CITRIX SYSTEMS INC
Form S-8
August 08, 2011

Registration No. 333-

As filed with the Securities and Exchange Commission on August 8, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-8

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Citrix Systems, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**75-2275152**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

851 West Cypress Creek Road

Fort Lauderdale, Florida 33309

(Address of Principal Executive Offices) (Zip Code)

Kaviza Inc. Amended and Restated 2008 Stock Incentive Plan (As Amended)

Kaviza Inc. 2010 Restricted Stock Unit Plan

Cloud.com, Inc. Amended and Restated 2008 Stock Incentive Plan

Cloud.com, Inc. 2011 Restricted Stock Unit Plan

Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan (As Amended)

(Full Title of the Plan)

David R. Friedman

Senior Vice President, Human Resources and General Counsel

Citrix Systems, Inc.

851 West Cypress Creek Road

Fort Lauderdale, Florida 33309

(Name and Address of Agent for Service of Process)

(954) 267-3000

(Telephone Number, Including Area Code, of Agent For Service)

Copies to:

Stuart M. Cable, Esq.

Goodwin Procter LLP

Exchange Place

53 State Street

Boston, Massachusetts 02109

Tel: (617) 570-1000

Fax: (617) 523-1231

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x | Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered (6)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $.001 par value (1)	33,301	$1.36 (7)	$45,290 (7)	$5.26
Common Stock, $.001 par value (2)	88,687	$65.49 (8)	$5,808,112 (8)	$674.33
Common Stock, $.001 par value (3)	183,780	$0.04 (7)	$7,352 (7)	$0.86
Common Stock, $.001 par value (4)	288,742	$65.49 (8)	$18,909,714 (8)	$2,195.42
Common Stock, $.001 par value (5)	5,500,000	$65.49 (8)	$360,195,000(8)	$41,818.64
Total	6,094,510		$384,965,468.00	$44,695.00

(1) Pursuant to an Agreement and Plan of Merger, dated as of March 25, 2010 (the Kaviza Merger Agreement), by and among Citrix Systems, Inc. (the Registrant), Keever Acquisition Corporation, Kaviza Inc., the Stockholders and the Stockholder Representative, the Registrant assumed each unvested option under the Kaviza Inc. Amended and Restated 2008 Stock Incentive Plan (as amended, the Kaviza Plan) that was outstanding on May 20, 2011 having an exercise price per share less than or equal to the Per Share Merger Consideration (as defined in the Kaviza Merger Agreement). Effective May 20, 2011, the options issued under the Kaviza Plan and assumed by the Registrant pursuant to the Kaviza Merger Agreement are exercisable for 33,301 shares of the Registrant s Common Stock.

(2) Pursuant to the Kaviza Merger Agreement, the Registrant assumed all of the awards of restricted stock units under the Kaviza Inc. 2010 Restricted Stock Unit Plan (the Kaviza RSU Plan). Effective May 20, 2011, all of the restricted stock units issued under the Kaviza RSU Plan were converted into the right to receive up to 88,687 shares of the Registrant s Common Stock.

(3) Pursuant to an Agreement and Plan of Merger, dated as of June 22, 2011 (the Cloud.com Merger Agreement), by and among the Registrant, Continuum Acquisition, Cloud.com, Inc. and the Stockholder Representative (as defined therein), the Registrant assumed each unvested option under the Cloud.com, Inc. Amended and Restated 2008 Stock Incentive Plan (the Cloud.com Plan) that was outstanding on July 8, 2011. Effective July 8, 2011, the unvested options issued under the Cloud.com Plan and assumed by the Registrant pursuant to the Cloud.com Merger Agreement are exercisable for 183,780 shares of the Registrant s Common Stock.

(4) Pursuant to the Cloud.com Merger Agreement, the Registrant assumed all of the awards of restricted stock units under the Cloud.com, Inc. 2011 Restricted Stock Unit Plan (the Cloud.com RSU Plan). Effective July 8, 2011, all of the restricted stock units issued under the Cloud.com RSU Plan were converted into the right to receive up to 288,742 shares of the Registrant s Common Stock.

(5) Represents additional shares of the Registrant s Common Stock that may be issued pursuant to the Registrant s Amended and Restated 2005 Equity Incentive Plan (as amended, the 2005 Plan).

(6) This Registration Statement shall also cover any additional shares of Common Stock which become issuable under the Kaviza Plan, the Kaviza RSU Plan, the Cloud.com Plan, the Cloud.com RSU Plan or the 2005 Plan, as applicable, by reason of any stock dividend, stock split, recapitalization or other similar transaction effected without the receipt of consideration which results in an increase in the number of the outstanding shares of Common Stock of the Registrant.

(7) This estimate is made pursuant to Rule 457(h) under the Securities Act of 1933, as amended (the Securities Act), solely for the purpose of determining the registration fee. The price per share and aggregate offering price are based upon the exercise price of the related options granted under the Kaviza Plan or the Cloud.com Plan, as applicable.

(8) Estimated solely for the purpose of calculating the registration fee in accordance with Rules 457(h)(1) and 457(c) under the Securities Act and based upon the average of the high and low prices of the Common Stock reported on the Nasdaq Global Select Market on August 5, 2011.

NOTE

Solely with respect to the registration on this Registration Statement on Form S-8 of 5,500,000 additional shares of the common stock, par value $.001 per share (Common Stock), of Citrix Systems, Inc. (the Company or the Registrant) which may be acquired pursuant to the Registrant s Amended and Restated 2005 Equity Incentive Plan, as amended (the 2005 Plan), such securities subject to this Registration Statement are of the same class of the Registrant for which the Registrant previously filed Registration Statements on Form S-8 under the Securities Act. Accordingly, the contents of the Registrant s Registration Statement on Form S-8, File No. 333-125297, as filed with the Securities and Exchange Commission (the Commission) on May 27, 2005, the Registrant s Registration Statement on Form S-8, File No. 333-135521, as filed with the Commission on June 30, 2006, the Registrant s Registration Statement on Form S-8, File No. 333-147421, as filed with the Commission on November 15, 2007, the Registrant s Registration Statement on Form S-8, File No. 333-156266, as filed with the Commission on December 18, 2008, the Registrant s Registration Statement on Form S-8, File No. 333-161164, as filed with the Commission on August 7, 2009 and the Registrant s Registration Statement on Form S-8, File No. 333-168688, as filed with the Commission on August 9, 2010 are hereby incorporated by reference pursuant to General Instruction E to Form S-8. After giving effect to this Registration Statement, an aggregate of 43,100,000 shares of the Registrant s Common Stock have been registered for issuance pursuant to the 2005 Plan.

PART I

INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS

Item 1. Plan Information.

The documents containing the information specified in this Item 1 will be sent or given to participants as specified by Rule 428(b)(1) under the Securities Act. In accordance with the rules and regulations of the Commission and the instructions to Form S-8, such documents are not being filed with the Commission either as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424 under the Securities Act.

Item 2. Registrant Information and Employee Plan Annual Information.

The documents containing the information specified in this Item 2 will be sent or given to participants as specified by Rule 428(b)(1) under the Securities Act. In accordance with the rules and regulations of the Commission and the instructions to Form S-8, such documents are not being filed with the Commission either as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424 under the Securities Act.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.
The following documents filed by the Registrant with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), are incorporated by reference in this Registration Statement:

(a) The Registrant s Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Commission on February 24, 2011;

(b) The Registrant s Quarterly Reports on Form 10-Q for the quarter ended March 31, 2011, filed with the Commission on May 9, 2011 and for the quarter ended June 30, 2011, filed with the Commission on August 8, 2011;

(c) The Registrant s Current Report on Form 8-K filed with the Commission on June 2, 2011; and

(d) The section entitled Description of Registrant s Securities to be Registered contained in the Registrant s Registration Statement on Form 8-A, filed with the Commission pursuant to Section 12(g) of the Exchange Act on October 24, 1995.

All documents subsequently filed with the Commission by the Registrant pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, prior to the filing of a post-effective amendment which indicates that all securities offered herein have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this Registration Statement and to be a part hereof from the date of filing of such documents.

Item 4. Description of Securities.
Not applicable.

Item 5. Interest of Named Experts and Counsel.
Not applicable.

