note (a) below), and (v) an adjustment for proceed selling costs in the years ended December 31, 2003 and 2004 (described in note (b) below).

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SCI believes EBITDA and Adjusted EBITDA facilitate company to company performance comparisons by removing potential differences caused by variations in capital structure (affecting interest expense), taxation and the age and book depreciation of facilities and equipment (affecting relative depreciation expense), which may vary for different companies for reasons unrelated to general performance or liquidity. SCI s calculations of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled measures of other companies.

EBITDA and Adjusted EBITDA are not measures of performance or liquidity under accounting principles generally accepted in the United States (GAAP) and should not be used in isolation or as a substitute for net income (loss), cash flows from operating activities or other income or cash flow statement data prepared in accordance with GAAP or as a measure of profitability or liquidity.

SCI has included information concerning EBITDA and Adjusted EBITDA as performance-based analytical tools and you should not consider these measures in isolation, or as a substitute for analysis of SCI s results as reported under GAAP. Some of these limitations are:

EBITDA and Adjusted EBITDA do not reflect SCI s current cash expenditure requirements, or future requirements, for capital expenditures or contractual commitments;

EBITDA and Adjusted EBITDA do not reflect the changes in, or cash requirements for, SCI s working capital needs;

EBITDA and Adjusted EBITDA do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on SCI s debt;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacement; and

SCI s measure of EBITDA is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the methods of calculation.

Because of these limitations, EBITDA should not be considered as discretionary cash available to SCI to reinvest in the growth of its business or as a measure of cash that will be available to SCI to meet its obligations. You should compensate for these limitations by relying primarily on SCI s GAAP results and using EBITDA only supplementally.

The following table provides a reconciliation from income from continuing operations before cumulative effect of accounting changes to EBITDA and Adjusted EBITDA for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
(Dollars in thousands)	**2003**	**2004**	**2005**	**2005**	**2006**
Income from continuing operations before cumulative effect of accounting changes	$ 69,265	$ 119,670	$ 55,474	$ 42,192	$ 52,614

Provision (benefit) for income taxes	26,402	(7,650)	33,233	27,073	31,282
Interest expense	139,964	119,293	103,733	51,229	53,337
Interest income	(6,215)	(13,453)	(16,706)	(7,950)	(12,763)
Depreciation and amortization	152,206	135,142	77,097	37,521	49,526
EBITDA	$ 381,622	$ 353,002	$ 252,831	$ 150,065	$ 173,996
(Gain) loss on dispositions and impairment charges net	(50,677)	(25,797)	26,093	1,213	7,391
Other operating expense	9,004				
(Gain) loss on early extinguishment of debt net	(1,315)	16,770	14,258	14,258	
Adjustment for capital leases[(a)]	24,652	27,151	28,430	14,303	
Adjustment for preneed selling costs[(b)]	(68,053)	(73,558)			
Adjusted EBITDA	$ 295,233	$ 297,568	$ 321,612	$ 179,839	$ 181,387

(a) Adjustment for capital leases represents the operating lease expense for certain leased transportation equipment. The terms of these leases were amended in 2006 and, based on these amendments, the leases are now classified as capital leases.

(b) 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. The adjustment for preneed selling costs in the respective periods represents the selling costs previously deferred but which are now expensed under SCI s current accounting policy.

(7) Depreciation and amortization expense for the years ended December 31, 2003, 2004 and 2005 exclude the amortization of deferred loan costs of $9.2 million, $10.0 million, and $10.8 million, respectively, which are included in the statement of cash flows for these periods. Depreciation and amortization expense includes stock compensation expense for all periods, including $1.0 million and $3.9 million for the six months ended June 30, 2005 and 2006, respectively, which were shown as a separate line item on the statement of cash flows for these periods.

(8) Working capital represents current assets less current liabilities.

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Alderwoods

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 current report 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.

The following tables set forth Alderwoods summary historical financial information and other data for the periods ended and at the dates indicated below. Alderwoods summary historical financial information for fiscal 2003, 2004 and 2005 has been derived from Alderwoods audited annual financial statements. The summary historical information for the twenty-four weeks ended June 17, 2006 and June 18, 2005 has been derived from Alderwoods unaudited interim financial statements which, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of that information for such unaudited interim periods. The financial information presented for the interim periods has been prepared on a basis consistent with the accounting policies of Alderwoods, 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.