Item 6. Indemnification of Directors and Officers.
The Delaware General Corporation Law (the DGCL) and the Registrant s Amended and Restated Certificate of Incorporation, as amended (the Charter), provide for indemnification of the Registrant s directors and officers for liabilities and expenses that they may incur in such capacities. In general, directors and officers are indemnified with respect to actions taken in good faith in a manner reasonably believed to be in, or not opposed to, the best interests of the Registrant, and with respect to any criminal action or proceeding, actions that the director or officer had no reasonable cause to believe were unlawful.

Section 145 of the DGCL makes provision for the indemnification of officers and directors of corporations in terms sufficiently broad to indemnify the officers and directors of the Registrant under certain circumstances from liabilities (including reimbursement of expenses incurred) arising under the Securities Act. Section 102(b)(7) of the DGCL permits a corporation to include in its certificate of incorporation a provision eliminating or limiting the personal liability of a director of the corporation to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for a breach of the director s duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) in respect of certain unlawful dividend payments or stock redemptions or repurchases, or (iv) for any transaction from which the director derived an improper personal benefit.

As permitted by the DGCL, the Charter provides that no director of the Registrant shall be personally liable to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director notwithstanding any provision of law imposing such liability, except to the extent provided by applicable law in the situations described in clauses (i) (iv), inclusive, set forth in the preceding paragraph. The effect of this provision of the Charter is to eliminate the rights of the Registrant and its stockholders (through stockholders derivative suits on behalf of the Registrant) to recover monetary damages against a director for breach of fiduciary duty as a director thereof, except in limited circumstances proscribed by law. This provision will not alter the liability of directors under federal securities laws.

The Charter also provides that the Registrant shall indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Registrant), by reason of the fact that he is or was, or has agreed to become, a director or officer of the Registrant, or is or was serving, or has agreed to serve, at the request of the Registrant, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorney s fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Registrant, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful; provided, that the Registrant shall not indemnify any such person seeking indemnification in connection with a proceeding initiated by such person unless the initiation thereof was approved by the Board of Directors of the Registrant or unless the corporation otherwise determines that such person is entitled to indemnification following such person s written request therefor. The Charter further provides that the Registrant shall similarly indemnify such persons made party to any threatened, pending or completed action or suit by or in the right of the Registrant to procure a judgment in its favor, against such expenses, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Registrant unless and only to the extent that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of such liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of Delaware or such other court shall deem proper.

The Charter also provides that, if the Registrant does not assume the defense of any claim of which the Registrant receives notice by a person seeking indemnification (each, an Indemnitee), any expenses incurred by an Indemnitee in defending a civil or criminal action, suit, proceeding or investigation or any appeal therefrom shall be paid by the Registrant in advance of the final disposition of such matter; provided, that the payment of such expenses shall be made only upon receipt of an undertaking by or on behalf of the Indemnitee to repay all amounts so advanced in the event that it shall ultimately be determined that the Indemnitee is not entitled to be indemnified by the Registrant as authorized by the Charter.

The Charter also provides that the indemnification and advancement of expenses described above shall not be deemed exclusive of any other rights to which an Indemnitee seeking indemnification or advancement of expenses may be entitled under any law, agreement or vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in any other capacity while holding office for the Registrant, and shall continue as to an Indemnitee who has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of the Indemnitee. In addition, the Charter specifically authorizes the Registrant to enter into agreements with officers and directors providing indemnification rights and procedures different from those set forth in the Charter and, to the extent authorized from time to time by its Board of Directors, grant indemnification rights to other employees or agents of the Registrant or other persons serving the Registrant.

The Registrant has also entered into indemnification agreements with each of its directors and executive officers. The indemnification agreements provide, among other matters, that the Registrant indemnify the directors and executive officers to the fullest extent permitted by law, advance to the directors and executive officers all related expenses (subject to reimbursement if it is subsequently determined that indemnification is not permitted), and reimburse the directors and executive officers for expenses as a witness or in connection with a subpoena for a proceeding in which such director or executive officer is not a party.

The Registrant has obtained director and officer liability insurance for the benefit of its directors and officers.

Item 7. Exemption from Registration Claimed.

Not applicable.

Item 8. Exhibits.

Exhibit No.	Description of Exhibit
Exhibit 4.1(1)	Amended and Restated Certificate of Incorporation
Exhibit 4.2(2)	Certificate of Amendment of Amended and Restated Certificate of Incorporation
Exhibit 4.3(3)	Amended and Restated By-laws of the Company
Exhibit 4.4(4)	Amendment No. 1 to Amended and Restated By-laws
Exhibit 4.5(5)	Specimen certificate representing the Common Stock
Exhibit 5.1	Opinion of Goodwin Procter LLP
Exhibit 23.1	Consent of Independent Registered Public Accounting Firm
Exhibit 23.2	Consent of Goodwin Procter LLP (included in Exhibit 5.1 and incorporated herein by reference)
Exhibit 24.1	Power of Attorney (included as part of the signature page to this Registration Statement)
Exhibit 99.1	Kaviza Inc. Amended and Restated 2008 Stock Incentive Plan
Exhibit 99.2	First Amendment to Kaviza Inc. Amended and Restated 2008 Stock Incentive Plan
Exhibit 99.3	Kaviza Inc. 2010 Restricted Stock Unit Plan
Exhibit 99.4	Cloud.com, Inc. Amended and Restated 2008 Stock Incentive Plan
Exhibit 99.5	Cloud.com, Inc. 2011 Restricted Stock Unit Plan

Exhibit 99.6(6)	Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan
Exhibit 99.7(7)	First Amendment to Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan
Exhibit 99.8(8)	Second Amendment to Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan
Exhibit 99.9(9)	Third Amendment to Citrix Systems, Inc. Amended and Restated 2005 Equity Incentive Plan

(1) Incorporated herein by reference to Exhibit 3.2 to the Company s Registration Statement on Form S-1 (File No. 33-98542), as amended.
(2) Incorporated herein by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Commission on February 27, 2008 (File No. 000-27084).
(3) Incorporated herein by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K dated as of December 12, 2007 (File No. 000-27084).
(4) Incorporated herein by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K dated as of February 20, 2009 (File No. 000-27084).
(5) Incorporated herein by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-1 (File No. 33-98542), as amended.
(6) Incorporated herein by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 000-27084).
(7) Incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated as of May 28, 2010 (File No. 000-27084).
(8) Incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated as of June 2, 2011 (File No. 000-27084).
(9) Incorporated herein by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K dated as of June 2, 2011 (File No. 000-27084).

Item 9. Undertakings.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective Registration Statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Fort Lauderdale, in the State of Florida, on this 8th day of August, 2011.

CITRIX SYSTEMS, INC.

By: /s/ Mark B. Templeton
Mark B. Templeton
President and Chief Executive Officer

POWER OF ATTORNEY AND SIGNATURES

We, the undersigned officers and directors of Citrix Systems, Inc., hereby severally constitute and appoint Mark B. Templeton and David J. Henshall, and each of them singly, our true and lawful attorneys, with full power to sign for us in our names in the capacities indicated below, any amendments to this Registration Statement on Form S-8 (including post-effective amendments), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and generally to do all things in our names and on our behalf in our capacities as officers and directors to enable Citrix Systems, Inc., to comply with the provisions of the Securities Act of 1933, as amended, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Registration Statement and all amendments thereto.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities below on the 8th day of August, 2011.

Name	Title(s)
/s/ Mark B. Templeton	President, Chief Executive Officer and Director
Mark B. Templeton	(Principal Executive Officer)
/s/ Thomas F. Bogan	Chairman of the Board of Directors
Thomas F. Bogan	
	Director
Nanci Caldwell	
/s/ Murray J. Demo	Director
Murray J. Demo	
/s/ Stephen M. Dow	Director
Stephen M. Dow	
/s/ Asiff Hirji	Director
Asiff Hirji	
/s/ Gary E. Morin	Director
Gary E. Morin	
/s/ Godfrey R. Sullivan	Director
Godfrey R. Sullivan	
/s/ David J. Henshall	Senior Vice President and Chief Financial Officer
David J. Henshall	(Principal Financial and Principal Accounting Officer)

INDEX TO EXHIBITS

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fore:always">Table of Contents

SERVICE CORPORATION INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

		Restated (note 2)
Deferred charges and other assets:		
Covenants-not-to-compete, net	$ 73,240	$ 77,549
Cemetery deferred selling expense, net		212,397
Funeral deferred selling expense, net		99,371
Investments, net	9,218	35,752
Restricted cash	12,056	26,707
Notes receivable, net	21,567	41,302
Other	133,500	138,761
	$ 249,581	$ 631,839

Included in *Receivables, net* on the Company s consolidated balance sheet is funeral and cemetery atneed allowances for doubtful accounts of approximately $11,835 and $12,572 at December 31, 2005 and 2004, respectively.

Included in *Receivables, net* in the consolidated balance sheet is $131 and $138 of notes with employees of the Company and other related parties at December 31, 2005 and 2004, respectively. Interest rates on notes receivable range from 0% to 18% as of December 31, 2005.

	December 31,	
	2005	2004
	(Restated) note 2	(Restated) note 2
Accounts payable and accrued liabilities:		
Accounts payable	$ 41,160	$ 46,271
Accrued compensation	57,528	31,296
Litigation matters	6,850	4,280
Restructuring liability	7,375	10,663
Accrued dividend	7,415	
Accrued interest	17,149	19,883
Self insurance	49,084	47,480
Accrued trust expenses	13,101	4,704
Other accrued liabilities	32,031	56,658
	$ 231,693	$ 221,235

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31,	
	2005	2004
	(Restated) note 2	(Restated) note 2
Other liabilities:		
Accrued pension	$ 55,642	$ 50,556
Deferred compensation	11,352	17,729
Customer refund obligation reserve	66,118	74,410
Trust related debt		76,926
Tax liability	104,981	104,981
Indemnification liability	26,750	44,480
Other	62,142	68,216
	$ 326,985	$ 437,298

Goods and Services

In prior periods, certain costs, specifically salaries and facility costs, were allocated based upon each of the respective segments revenue components within goods and services.

During 2005, the Company has further refined its allocation of the costs described above to more accurately reflect the cost of goods and services for its funeral and cemetery segments. Such costs are now allocated based on an hourly factor which represents the average amount of time spent by employees when selling or providing goods and services to a consumer. The Company has made certain disclosure reclassifications to prior years to conform to the current period presentation. The disclosure reclassifications made to prior years to conform to the current period presentation have no effect on the Company s consolidated financial position, results of operations or statement of cash flows.

F-90

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The detail of certain income statement accounts is as follows for the years ended December 31,

	2005 (Restated) note 2	2004 (Restated) note 2	2003 (Restated) note 2
North America good and services revenues			
Goods			
Funeral	$ 501,794	$ 505,170	$ 488,987
Cemetery	380,990	388,683	381,381
Total goods	882,784	893,853	870,368
Services			
Funeral	613,430	585,854	626,487
Cemetery	146,035	141,934	146,574
Total services	759,465	727,788	773,061
North America goods and services revenues	1,642,249	1,621,641	1,643,429
International revenues	11,793	140,962	597,127
Other revenues	61,695	68,622	72,621
Total revenues	$ 1,715,737	$ 1,831,225	$ 2,313,177
North America goods and services costs			
Goods			
Funeral	$ 193,650	$ 190,971	$ 186,643
Cemetery	158,708	162,797	169,207
Total cost of goods	352,358	353,768	355,850
Services			
Funeral	371,618	351,302	360,023
Cemetery	96,872	99,646	105,448
Total cost of services	468,490	450,948	465,471
North America goods and services costs	820,848	804,716	821,321
International costs and expenses	10,334	127,720	525,907
Overhead and other expenses	586,410	568,775	609,739
Total cost and expenses	$ 1,417,592	$ 1,501,211	$ 1,956,967

F-91

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain Non-Cash Transactions

	Years Ended December 31,		
	2005	2004	2003
		(Restated) note 2	(Restated) note 2
Changes to minimum liability under retirement plans	$	$ (36,636)	$ 81
Debenture conversions to common stock	$	$ 217,154	$
Common stock contributions to employee 401(k)	$	$ 18,127	$ 17,378
StoneMor partnership units received in disposition	$ 5,900	$	$
Dividends accrued	$ 7,415	$	$

Note Nineteen

Earnings Per Share

Basic (loss) earnings per common share (EPS) excludes dilution and is computed by dividing net (loss) income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the Company s (losses) earnings.

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the numerators and denominators of the basic and diluted EPS for the three years ended December 31 is presented below:

	2005	2004	2003
	(Restated) note 2	(Restated) note 2	(Restated) note 2
	(In thousands, except per share amounts)		
Income from continuing operations before cumulative effect of accounting changes (numerator):			
Income from continuing operations before cumulative effect of accounting changes basic	$ 55,474	$ 119,670	$ 69,265
After tax interest on convertible debt		6,400	
Income from continuing operations before cumulative effect of accounting changes diluted	$ 55,474	$ 126,070	$ 69,265
Net (loss) income (numerator):			
Net (loss) income basic	$ (127,941)	$ 110,661	$ 85,074
After tax interest on convertible debt		6,400	
Net (loss) income diluted	$ (127,941)	$ 117,061	$ 85,074
Weighted average shares (denominator):			
Weighted average shares basic	302,213	318,737	299,801
Stock options	4,399	4,091	989
Convertible debt		21,776	
Restricted stock	133	71	
Weighted average shares diluted	306,745	344,675	300,790
Income per share from continuing operations before cumulative effect of accounting changes:			
Basic	$ .19	$ .38	$ .23
Diluted	$ .18	$ .37	$ .23
Income per share from discontinued operations per share, net of tax:			
Basic	$ .01	$ .13	$ .05
Diluted	$ .01	$ .12	$ .05
Cumulative effect of accounting changes per share, net of tax:			
Basic	$ (.62)	$ (.16)	$
Diluted	$ (.61)	$ (.15)	$
Net (loss) income per share:			
Basic	$ (.42)	$ .35	$ .28
Diluted	$ (.42)	$ .34	$ .28

F-93

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The computation of diluted (loss) earnings per share excludes outstanding stock options and convertible debt in certain periods in which the inclusion of such options and debt would be antidilutive in the periods presented. Total options and convertible debentures not currently included in the computation of dilutive (loss) earnings per share for the respective periods are as follows:

	2005	2004	2003
Antidilutive options	7,039	9,559	22,097
Antidilutive convertible debentures	644	859	47,096
Total common stock equivalents excluded from computations	7,683	10,418	69,193

Note Twenty

Gains and Impairment (Losses) on Dispositions, Net and Other Operating Expense

As dispositions occur in the normal course of business, gains or losses on the sale of such businesses are recognized in the income statement line item *Gains and impairment (losses) on disposition, net.* Additionally, as dispositions occur pursuant to the Company s ongoing asset sale programs, adjustments are made through this income statement line item to reflect the difference between actual proceeds received from the sale compared to the original estimates.

Gains and impairments (losses) on dispositions, net consists of the following for the years ended December 31:

	2005	2004	2003
Gains on dispositions	$ 68,167	$ 66,966	$ 75,188
Impairment losses on assets held for sale	(105,867)	(49,970)	(38,247)
Changes to previously estimated impairment losses	11,607	8,801	13,736
	$ (26,093)	$ 25,797	$ 50,677

During the fourth quarter of 2005, the Company entered into negotiations to dispose of three cemetery locations in Maryland. Based on the terms of these negotiations, the Company recorded an impairment loss of $12,892.