The summary historical financial information should be read in conjunction with the sections entitled Capitalization, Unaudited Pro Forma Combined Financial Information, and Portions of Management s Discussion and Analysis of Financial Condition and Results of Operations and with the consolidated financial statements of Alderwoods and related notes.

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(Dollars in thousands)	53 weeks ended January 3, 2004	52 weeks ended January 1, 2005	52 weeks ended December 31, 2005	24 weeks ended June 18, 2005	24 weeks ended June 17, 2006
Statement of operations data:					
Revenue	$ 720,762	$ 717,111	$ 748,914	$ 360,663	$ 354,261
Costs and expenses	(576,869)	(592,206)	(634,395)	(296,171)	(295,410)
Gross profit	143,893	124,905	114,519	64,492	58,851
General and administrative expenses	(56,281)	(51,218)	(42,815)	(12,346)	(32,557)
(Provision) benefit for asset impairment	(5,229)	(1,787)	1,379	1,627	
Income from operations	82,383	71,900	73,083	53,773	26,294
Interest on long-term debt and refinancing costs	(76,453)	(78,079)	(30,069)	(14,528)	(12,949)
Other (expense) income net[1]	(4,056)	1,162	4,662	5,843	(129)
Income (loss) before income taxes	1,874	(5,017)	47,676	45,088	13,216
Income taxes	6,485	1,453	(4,815)	(18,193)	(7,318)
Net income (loss) from continuing operations	8,359	(3,564)	42,861	26,895	5,898
Net income (loss) from discontinued operations[2]	2,448	12,913	(1,678)	(1,678)	
Cumulative effect of change in accounting principle[3]					(1,242)
Net income	$ 10,807	$ 9,349	$ 41,183	$ 25,217	$ 4,656

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(Dollars in thousands)	53 weeks ended January 3, 2004	52 weeks ended January 1, 2005	52 weeks ended December 31, 2005	24 weeks ended June 18, 2005	24 weeks ended June 17, 2006
Financial and other data:					
EBITDA (as defined)[4]	$ 118,549	$ 115,155	$ 122,343	$ 80,711	$ 47,027
Adjusted EBITDA (as defined)[4]	124,834	113,413	104,200	61,837	49,907
Capital expenditures	25,202	37,183	42,510	16,314	9,473
Depreciation and amortization[5]	40,222	42,093	44,598	21,095	20,862
Net cash provided by operating activities	155,775	119,589	146,833	70,340	40,324
Net cash (used in) provided by investing activities	(29,713)	41,126	(61,045)	(14,990)	(24,925)
Net cash used in financing activities	(130,562)	(192,948)	(87,712)	(52,739)	(14,454)

(Dollars in thousands)	As of June 17, 2006
Balance sheet data:	
Cash and cash equivalents	$ 8,400
Working capital[6]	(33,004)
Total assets	2,280,789
Total debt (including current maturities)	358,229
Stockholders equity	598,162

(1) Other (expense) income net consists primarily of gains and losses recognized in connection with the sale of excess property in North America in all periods presented.

(2) Net income (loss) from discontinued operations consists of results from operations, impairment charges and gains and losses from sales of funeral and cemetery locations and additionally, in 2004, the results from operations and sale of a non-strategic insurance subsidiary.

(3) Cumulative effect of change in accounting principle in the first half of 2006 is due to the implementation of FAS 123R.

(4) As used in this table, EBITDA represents net income (loss) from continuing operations plus (i) income taxes, (ii) interest on long-term debt and refinancing costs, and (iii) depreciation and amortization.

Adjusted EBITDA presented in this table represents EBITDA further adjusted to reflect the impact of (i) provision for asset impairment charges for fiscal 2003, 2004 and 2005 as well as the 24 weeks ended June 18, 2005, (ii) gain or loss on dispositions, (iii) one-time gains in general and administrative expenses in fiscal 2005 and the 24 weeks ended June 18, 2005, and (iv) legal expenses related to the acquisition in the 24 weeks ended June 17, 2006.