The Company incurred various charges related to impairment losses associated with planned divestitures of certain North America and international funeral service and cemetery businesses and reductions in the carrying values of equity investments from 1999 through 2002. The reserve activity for the years ended December 31, 2005 and 2004 is as follows:

2005 Activity

	Original Charge Amount	Balance at December 31, 2004	Utilization for Year Ended December 31, 2005		Balance at December 31, 2005
			Cash	Non-cash	

Fourth quarter 1999 charges	$	272,544	$	10,801	$	5,685	$	(199)	$	5,315
2001 charges		663,548		1,782		505		(127)		1,404
2002 charges		292,979		16,454		4,533		96		11,825
	$	1,229,071	$	29,037	$	10,723	$	(230)	$	18,544

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2004 Activity

	Original Charge Amount	Balance at December 31, 2003	Utilization for Year Ended December 31, 2004 Cash	Non-cash	Balance at December 31, 2004
Fourth quarter 1999 charges	$ 272,544	$ 18,282	$ 7,286	$ 195	$ 10,801
2001 charges	663,548	3,102	509	811	1,782
2002 charges	292,979	24,395	6,205	1,736	16,454
	$ 1,229,071	$ 45,779	$ 14,000	$ 2,742	$ 29,037

The majority of the remaining balance at December 31, 2005 of these original charge amounts relates to actions already taken by the Company associated with severance costs and terminated consulting and/or covenant-not-to-compete contractual obligations, all of which will be paid by 2012. Of the $18,544 remaining liability at December 31, 2005, $5,822 is included in *Accounts payable and accrued liabilities* and $12,722 is included in *Other liabilities* in the consolidated balance sheet based on the expected timing of payments. The Company continues to adjust the estimates of certain items included in the original charge amounts as better estimates become available or actual divestitures occur.

Sale of Operations in Chile

In September 2005, the Company completed the sale of its cemetery operations in Chile for proceeds of approximately $106,370. The Company received net cash proceeds of $90,421 upon completion of the sale and expects to receive additional cash proceeds of CLP 8,200,226 or approximately $15,949 in 2006. The Company recognized a pre-tax gain of $249 in *Income from discontinued operations* in its consolidated statement of operations as a result of this transaction. Included in this gain is a foreign currency gain of $618 on the expected cash proceeds.

Sales of Assets to StoneMor Partners LP

In November 2005, the Company sold 21 cemeteries and six funeral homes to StoneMor Partners LP for $12,748. In the third quarter of 2005, the Company had classified these properties as held for sale and recorded an impairment charge in *(Loss) gain on early extinguishment of debt, net* in its consolidated statement of operations of approximately $19,589, net of a tax benefit of $10,450 in its consolidated statement of operations. In connection with this sale, the Company received $6,848 in cash and 280,952 StoneMor Limited Partner units, valued at $5,900 in November of 2005. The StoneMor Limited Partner units are recorded at cost in *Other current assets* in the consolidated balance sheet at December 31, 2005. Subsequent to December 31, 2005, the Company disposed of its investment in StoneMor Limited Partners LP units for $6,026, resulting in a pretax gain of $126.

Sale of Argentina and Uruguay Operations

During the second quarter of 2004, the Company recorded an impairment of its funeral and cemetery operations in Argentina totaling $15,189 in *Income from discontinued operations* in its consolidated statement of operations. As a result of the sale of the Argentina and Uruguay businesses in the first quarter of 2005, the Company recorded a gain of $2,041 in *Income from discontinued operations* in the consolidated statement of operations for the year ended December 31, 2004 associated with the revised estimated fair value. The new carrying amount reflected the fair value based on then-current market conditions less estimated costs to sell. Additionally, the Company recognized a non-cash tax benefit of $49,236 in discontinued operations during the second quarter of 2004, which represents the reduction of a previously recorded valuation allowance. The Company also recognized an additional tax benefit of $2,629

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in discontinued operations during the fourth quarter of 2004, which represents the revised estimated fair value and differences between book and tax bases. In the first quarter of 2005, the Company received proceeds of $21,597 related to the sale of its former operations in Argentina and Uruguay.

Sale of French Operations

In March 2004, the Company sold 100% of the stock of its French subsidiary to a newly formed company (NEWCO). In connection with this sale, the Company acquired a 25% share of the voting interest of NEWCO, received cash proceeds of $281,667, net of transaction costs, and received a note receivable in the amount of EUR 10,000. Also received in this transaction were EUR 15,000 of preferred equity certificates and EUR 5,955 of convertible preferred equity certificates. The sale of stock of the Company s French subsidiary in March 2004 resulted in a pretax gain of $12,639 and a non-cash tax benefit of $24,929 (described below), resulting in an after tax gain of $37,568. The Company accounted for the sale of its French subsidiary in accordance with the guidance set forth in EITF 01-2, *Interpretations of APB Opinion No. 29*, Issues 8(a) and 8(b). Consequently, the Company deferred approximately 25% of the gain associated with the sale of its French subsidiary representing the economic interest it obtained in that subsidiary through its ownership of approximately 25% of NEWCO.

In July 2004, the Company paid $6,219 pursuant to the joint venture agreement, as a purchase price adjustment, which reduced the pretax gain to $6,420 and reduced the after tax gain to $33,624 as summarized below.

	Original Calculation Q1 2004	Adjustment in Q2 2004	Total
Pretax gain (loss)	$ 12,639	$ (6,219)	$ 6,420
Tax benefit	(24,929)	(2,275)	(27,204)
After tax gain (loss)	$ 37,568	$ (3,944)	$ 33,624

The $24,929 non-cash tax benefit associated with the sale of the Company s French subsidiary is primarily attributable to the reduction of $18,610 of tax accruals, which were accrued as an indemnification liability upon the sale of the Company s French subsidiary. The remaining amount of $6,319 was a non-cash tax benefit associated with the difference between book and tax bases.

Included in the pretax gain, the Company recognized $35,768 of contractual obligations related to representation and warranties and other indemnifications resulting from the joint venture contract. During 2004, $2,400 in charges were applied to the indemnification and related primarily to foreign taxes and legal expenses. The Company applied $2,105 to the indemnifications during 2005. In the fourth quarter of 2005, the Company released tax indemnification liabilities of approximately $7,125. For more information regarding these representations and warranties and other indemnifications, see note fourteen. Also, goodwill in the amount of $23,467 was removed from the Company s consolidated balance sheet as a result of this transaction.

NEWCO completed refinancings in May 2005 and July 2005 in order to reduce its cost of debt. Included in this refinancing was the repayment of the note payable to the Company plus interest and the redemption of the Company s investment in preferred equity certificates and convertible preferred equity certificates and associated interest, which were received in the original disposition. In the second quarter of 2005, the Company received $32,070 related to the note payable and preferred equity certificates with associated interest of $3,064. In the third quarter of 2005, the Company received additional proceeds of $7,604 on convertible preferred equity certificates. The Company s investment in common stock and 25% voting interest remain unchanged following this transaction.

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Proceeds from Investment in United Kingdom Company and Others

During the second quarter of 2004, the Company received proceeds of $53,839 from the sale of its minority interest equity investment in the United Kingdom and the prepayment of its note receivable, with accrued interest, following a successful public offering transaction of its United Kingdom company.

Associated with the disposition, the Company recognized income of $41,163, recorded in *Gains and impairment (losses) on dispositions, net*, in the consolidated statement of operations ($27,179 to adjust the carrying amount of the receivable from its former United Kingdom company to its realizable value and $13,984 as a pretax gain as a result of the sale). This pretax gain was reduced by an accrual for the tax-related indemnification liabilities of $8,000. In addition, the Company recognized interest income on the receivable in the amount of $4,478 and a foreign currency gain of $198 recorded in *Other income, net* in the consolidated statement of operations and recognized a non-cash tax benefit of $8,000 recorded in *Gains and impairment (losses) on disposition, net* in the consolidated statement of operations. This pretax gain is attributable to the reduction of the tax related accrual upon the release of a contingency, which was accrued as an indemnification liability in the second quarter of 2004.

The most significant items in 2003 related to the Company selling its equity investments in Australia and Spain for gains of $45,776 and $8,090, respectively.

Other Operating Expense

For the year ended December 31, 2003, the Company recorded *Other operating expenses* of $9,004, primarily consisting of $6,859 of severance costs for former employees. The charges related to 350 employees involuntarily terminated in North America, were in accordance with the Company s existing post-employment severance policies.

Note Twenty-One

Discontinued Operations

During the first quarter of 2005, the Company disposed of its funeral and cemetery operations in Argentina and Uruguay. During the third quarter of 2005, the Company also disposed of its cemetery operations in Chile. Accordingly, the operations in these countries are classified as discontinued operations for all periods presented.

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has fully hedged an income tax receivable denominated in Chilean pesos; therefore, the Company has no foreign exchange rate risk associated with this receivable. The fair market value hedge, which is effective, is recorded at market value at December 31, 2005. Currency fluctuations associated with this hedge resulted in a gain of $389, net of a tax provision of $229, which is included in *Income from discontinued operations* in the Company s consolidated statement of operations for the year ended December 31, 2005. This hedge will expire June 30, 2006. For more information on this hedge, see note twelve to these consolidated financial statements. The provision for income taxes during 2005 was negatively impacted by differences between book and tax bases related to the sale of the Company s operations in Chile. The benefit for income taxes in 2004 includes a non-cash tax benefit of $49,236, which represents the reduction of a previously recorded valuation allowance related to the sale of the Company s operations in Argentina. The results of the Company s discontinued operations for the years ended December 31, 2005, 2004 and 2003 were as follows:

	Years Ended December 31,		
	2005	**2004**	**2003**
Revenues	$ 22,891	$ 44,519	$ 38,111
Gains and impairment (losses) on dispositions, net	249	(13,148)	34
Costs and other expenses	(14,253)	(38,962)	(20,460)
Income (loss) from discontinued operations before income taxes	8,887	(7,591)	17,685
(Provision) benefit for income taxes	(4,764)	49,175	(1,876)
Income from discontinued operations	$ 4,123	$ 41,584	$ 15,809

As of December 31, 2005, the Company had no assets or liabilities related to discontinued operations. Net (liabilities) and assets of discontinued operations at December 31, 2004 were as follows:

Assets:	
Receivables, net of allowances	$ 3,084
Other current assets	8,001
Preneed cemetery receivables and trust investments	1,412
Property, plant and equipment, at cost, net	571
Deferred charges and other assets	2,384
Total assets	15,452
Liabilities:	
Accounts payable	(901)
Accrued liabilities and other current liabilities	(6,210)
Deferred income taxes	(13,190)
Other liabilities and deferred credits	(45,035)
Total liabilities	(65,336)

Net liabilities of discontinued operations		(49,884)
Foreign currency translation		67,213
Net assets of discontinued operations, net of foreign currency translation	$	17,329

F-98

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note Twenty-Two

Quarterly Financial Data (Unaudited)

The Company is restating herein its unaudited quarterly financial data for each of the interim periods of 2005 and 2004. See note two to the consolidated financial statements for further information relating to this restatement.

Quarterly financial data for 2005 and 2004 is as follows:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	As Reported	As Restated Note 2	As Reported	As Restated Note 2	As Reported	As Restated Note 2	As Reported	As Restated Note 2
2005								
Revenues	$ 447,442	447,442	$ 431,710	431,842	$ 406,369	$ 406,369	$ 430,084	$ 430,084
Costs and expenses	(350,215)	(349,642)	(359,367)	(358,798)	(348,094)	(347,526)	(359,102)	(361,626)
Gross profits	97,227	97,800	72,343	73,044	58,275	58,843	70,982	68,458
Operating income	71,770	72,352	54,377	55,087	11,076	11,653	50,699	48,126
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	48,755	48,988	19,916	20,277	(10,302)	(10,074)	32,438	29,516
(Provision) benefit for income taxes	(17,338)	(17,520)	(9,324)	(9,553)	1,131	885	(8,591)	(7,045)
Income (loss) from continuing operations before cumulative effect of accounting change	31,417	31,468	10,592	10,724	(9,171)	(9,189)	23,847	22,471
Cumulative effect of accounting change	(187,538)	(187,538)						
	(154,946)	(154,895)	13,705	13,837	(9,634)	(9,652)	24,145	22,769

Net (loss) income								
(Loss) earnings per share:								
Basic EPS	(.49)	(.49)	.05	.05	(.03)	(.03)	.08	.08
Diluted EPS	(.49)	(.49)	.04	.05	(.03)	(.03)	.08	.07

Table of Contents

SERVICE CORPORATION INTERNATIONAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	As Reported	As Restated Note 2	As Reported	As Restated Note 2	As Reported	As Restated Note 2	As Reported	As Restated Note 2
2004								
Revenues	$ 581,671	$ 581,671	$ 425,740	$ 425,740	$ 397,186	$ 397,186	$ 426,628	$ 426,628
Costs and expenses	(467,707)	(467,336)	(353,686)	(353,315)	(328,891)	(328,519)	(352,412)	(352,041)
Gross profits	113,964	114,335	72,054	72,425	68,295	68,667	74,216	74,587
Operating income	97,728	98,102	49,543	49,917	39,716	40,091	36,443	36,817
Income from continuing operations before income taxes and cumulative effects of accounting changes	72,226	72,255	2,784	2,812	17,362	17,391	19,534	19,562
Benefit (provision) for income taxes	4,184	4,092	7,329	7,264	(4,336)	(4,526)	1,017	820
Income from continuing operations before cumulative effects of accounting changes	76,410	76,347	10,113	10,076	13,026	12,865	20,551	20,382
Cumulative effects of accounting changes	(47,556)	(50,593)						
Net income	30,136	27,036	42,952	42,915	13,876	13,715	27,164	26,995
Earnings per share:								
Basic EPS	.10	.09	.14	.14	.04	.04	.08	.08
Diluted EPS	.10	.09	.14	.14	.04	.04	.08	.08

F-100

Table of Contents

SERVICE CORPORATION INTERNATIONAL
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
Three Years Ended December 31, 2005

Description	Balance at Beginning of Period	Charged (Credited) to Costs and Expenses	Charged (Credited) to Other Accounts(2)	Write-Offs(1)	Balance At End Of Period
Current provision:					
Allowance for doubtful accounts:					
Year ended December 31, 2005	$ 12,572	$ 9,470	$ (39)	$ (10,168)	$ 11,835
Year ended December 31, 2004	15,348	(3,376)	8,757	(8,157)	12,572
Year ended December 31, 2003	22,697	7,627	(720)	(14,256)	15,348
Due After One Year:					
Allowance for doubtful accounts:					
Year ended December 31, 2005	$ 33,362	$ (111)	$ (25,939)	$	$ 7,312
Year ended December 31, 2004	55,029	(21,502)	(165)		33,362
Year ended December 31, 2003	29,030	1,813	24,675	(489)	55,029
Preneed Funeral and Preneed Cemetery Asset:					
Year ended December 31, 2005	$ 53,340	$ (749)	$ 7,767	$	$ 60,358
Year ended December 31, 2004	387,150	(17,772)	(316,038)		53,340
Year ended December 31, 2003	357,761	17,466	11,923		387,150
Deferred Preneed Funeral and Cemetery Revenue:					
Year ended December 31, 2005	$ (112,290)	$	$ 288	$	$ (112,002)
Year ended December 31, 2004	(369,980)		257,690		(112,290)
Year ended December 31, 2003	(339,339)		(30,641)		(369,980)
Deferred Tax Valuation Allowance:					
Year ended December 31, 2005	$ 43,908	$ (9,079)	$	$	$ 34,829
Year ended December 31, 2004	35,859	8,049			43,908
Year ended December 31, 2003	156,372	2,966	(123,479)		35,859

(1) Uncollected receivables written off, net of recoveries.

(2) Primarily relates to cumulative effect of accounting change and acquisitions and dispositions of operations. Deferred tax valuation allowance in 2003 was reclassified to other deferred tax liabilities with no change to net deferred income taxes.