We believe EBITDA and Adjusted EBITDA facilitate company to company performance comparisons by removing potential differences caused by variations in capital structure (affecting interest expense), taxation and the age and book depreciation of facilities and equipment (affecting relative depreciation expense), which may vary for different companies for reasons unrelated to general performance or liquidity. Alderwoods calculations of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled measures of other companies.

EBITDA and Adjusted EBITDA are not measures of performance or liquidity under GAAP and should not be used in isolation or as a substitute for net income (loss), cash flows from operating activities or other income or cash flow statement data prepared in accordance with GAAP or as a measure of profitability or liquidity.

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We have included information concerning EBITDA and Adjusted EBITDA as performance-based analytical tools and you should not consider these measures in isolation, or as a substitute for analysis of Alderwoods results as reported under GAAP. Some of these limitations are:

EBITDA and Adjusted EBITDA do not reflect Alderwoods current cash expenditure requirements, or future requirements, for capital expenditures or contractual commitments;

EBITDA and Adjusted EBITDA do not reflect the changes in, or cash requirements for, Alderwoods working capital needs;

EBITDA and Adjusted EBITDA do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on Alderwoods debt;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacement; and

Alderwoods measure of EBITDA is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the methods of calculation.

Because of these limitations, EBITDA should not be considered as discretionary cash available to Alderwoods to reinvest in the growth of its business or as a measure of cash that will be available to Alderwoods to meet its obligations. You should compensate for these limitations by relying primarily on Alderwoods GAAP results and using EBITDA only supplementally.

The following table provides a reconciliation from net income (loss) from continuing operations to EBITDA and Adjusted EBITDA for the periods indicated:

(Dollars in thousands)	53 weeks ended January 3, 2004	52 weeks ended January 1, 2005	52 weeks ended December 31, 2005	24 weeks ended June 18, 2005	24 weeks ended June 17, 2006
Net income (loss) from continuing operations	$ 8,359	$ (3,564)	$ 42,861	$ 26,895	$ 5,898
Income taxes	(6,485)	(1,453)	4,815	18,193	7,318
Interest on long-term debt and refinancing costs	76,453	78,079	30,069	14,528	12,949
Depreciation and amortization	40,222	42,093	44,598	21,095	20,862
EBITDA	$ 118,549	$ 115,155	$ 122,343	$ 80,711	$ 47,027
Adjustments:					
Provision (benefit) for asset impairment	5,229	1,787	(1,379)	(1,627)	
(Gain) loss on dispositions[(a)]	1,056	(3,529)	(4,964)	(5,447)	80
One-time gains in general and administrative expenses[(b)]			(11,800)	(11,800)	

Legal expenses related to the acquisition					2,800
Adjusted EBITDA	$ 124,834	$ 113,413	$ 104,200	$ 61,837	$ 49,907

(a) Gain or loss on dispositions is included in other (expense) income net.

(b) One-time gains in general and administrative expenses primarily relate to the recovery of a corporate receivable that was previously fully reserved.

(5) Depreciation and amortization expense for the twenty-four weeks ended June 17, 2006 includes stock compensation expense of $1.6 million, which was shown as a separate line item on the statement of cash flows.

(6) Working capital represents current assets less current liabilities.

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Pro forma combined

The pro forma information set forth below gives effect to the transactions as described under Unaudited Pro Forma Combined Financial Information , including the Offering and the application of the net proceeds therefrom, as if they had occurred on January 1, 2005, for statement of operations purposes and June 30, 2006, for balance sheet purposes. We have derived the pro forma combined financial data for the twelve months ended June 30, 2006, by calculating the historical consolidated financial data for the year ended December 31, 2005 for SCI and for the fifty-two weeks ended December 31, 2005 for Alderwoods, less the historical consolidated financial data for the six months ended June 30, 2005 for SCI and the twenty-four weeks ended June 18, 2005 for Alderwoods, plus the historical consolidated financial data for the six months ended June 30, 2006 for SCI and the twenty-four weeks ended June 17, 2006 for Alderwoods, and then applying pro forma adjustments to give effect to the transactions. Pro forma information as of or for the period ended June 30, 2006 reflects financial information for Alderwoods as of or for the period ended June 17, 2006, with no adjustments for the differences in dates. The pro forma information is unaudited, is for informational purposes only and is not necessarily indicative of what our financial position or results of operations would have been had the transactions been completed as of the dates indicated and does not purport to represent what our financial position or results of operations might be for any future period. Certain line items have been reclassified to conform to SCI s presentation.

For purposes of this pro forma information, the assets to be sold pursuant to the divestitures as described under Unaudited Pro Forma Combined Financial Information 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.

The following summary combined financial data should be read in conjunction with Unaudited Pro Forma Combined Financial Information, Portions of Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements of SCI and Alderwoods and the accompanying notes thereto.

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(Dollars in thousands)		Pro forma twelve months ended June 30, 2006
Statement of operations data:		
Revenues	$	2,356,010
Costs and expenses		(1,970,705)
Gross profit		385,305
General and administrative expenses		(139,594)
Gain (loss) on dispositions and impairment charges net[2]		(32,330)
Operating income		213,381
Interest expense [1]		(164,064)
Interest income		21,519
Other income net[3]		6,710
Income from continuing operations before income taxes		77,546
Provision for income taxes		(29,184)
Income from continuing operations [1]	$	48,362
Income from continuing operations:		
Basic	$	0.16
Diluted	$	0.16
Weighted average number of shares:		
Basic		295,251
Diluted		299,804

(Dollars in thousands)		Pro forma twelve months ended June 30, 2006
Financial and other data:		
EBITDA (as defined)[4]	$	350,329
Adjusted EBITDA (as defined)[4]		399,586
Cash interest expense[5]		153,217
Capital expenditures		131,880
Depreciation and amortization[6]		130,238
Ratio of Adjusted EBITDA to cash interest expense		2.6x

(Dollars in thousands)		Pro forma as of June 30, 2006
Balance sheet data:		
Cash and cash equivalents[7]	$	
Working capital[8]		(151,154)
Total assets		9,730,855
Total debt (including current maturities)[9]		2,034,048
Stockholders equity		1,578,792

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(1) The pro forma information presented herein assumes a cash interest rate of 7.75% on the senior notes due 2014, 8.25% on the senior notes due 2018, 3 month LIBOR plus 2.50% (approximately 7.9% as of September 13, 2006) on the term loan portion of the new senior credit facility, 3 month LIBOR plus 2.00% (approximately 7.4% as of September 13, 2006) on the revolving credit portion of the new senior credit facility and 3 month LIBOR plus 2.50% (approximately 7.9% as of September 13, 2006) on the privately placed debt securities. A 25 basis point variance in the actual interest rates would cause the following corresponding increases or decreases in our annual interest expense and, assuming an effective tax rate of 35%, in our income from continuing operations:

	Increases or decreases in interest expense	Increases or decreases in income from continuing operations
Senior notes due 2014	$ 625	$ 406
Senior notes due 2018	$ 625	$ 406
Term loan	$ 375	$ 244
Revolving credit facility	$ 75	$ 49
Privately placed debt securities	$ 500	$ 325

(2) (Gain) loss on dispositions and impairment charges-net represents gains and losses recognized in connection with the disposition of non-strategic funeral and cemetery businesses in North America.

(3) Other income includes cash overrides received from a third party insurance provider, surety bond premium costs, and gains and losses related to foreign currency transactions. Additionally, the first half of fiscal 2006 includes a favorable adjustment to SCI s allowance on notes receivable.

(4) EBITDA presented in this table represents income from continuing operations plus (i) provision for income taxes, (ii) interest expense, and (iii) depreciation and amortization less (iv) interest income.

Adjusted EBITDA presented in this table represents EBITDA further adjusted to reflect the impact of (i) gains and losses on dispositions and impairment charges, (ii) an adjustment for capital leases (described in note (a) below), and (iii) legal expenses related to the acquisition.