Table of Contents

ALDERWOODS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
Expressed in thousands of dollars
except number of shares

	June 17, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 8,400	$ 7,455
Receivables, net of allowances	51,244	52,862
Inventories	15,282	15,784
Other	8,325	6,885
	83,251	82,986
Pre-need funeral receivables and trust investments	338,052	334,427
Pre-need cemetery receivables and trust investments	301,621	307,322
Cemetery property	116,096	116,467
Property and equipment	540,954	542,901
Insurance invested assets	298,392	294,598
Deferred income tax assets	19,477	13,057
Goodwill	295,913	295,890
Cemetery perpetual care trust investments	243,980	243,805
Other assets	43,053	42,850
	$ 2,280,789	$ 2,274,303
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 113,984	$ 119,734
Current maturities of long-term debt	2,271	2,435
	116,255	122,169
Long-term debt	355,958	371,040
Deferred pre-need funeral and cemetery contract revenue	75,830	91,618
Non-controlling interest in funeral and cemetery trusts	564,447	548,497
Insurance policy liabilities	285,701	266,729
Deferred income tax liabilities	10,744	10,552
Other liabilities	28,471	21,983
	1,437,406	1,432,588
Non-controlling interest in perpetual care trusts	245,221	243,962
Stockholders equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 40,674,363 issued and outstanding (December 31, 2005 40,458,864)	407	405

Capital in excess of par value		745,670		743,126
Accumulated deficit		(167,749)		(172,405)
Accumulated other comprehensive income		19,834		26,627
		598,162		597,753
	$	2,280,789	$	2,274,303

See accompanying notes to the interim consolidated financial statements

F-102

Table of Contents

ALDERWOODS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
Expressed in thousands of dollars
except per share amounts and number of shares

	12 Weeks Ended		24 Weeks Ended	
	June 17, 2006	**June 18, 2005**	**June 17, 2006**	**June 18, 2005**
Revenue				
Funeral	$ 107,522	$ 110,501	$ 228,653	$ 234,514
Cemetery	41,505	43,914	79,336	82,218
Insurance	23,417	22,363	46,272	43,931
	172,444	176,778	354,261	360,663
Costs and expenses				
Funeral	87,421	90,416	182,783	184,529
Cemetery	35,281	36,640	68,438	69,824
Insurance	22,282	21,532	44,189	41,818
	144,984	148,588	295,410	296,171
	27,460	28,190	58,851	64,492
General and administrative expenses	18,042	1,702	32,557	12,346
Provision for asset impairment		(408)		(1,627)
	18,042	1,294	32,557	10,719
Income from operations	9,418	26,896	26,294	53,773
Interest on long-term debt (Note 3)	6,471	7,013	12,949	14,528
Other expense (income), net	285	(44)	129	(5,843)
Income before income taxes	2,662	19,927	13,216	45,088
Income taxes	2,509	7,001	7,318	18,193
Income from continuing operations	153	12,926	5,898	26,895
Loss from discontinued operations (Note 10)		(845)		(1,678)
Income before cumulative effect of change in accounting principle	153	12,081	5,898	25,217
Cumulative effect of change in accounting principle			(1,242)	
Net income	$ 153	$ 12,081	$ 4,656	$ 25,217
Basic earnings per Common share:				
Income from continuing operations	$	$ 0.32	$ 0.15	$ 0.67
Loss from discontinued operations		(0.02)		(0.04)

Cumulative effect of change in accounting principle			(0.03)	
Net income	$	$ 0.30	$ 0.12	$ 0.63
Diluted earnings per Common share:				
Income from continuing operations	$	$ 0.31	$ 0.14	$ 0.65
Loss from discontinued operations		(0.02)		(0.04)
Cumulative effect of change in accounting principle			(0.03)	
Net income	$	$ 0.29	$ 0.11	$ 0.61
Basic weighted average number of shares outstanding (thousands)	40,652	40,108	40,559	40,078
Diluted weighted average number of shares outstanding (thousands)	42,677	41,390	42,422	41,375

See accompanying notes to the interim consolidated financial statements

ALDERWOODS GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (unaudited)
Expressed in thousands of dollars except number of shares

	Shares	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2005	40,458,864	$ 405	$ 743,126	$ (172,405)	$ 26,627	$ 597,753
Comprehensive income:						
Net income				4,656		4,656
Other comprehensive income (loss):						
Foreign currency translation adjustment, net of income taxes of $nil					3,110	3,110
Unrealized loss on insurance invested assets, net of tax recovery of $5,419					(10,064)	(10,064)
Unrealized loss on derivatives, net of income taxes of $nil					805	805
Less: reclassification adjustments for realized gains on derivatives included in net income, net of income taxes of $nil					(644)	(644)
Comprehensive loss						(2,137)
Stock-based compensation			1,596			1,596
Common stock issued:						
Stock issued as compensation in lieu of cash	7,999		152			152
Stock issued under equity incentive plan	207,500	2	796			798
Balance at June 17, 2006	40,674,363	$ 407	$ 745,670	$ (167,749)	$ 19,834	$ 598,162

See accompanying notes to the interim consolidated financial statements

Table of Contents

ALDERWOODS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
Expressed in thousands of dollars

	12 Weeks Ended		24 Weeks Ended	
	June 17, 2006	**June 18, 2005**	**June 17, 2006**	**June 18, 2005**
CASH PROVIDED BY (APPLIED TO)				
Operations				
Net income	$ 153	$ 12,081	$ 4,656	$ 25,217
Loss from discontinued operations, net of tax		845		1,678
Cumulative effect of change in accounting principle			1,242	
Items not affecting cash				
Depreciation and amortization	9,756	10,958	19,266	21,095
Amortization of debt issue costs	453	745	908	1,650
Stock-based compensation	708		1,596	
Insurance policy benefit reserves	11,047	12,088	20,000	22,652
Provision for asset impairment		(408)		(1,627)
Gain on disposal of business assets	(774)	(72)	(958)	(5,903)
Deferred income taxes	469	6,303	(256)	12,749
Premium on long-term debt repurchase				282
Other, including net changes in other non-cash balances	(1,942)	(13,824)	(6,130)	(6,852)
Net cash provided by continuing operations	19,870	28,716	40,324	70,941
Net cash used in discontinued operations		(811)		(601)
	19,870	27,905	40,324	70,340
Investing				
Proceeds on disposition of business assets	872	670	2,907	11,158
Purchase of property and equipment	(4,718)	(11,709)	(9,473)	(16,314)
Purchase of insurance invested assets	(20,270)	(17,170)	(43,635)	(65,231)
Proceeds on disposition and maturities of insurance invested assets	9,301	9,712	25,276	47,491
Net cash used in continuing operations	(14,815)	(18,497)	(24,925)	(22,896)
Net cash provided by discontinued operations		6,744		7,906
	(14,815)	(11,753)	(24,925)	(14,990)
Financing				
Increase in long-term debt				5,151
Repayment of long-term debt	(5,521)	(22,136)	(15,247)	(59,208)
Issuance of Common stock	726	1,107	793	1,375
Net cash used in continuing operations	(4,795)	(21,029)	(14,454)	(52,682)
Net cash used in discontinued operations		(11)		(57)

	(4,795)	(21,040)	(14,454)	(52,739)
Increase (decrease) in cash and cash equivalents	260	(4,888)	945	2,611
Cash and cash equivalents, beginning of period	8,140	16,878	7,455	9,379
Cash and cash equivalents, end of period	$ 8,400	$ 11,990	$ 8,400	$ 11,990

See accompanying notes to the interim consolidated financial statements

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

NOTE 1. NATURE OF OPERATIONS

Alderwoods Group, Inc., a Delaware corporation (Alderwoods Group and, together with its subsidiaries unless the context otherwise requires, the Company), is the second-largest operator of funeral homes and cemeteries in North America based on total revenue and number of locations. As of June 17, 2006, the Company operated 579 funeral homes, 72 cemeteries and 61 combination funeral homes and cemeteries throughout North America.

The Company s funeral operations encompass making funeral and cremation arrangements on an at-need or pre-need basis. The Company s funeral operations offer a full range of funeral services, including the collection of remains, registration of death, professional embalming, use of funeral home facilities, sale of caskets and other merchandise and transportation to a place of worship, funeral chapel, cemetery or crematorium.

The Company s cemetery operations assist families in making burial arrangements and offer a complete line of cemetery products (including a selection of burial spaces, burial vaults, lawn crypts, caskets, memorials, niches, mausoleum crypts and other merchandise), the opening and closing of graves and cremation services.

The Company s insurance operations sell a variety of insurance products, primarily to fund pre-need funeral services.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The interim consolidated financial statements include the accounts of the Company, its subsidiary companies and operations controlled by the Company through sales and management agreements. All subsidiaries are wholly owned, except for a few companies with small minority interests. The interim consolidated financial statements also include the accounts of the funeral trusts, cemetery merchandise and service trusts and perpetual care trusts, and several pooled investment funds created for such trusts in which the Company has a variable interest and is the primary beneficiary.

All significant inter-entity balances and transactions have been eliminated in the interim consolidated financial statements. The interim consolidated financial statements have been prepared using the United States dollar and are presented in accordance with United States generally accepted accounting principles (GAAP).