We believe EBITDA and Adjusted EBITDA facilitate company to company performance comparisons by removing potential differences caused by variations in capital structure (affecting interest expense), taxation and the age and book depreciation of facilities and equipment (affecting relative depreciation expense), which may vary for different companies for reasons unrelated to general performance or liquidity. Our calculations of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled measures of other companies.

EBITDA and Adjusted EBITDA are not measures of performance or liquidity under GAAP and should not be used in isolation or as a substitute for net income (loss), cash flows from operating activities or other income or cash flow statement data prepared in accordance with GAAP or as a measure of profitability or liquidity.

We have included information concerning EBITDA and Adjusted EBITDA as performance-based analytical tools and you should not consider these measures in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

EBITDA and Adjusted EBITDA do not reflect our current cash expenditure requirements, or future requirements, for capital expenditures or contractual commitments;

EBITDA and Adjusted EBITDA do not reflect the changes in, or cash requirements for, our working capital needs;

EBITDA and Adjusted EBITDA do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacement; and

Our measure of EBITDA is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the methods of calculation.

Because of these limitations, EBITDA should not be considered as discretionary cash available to us to reinvest in the growth of our business or as a measure of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our GAAP results and using EBITDA only supplementally.

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The following table provides a reconciliation from income from continuing operations to EBITDA and Adjusted EBITDA:

(Dollars in thousands)		Pro forma twelve months ended June 30, 2006
Income from continuing operations	$	48,362
Provision for income taxes		29,184
Interest expense		164,064
Interest income		(21,519)
Depreciation and amortization		130,238
EBITDA	$	350,329
Adjustments:		
(Gain) loss on dispositions and impairment charges net		32,330
Adjustments for capital leases[(a)]		14,127
Legal expense related to the acquisition		2,800
Adjusted EBITDA	$	399,586

(a) Adjustment for leases represents the operating lease expense for certain leased transportation equipment. The terms of these leases were amended in 2006 and, based on these amendments, the leases are now classified as capital leases.

(5) Represents interest expense less non-cash amortization of debt discounts and deferred loan costs.

(6) Depreciation and amortization expense for the pro forma twelve months ended June 30, 2006, excludes the amortization of deferred loan costs of $5.7 million, which is included in the statement of cash flows in this line item for this period. Depreciation and amortization expense includes stock compensation expense of $3.9 million for the twelve months ended June 30, 2006, which was shown as a separate line item on the statement of cash flows.

(7) 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.

(8) Working capital represents current assets less current liabilities.

(9) Does not give effect to the repayment of outstanding indebtedness with $200.0 million of assumed proceeds of asset sales in connection with the divestitures. There can be no assurance that the divestitures will generate proceeds in the amounts set forth above.

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(2) 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. This table is unaudited and should be read in conjunction with Unaudited Pro Forma Combined Financial Information, Portions of Management s Discussion and Analysis of Financial Condition and Results of Operations, and SCI s and Alderwoods interim financial statements and related notes.

		As of June 30, 2006		
(Dollars in millions)		**Actual**		**Pro forma**
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
Senior notes due 2014				250.0
Senior notes due 2018				250.0
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
Existing senior notes due 2017		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.

(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 is scheduled to expire on October 5, 2006, but is expected to be extended until the closing date of the acquisition if that date is later than October 5, 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.

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(3) 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 notes in the Offering.

In connection with the acquisition, Alderwoods and SCI have each commenced tender offers to purchase outstanding notes. The tender offers are currently scheduled to expire on October 5, 2006, but are expected to be extended to the closing date of the acquisition if that date is later than October 5, 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, 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, for the six months ended June 30, 2006 and 2005, and for the twelve months ended June 30, 2006 give effect to the transactions as if they had occurred on January 1, 2005.

For purposes of this pro forma information, 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

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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 Portions of Management s Discussion and Analysis of Financial Condition and Results of Operations.

We have derived the pro forma combined financial information for the twelve months ended June 30, 2006, by taking the historical consolidated financial information for the year ended December 31, 2005 for SCI and for the fifty-two weeks ended December 31, 2005 for Alderwoods, less the historical consolidated financial information for the six months ended June 30, 2005 for SCI and for the twenty-four weeks ended June 18, 2005 for Alderwoods, plus the historical consolidated financial information for the six months ended June 30, 2006 for SCI and for the twenty-four weeks ended June 17, 2006 for Alderwoods, and then applying pro forma adjustments to give effect to the transactions. The pro forma combined financial information for the twelve months ended June 30, 2006 has been included in order to provide investors with pro forma information for the latest practicable twelve-month period.