The interim consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, which in management s opinion are necessary for a fair presentation of the financial results as of June 17, 2006, and for the 12 and 24 weeks ended June 17, 2006, and June 18, 2005. The interim consolidated financial statements have been prepared on a basis consistent with the accounting policies described in the Company s Annual Report on Form 10-K for the 52 weeks ended December 31, 2005, as filed with the U.S. Securities and Exchange Commission (SEC) 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

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Use of estimates

The preparation of the interim consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. As a result, actual amounts could significantly differ from those estimates.

Stock-based compensation plans

Director Compensation Plan

Pursuant to the Company s Director Compensation Plan (the Director Compensation Plan), each director of the Company who is not an employee of the Company or any of its subsidiaries has the option of receiving his or her annual base retainer and attendance fees in cash, Common Stock or a combination thereof. Further, each participant may elect to have Common Stock paid in the form of deferred Common Stock (Deferred Stock), which will be credited to a booking account in the name of the participant. The Deferred Stock is subject to a deferral period during which the participant has no right to transfer any rights under his or her Deferred Stock and has no other rights of ownership therein. The Company has reserved 100,000 shares of Common Stock for issuance as compensation in lieu of cash under the Director Compensation Plan.

Employee Stock Purchase Plan

In 2005, the Company s shareholders approved the adoption of a compensatory employee stock purchase plan to provide for the purchase on the open market of up to a maximum of 1,100,000 shares of Common Stock of the Company. Eligible employees may authorize payroll deductions of up to 5% of their regular base salary to purchase shares of Common Stock of the Company on the open market on a monthly basis. The Company will make a cash contribution to purchase shares of Common Stock of the Company as additional compensation to each participant equal to 50% of the employee s contribution for that month. For the 12 weeks ended June 17, 2006, a total of 19,062 shares were purchased and distributed to employees at an average price of $19.27 per share and compensation expense of $122,000 was incurred. For the 24 weeks ended June 17, 2006, a total of 47,096 shares were purchased and distributed to employees at an average price of $17.70 per share and compensation expense of $277,000 was incurred.

2005-2007 Executive Strategic Incentive Plan

The 2005-2007 Executive Strategic Incentive Plan, approved by the Board of Directors on July 21, 2005, is a performance based compensation plan designed to motivate and reward the senior management team for achieving shareholder value objectives. The plan provides cash awards to the senior executives based on the Company s Common Stock reaching the threshold of an average price of $17.00 for the period from December 1, 2007 to December 31, 2007. The amount of the cash award increases the more the stock price exceeds the $17.00 threshold target price. Each participant will be assigned a percentage share of an aggregate cash award incentive pool. Achieving an average stock price of $17.00 results in an aggregate cash award of $5,600,000. Achieving an average stock price of $18.00 results in an aggregate cash award of $8,000,000. The aggregate cash award increases by $1.6 million for every $1.00 in appreciation of the average stock price beyond $18.00. In the event of a change in control of the Company, the cash awards would be calculated based upon the stock price on the date of the change in control and become payable within 30 days of the change in control.

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

2005 Equity Incentive Plan

In April of 2005, the Company s shareholders approved the 2005 Equity Incentive Plan that permits the grant of (i) options to the employees and members of the Company s Board of Directors, with or without tandem appreciation rights, and (ii) restricted Common Stock units. A total of 1,800,000 shares of Common Stock are reserved for grant under the plan. Stock options are granted with an exercise price equal to the Common Stock s fair market value on the date of the grant. Stock options granted to date have a 3-year vesting period and vest at a rate of 25% on the first, 25% on the second and 50% on the third anniversaries of the date of grant.

The tandem appreciation rights entitle the employee to exchange the employee s option right for a number of shares equal in value to the appreciated value of the options. The exchange of the option for the tandem appreciation right requires an immediate exercise of the tandem appreciation right and will cause the immediate termination of the related option right. An exchange of an option right for a tandem appreciation right may only be made when the relevant option is otherwise exercisable. Although the options granted had an exercise price equal to or greater than the market value of the underlying Common Stock on the grant date, the number of shares to be issued upon exercise is not determinable as it is dependent upon the exchange of the option for a tandem appreciation right.

The restricted Common Stock units granted to date do not vest for the first three years following the date of grant. Thereafter, the restricted Common Stock units vest during years 3 to 10 based upon the share price of the Company s Common Stock. After three years of service, the restricted Common Stock units vest 70% at a $17 share price, and an additional 15% at a $17.50 share price and the final 15% at an $18 share price. Once granted, the restricted Common Stock units are not included in total shares outstanding and are not included in the weighted average number of common shares outstanding in each period used to calculate basic earnings per share until vested.

2002 Equity Incentive Plan

On January 2, 2002 the Company implemented the 2002 Equity Incentive Plan that permits the grants of stock options to the employees and members of the Company s Board of Directors. A total of 4,500,000 shares of Common Stock are reserved for grant under the plan. Stock options are granted with an exercise price equal to the stock s fair market value at the date of grant. Except in certain cases, stock options have a 3-year vesting period and vest at a rate of 25% on the first, 25% on the second and 50% on the third anniversaries of the date of grant.

Equity incentive plans and change in accounting policy

Prior to January 1, 2006, the Company accounted for employee stock-based awards under the intrinsic value method, which followed the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123R, Share-Based Payment (SFAS 123R). SFAS 123R requires measurement of compensation cost for employee stock-based awards based upon fair value over the requisite service period for awards expected to vest. Furthermore, under SFAS 123R, liability based awards are recorded at fair value through to their settlement date.

Pursuant to the provisions of SFAS 123R, the Company applied the modified-prospective transition method. Under this method, the fair value provisions of SFAS 123R are applied to new employee share-based payment awards granted or awards modified, repurchased or cancelled after December 31, 2005. Measurement and attribution of compensation cost for unvested awards at December 31, 2005, granted

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

prior to the adoption of SFAS 123R, are recognized based upon the provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), after adjustment for estimated forfeitures. Accordingly, SFAS 123R no longer permits pro-forma disclosure for income statement periods after December 31, 2005 and compensation expense will be recognized for all share-based payments earned after December 31, 2005 based on grant-date fair value.

The fair value of restricted stock units and the fair value of stock options are determined using the Black-Scholes valuation model, which is consistent with the valuation techniques previously utilized for options in the footnote disclosures required under SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. The Company recorded stock-based compensation expense for equity incentive plans of $708,000 and $1,596,000 for the 12 and 24 weeks ended June 17, 2006, respectively. This resulted in an adjustment to operating cash flows of $708,000 and $1,596,000 in the 12 and 24 weeks ended June 17, 2006, respectively. The tax benefit associated with compensation expense for the 12 weeks and 24 weeks ended June 17, 2006 is not significant and no option value has been capitalized.

Executive strategic incentive plan

Prior to the implementation of SFAS 123R, no compensation expense was recorded in the 52 weeks ended December 31, 2005 as the stock price at December 31, 2005 was less than the threshold target price for the Executive Strategic Incentive Plan.

With the adoption of SFAS 123R, this incentive plan is classified as a liability based award resulting in the measurement of the estimated fair value at each reporting date, until December 31, 2007 when the actual liability is determined and the award is settled. The Company records an expense equal to the portion of the fair value relative to the vesting term of the plan. The Company determines the fair value using a Monte Carlo model. This model uses term-to-expiry and stock price assumptions as at the measurement date, together with expected volatility, risk-free interest rate and dividend yield assumptions consistent with the valuation of the Company s stock options. The adoption of SFAS 123R resulted in a cumulative effect of change in accounting principle of $1,242,000, which reflects the estimated accrued liability as of January 1, 2006 (fair value of $6,624,000, based on a stock price of $15.87), the adoption date of SFAS 123R. Compensation expense of $1,511,000 and $2,964,000 in the 12 weeks and 24 weeks ended June 17, 2006, respectively, reflects the estimated accrued liability as of June 17, 2006 of $4,206,000 (fair value of $11,216,000, based on a stock price of $19.39).