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 Capitalization, Portions of Management s Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements of SCI and Alderwoods and related notes.

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Unaudited pro forma condensed combined balance sheet

As of June 30, 2006
(dollars in thousands)

	SCI historical	Alderwoods historical[a]	Adjustments for the acquisition	Adjustments for the divestitures[l]	Adjustments for the financing	Pro forma
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.

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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.

(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)

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(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)

(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 this pro forma information, 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.

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(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	$ 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

(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	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

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Unaudited pro forma condensed combined statement of operations

For the year ended December 31, 2005
(Dollars in thousands, except per share data)

	SCI historical	Alderwoods historical[(a)]	Adjustments for the acquisition	Adjustments for the divestitures[(g)]	Adjustments for the financing	Pro forma
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	(29,497)[(i)]	(162,604)
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)	(29,497)	90,093
Provision for income taxes	(33,233)	(4,815)	(12,256)[(f)]	4,638(h)	10,807(j)	(34,859)
Income from continuing operations	$ 55,474	$ 42,861	$ (17,179)	$ (7,232)	$ (18,690)	$ 55,234

Income from continuing operations per share:				
Basic	$	0.19	$	0.18
Diluted	$	0.18	$	0.18
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.

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Unaudited pro forma condensed combined statement of operations

For the six months ended June 30, 2005

ollars in thousands, except per share data)	SCI historical	Alderwoods historical[(a)]	Adjustments for the acquisition	Adjustments for the divestitures[(g)]	Adjustments for the financing	Pro form
venues	$ 879,284	$ 360,663	$ (3,776)[(b)]	(45,961)	$	$ 1,190,21
sts and expenses	(708,440)	(296,171)	(3,484)[(c)]	39,106		(968,98
oss profit	170,844	64,492	(7,260)	(6,855)		221,22
neral and administrative expenses	(42,192)	(12,346)	3,866(d)			(50,67
n (loss) on dispositions and impairment rges, net	(1,213)	1,627	5,447(e)	(450)		5,41
erating income	127,439	53,773	2,053	(7,305)		175,96
erest expense	(51,229)	(14,528)		363	(15,517)[(i)]	(80,91
s on early extinguishment of debt	(14,258)					(14,25
erest income	7,950					7,95
er (expense) income, net	(637)	5,843	(5,447)[(e)]			(24
ome from continuing operations before ome taxes	69,265	45,088	(3,394)	(6,942)	(15,517)	88,50
vision for income taxes	(27,073)	(18,193)	1,592(f)	2,716(h)	5,685(j)	(35,27
ome from continuing operations	$ 42,192	$ 26,895	$ (1,802)	$ (4,226)	$ (9,832)	$ 53,22
ome from continuing operations per share:						
ic	$ 0.14					$ 0.1
uted	$ 0.14					$ 0.1
erage common shares outstanding:						
ic	307,896					307,89
uted	311,986					311,98

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

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Unaudited pro forma condensed combined statement of operations

For the six months ended June 30, 2006

llars in thousands, except per share data)	SCI historical	Alderwoods historical[a]	Adjustments for the acquisition	Adjustments for the divestitures[g]	Adjustments for the financing	Pro form
venues	$ 873,143	$ 354,261	$ (531)[b]	$ (46,028)	$	$ 1,180,84
sts and expenses	(702,399)	(295,410)	(2,495)[c]	38,961		(961,34
oss profit	170,744	58,851	(3,026)	(7,067)		219,50
neral and administrative expenses	(42,929)	(32,557)	5,118[d]			(70,36
n (loss) on dispositions and impairment rges, net	(7,391)		(80)[e]	(99)		(7,57
erating income	120,424	26,294	2,012	(7,166)		141,56
erest expense	(53,337)	(12,949)		378	(16,463)[i]	(82,37
erest income	12,763					12,76
er income (expense), net	4,046	(129)	80[e]			3,99
ome from continuing operations before ome taxes	83,896	13,216	2,092	(6,788)	(16,463)	75,95
vision for income taxes	(31,282)	(7,318)	285[f]	2,685[h]	6,032[j]	(29,59
ome from continuing operations	$ 52,614	$ 5,898	$ 2,377	$ (4,103)	$ (10,431)	$ 46,35
ome from continuing operations per share:						
ic	$ 0.18					$ 0.1
uted	$ 0.18					$ 0.1
erage Common Shares outstanding:						
ic	293,580					293,58
uted	297,784					297,78

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

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Unaudited pro forma condensed combined statement of operations

For the twelve months ended June 30, 2006

lars in thousands, except per share data)	SCI historical	Alderwoods historical[a]	Adjustments for the acquisition	Adjustments for the divestitures[g]	Adjustments for the financing	Pro for
enues	$ 1,709,596	$ 742,512	$ (1,780)[b]	$ (94,318)	$	$ 2,356,(
s and expenses	(1,411,551)	(633,634)	(6,660)[c]	81,140		(1,970,7
s profit	298,045	108,878	(8,440)	(13,178)		385,3
eral and administrative expenses	(85,571)	(63,026)	9,003[d]			(139,5
(loss) on dispositions and impairment ges, net	(32,271)	(248)	(563)[e]	752		(32,3
rating income	180,203	45,604		(12,426)		213,3
est expense	(105,841)	(28,490)		710	(30,443)[i]	(164,(
est income	21,519					21,5
r income (expense), net	7,457	(1,310)	563[e]			6,7
me from continuing operations before me taxes	103,338	15,804	563	(11,716)	(30,443)	77,5
vision) benefit for income taxes	(37,442)	6,060	(13,564)[f]	4,607[h]	11,154[j]	(29,1
me from continuing operations	$ 65,896	$ 21,864	$ (13,001)	$ (7,109)	$ (19,289)	$ 48,3
me from continuing operations per share:						
c	$ 0.22					$ 0
ted	$ 0.22					$ 0
rage common shares outstanding:						
c	295,251					295,2
ted	299,804					299,8

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

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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:

(Dollars in thousands)	Year ended December 31, 2005	Six months ended June 30, 2005	Six months ended June 30, 2006	Twelve months ended June 30, 2006
Preneed funeral contracts (1)	(5,754)	(2,766)	(3,188)	(6,176)
Preneed cemetery contracts (2)	1,521	664	752	1,609
Cemetery revenue from the sale of unconstructed property (3)	(792)	(1,674)	1,905	2,787
Adjustment to revenue	$ (5,025)	$ (3,776)	$ (531)	$ (1,780)

(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:

(Dollars in thousands)	Year ended December 31, 2005	Six months ended June 30, 2005	Six months ended June 30, 2006	Twelve months ended June 30, 2006

Depreciation expense (1)	$	6,684	$	3,271	$	3,726	$	7,139
Intangible amortization expense (2)		(3,910)		(1,955)		(1,955)		(3,910)
Pension expense (3)		(415)		(208)		47		(160)
Cemetery costs from the sale of unconstructed property (4)		(67)		434		(600)		(1,101)
Cemetery property cost of sales (5)		(9,941)		(5,026)		(3,713)		(8,628)
Adjustment to costs and expenses	$	(7,649)	$	(3,484)	$	(2,495)	$	(6,660)

(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 this pro forma information, 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	Twelve Months Ended June 30, 2006
Interest expense on new borrowings:				
Senior notes due 2014 (1)	$ 19,375	$ 9,688	$ 9,688	$ 19,375
Senior notes due 2018 (2)	20,625	10,313	10,313	20,625
New senior credit facility				
Term loan (3)	11,850	5,925	5,925	11,850
Revolving credit facility (4)	2,227	1,114	1,114	2,227
Private placement debt securities (5)	15,800	7,900	7,900	15,800
Amortization of deferred financing costs (6)	$ 1,843	$ 902	$ 975	$ 1,916
Total interest expense on new borrowings	$ 71,720	$ 35,842	$ 35,915	$ 71,793
Less: historical interest expense and related amortization of deferred financing costs on extinguished borrowings:				
Alderwoods	$ 29,221	$ 13,824	$ 12,951	$ 28,348
SCI	13,002	6,501	6,501	13,002
Total historical interest expense and related amortization of deferred financing costs on extinguished borrowings	$ 42,223	$ 20,325	$ 19,452	$ 41,350
Adjustment to interest expense	$ 29,497	$ 15,517	$ 16,463	$ 30,443

(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	Twelve Months Ended June 30, 2006
Estimated outstanding balance	$ 250,000	$ 250,000	$ 250,000	$ 250,000
Assumed interest rate	7.75%	7.75%	7.75%	7.75%
Portion of year outstanding	100%	50%	50%	100%
Calculated interest	$ 19,375	$ 9,688	$ 9,688	$ 19,375
An increase or decrease of 25 basis points in interest rate would result in an interest expense increase or decrease of	$ 625	$ 313	$ 313	$ 625

(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	Twelve Months Ended June 30, 2006
Estimated outstanding balance	$ 250,000	$ 250,000	$ 250,000	$ 250,000
Assumed interest rate	8.25%	8.25%	8.25%	8.25%
Portion of year outstanding	100%	50%	50%	100%
Calculated interest	$ 20,625	$ 10,313	$ 10,313	$ 20,625
An increase or decrease of 25 basis points in interest rate would result in an interest expense increase or decrease of	$ 625	$ 313	$ 313	$ 625

(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	Twelve Months Ended June 30, 2006
Estimated outstanding balance	$ 150,000	$ 150,000	$ 150,000	$ 150,000
Assumed interest rate-3 month LIBOR (5.4% on September 13, 2006) plus 2.50%	7.90%	7.90%	7.90%	7.90%
Portion of year outstanding	100%	50%	50%	100%
Calculated interest	$ 11,850	$ 5,925	$ 5,925	$ 11,850
An increase or decrease of 25 basis points in interest rate would result in an interest expense increase or decrease of	$ 375	$ 188	$ 188	$ 375

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

	Year Ended December 31, 2005	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006	Twelve Months Ended June 30, 2006
Estimated outstanding balance	$ 30,100	$ 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%	7.40%
Portion of year outstanding	100%	50%	50%	100%
Calculated interest	$ 2,227	$ 1,114	$ 1,114	$ 2,227
An increase or decrease of 25 basis points in interest rate would result in an interest expense increase or decrease of	$ 75	$ 38	$ 38	$ 75

(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	Twelve Months Ended June 30, 2006
Estimated outstanding balance	$ 200,000	$ 200,000	$ 200,000	$ 200,000
Assumed interest rate-3 month LIBOR (5.4% on September 13, 2006) plus 2.50%	7.90%	7.90%	7.90%	7.90%
Portion of year outstanding	100%	50%	50%	100%
Calculated interest	$ 15,800	$ 7,900	$ 7,900	$ 15,800
An increase or decrease of 25 basis points in interest rate would result in an interest expense increase or decrease of	$ 500	$ 250	$ 250	$ 500

(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)).

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(4) Portions of 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. Except for historical information, the discussion in this section contains forward-looking statements that involve risks and uncertainties. Future results could differ materially from those discussed below. See the discussion under the caption FORWARD LOOKING INFORMATION.

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. The consummation of the acquisition is subject to certain customary conditions. The primary remaining condition to the consummation of the acquisition is the receipt of regulatory approval by the FTC. SCI believes that SCI and Alderwoods will obtain the required regulatory approval and satisfy the other closing conditions in October 2006 and intends to consummate the acquisition and related transactions as soon as practicable thereafter. However, there can be no assurance that SCI and Alderwoods will obtain such approvals or satisfy the other conditions to consummation of the acquisition on such schedule or at all. We refer to the acquisition and the related transactions, including the issuance of notes in the Offering, 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 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 current report, 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, immedia 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.

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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.

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.

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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.

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:

(Dollars in millions)	Estimated annual cost savings	
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.

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.

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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, 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

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