Pro-forma disclosure

As a result of the adoption of SFAS 123R, for the 12 weeks ended June 17, 2006, income from continuing operations before income taxes was reduced by $2,208,000, income from continuing operations was reduced by $2,117,000, and net income was reduced by $2,117,000. For the 24 weeks ended June 17, 2006, income from continuing operations before income tax was reduced by $4,092,000, income from continuing operations was reduced by $4,068,000, and net income was reduced by $5,310,000. Basic and diluted earnings per share were both reduced by $0.05 and $0.13 for the 12 and 24 weeks ended June 17, 2006, respectively.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

As the Company adopted the modified prospective-transition method of SFAS 123R, results for the 12 and 24 weeks ended June 18, 2005 have not been restated. If prior to December 31, 2005, the Company had elected to recognize compensation expense for its stock option plans, based on the fair value of the awards at the grant dates in accordance with SFAS 123, net income and basic and diluted earnings per share would have changed for the 12 and 24 weeks ended June 18, 2005 to the following pro-forma amounts:

	12 Weeks Ended June 18, 2005	24 Weeks Ended June 18, 2005
Net income, as reported	$ 12,081	$ 25,217
Total stock-based employee compensation expense determined under fair value-based method, net of tax	(382)	(948)
Pro forma net income	$ 11,699	$ 24,269
Net income per Common share:		
Basic, as reported	$ 0.30	$ 0.63
Basic, pro forma	0.29	0.61
Diluted, as reported	0.29	0.61
Diluted, pro forma	0.28	0.59

The following is a summary of the total number of outstanding stock options and restricted Common Stock units under both plans:

	Outstanding Options	Weighted Average Exercise Price	Outstanding Non vested Restricted Common Stock Units	Weighted Average Exercise Price
	(thousands)	(dollars per Common share)	(thousands)	(dollars per Common share)
Balance at December 31, 2005	5,031	$ 10.75	237	$ 15.99
Granted				
Exercised	(207)	3.81		
Cancelled	(19)	13.36	(5)	15.99
Balance at June 17, 2006	4,805	$ 11.03	232	$ 15.99

The following table summarizes information about stock options outstanding at June 17, 2006:

Number	Weighted-Average Remaining	Weighted-Average	Number	Weighted-Average Exercise

Range of Exercise Prices		Outstanding	Contractual Life	Exercise Price	Exercisable	Price
(dollars per Common share)		(thousands)	(in years)	(dollars per Common share)	(thousands)	(dollars per Common share)
$3.65	$5.96	719	6.78	$ 3.65	719	$ 3.65
$5.97	$7.59	1,030	6.02	7.47	1,030	7.47
$7.60	$13.23	2,035	6.11	12.95	1,767	13.15
$13.24	$15.99	1,021	9.11	15.99		
		4,805	6.83	11.03	3,516	9.55

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

As of June 17, 2006, the aggregate intrinsic value for stock options outstanding and exercisable was $40,151,000 and $34,610,000, respectively.

For the 24 weeks ended June 17, 2006, cash received from the exercise of stock options was $790,000. As of June 17, 2006, the unrecognized compensation expense related to stock options totaling $8,765,000 is expected to be recognized over a weighted average period of 1.3 years.

Other information pertaining to option activity is as follows:

	12 Weeks Ended		24 Weeks Ended	
	June 17, 2006	**June 18, 2005**	**June 17, 2006**	**June 18, 2005**
Total fair value of stock options vested	$ 821	$ 398	$ 1,776	$ 1,209
Total intrinsic value of stock options exercised	3,140	498	3,202	686

The fair value of stock options used to compute the pro forma net income and income per Common share disclosures was calculated as of the grant date. To calculate fair value, the Company used the Black-Scholes option-pricing model with the following assumptions:

	12 Weeks Ended		24 Weeks Ended	
Weighted-average assumptions	**June 17, 2006**	**June 18, 2005**	**June 17, 2006**	**June 18, 2005**
Dividend yield	n/a	0.0%	n/a	0.0%
Expected volatility	n/a	45.0%	n/a	45.0%
Risk-free interest rate	n/a	3.64%	n/a	3.64%
Expected option life in years	n/a	5.0	n/a	5.0
Weighted average grant date fair value	n/a	$ 6.70	n/a	$ 6.70

During the 24 weeks ended June 17, 2006, the Company did not issue stock options.

The Company uses the Black-Scholes option-pricing model for estimating the fair value of its stock options. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected price volatility and option life. The expected option life is based on the Predecessor s historical experience as well as the vesting periods and terms of the stock options. The Company uses expected volatility rates, which are based on a combination of the Company s historical volatility rates, plus the historical volatility rates of other companies in the death care industry, trended into future years. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company s stock options.

Comparability

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

NOTE 3. LONG-TERM DEBT

Long-term debt consists of the following:

	June 17, 2006	December 31, 2005
Revolving credit facility(a)	$	$ 4,000
Senior secured term loan B due in 2009(a)(b)	151,683	161,683
7.75% Senior unsecured notes due in 2012(c)	200,000	200,000
Promissory notes and capitalized obligations, certain of which are secured by assets of certain subsidiaries	6,546	7,792
	358,229	373,475
Less, current maturities of long-term debt	2,271	2,435
	$ 355,958	$ 371,040

(a) In 2003, the Company entered into a senior secured facility (the Credit Agreement), which after subsequent amendments, includes a $368,000,000 Senior Secured Term Loan B due September 29, 2009 (the Term Loan B) and a $75,000,000 revolving credit facility (the Revolving Credit Facility), of which $35,000,000 is available in the form of letters of credit.

The Revolving Credit Facility is intended to be used primarily to fund the Company s working capital requirements. The Revolving Credit Facility bears interest at a rate per annum in accordance with graduated pricing based upon the Company s consolidated leverage ratio, and the Company has the option to elect an interest rate equal to either (i) a base rate (8.00% at June 17, 2006), plus 1.75% (based upon the Company s consolidated leverage ratio at June 17, 2006), or (ii) LIBOR (5.42% for the three-month LIBOR at June 17, 2006), plus 2.75% (based upon the Company s consolidated leverage ratio at June 17, 2006). An annual fee of 0.50% is charged on the unused portion of the Revolving Credit Facility. The Revolving Credit Facility matures on September 29, 2008.

Material covenants in the Credit Agreement include a requirement to maintain a minimum interest coverage ratio and fixed charge coverage ratio, a requirement not to exceed a maximum leverage ratio, an annual maximum on capital expenditures and cemetery development, and specified maximum amounts for capital lease obligations, indebtedness, acquisitions, certain investments, and sales of accounts receivable. Outstanding principal amounts and interest accrued and unpaid may, at the election of the requisite lenders, become immediately due and payable and further commitments by the lenders to make loans may, at the election of the requisite lenders, be terminated upon the occurrence of events of default specified in the Credit Agreement. As of June 17, 2006, the Company was in compliance with all covenants and was not in breach of any provision of the Credit Agreement that would cause an event of default to occur. The Credit Agreement is secured by specified real property, and substantially all personal property of Alderwoods Group and specified subsidiaries.

As of June 17, 2006, the amount available under the Revolving Credit Facility was $75,000,000, reduced by $18,930,000 in outstanding letters of credit.

(b)

The Term Loan B provides the Company with an option to elect an interest rate equal to either (i) a base rate (8.00% at June 17, 2006), plus 1.00%, or (ii) LIBOR (5.42% for the three-month LIBOR at June 17, 2006), plus 2.00%. The weighted average rate of interest was 6.95% at June 17, 2006. The Term Loan B is repayable in quarterly principal installments from June 17, 2006, to June 13, 2009 (subject to reduction for prepayments) of 0.25% of the aggregate principal amount of the Term Loan B outstanding as of December 3, 2004, with a lump sum payment of the then-outstanding

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

amount on the maturity date. The Company has prepaid the required quarterly principal installments up to and including the third quarter of its 2007 fiscal year.

(c) On August 19, 2004, the Company issued the 7.75% Senior Unsecured Notes, due in 2012 (the Eight-Year Senior Unsecured Notes). Interest accrues at an annual rate of 7.75% and is payable semi-annually on March 15 and September 15 or, if such day is not a business day, the next succeeding business day. At any time prior to September 15, 2007, the Company may, at its option, redeem up to 35% of the aggregate principal amount of the Eight-Year Senior Unsecured Notes at a redemption price of 107.75% of the stated principal amount, plus accrued and unpaid interest and Liquidated Damages (as defined in the indenture governing the Eight-Year Senior Unsecured Notes), if any, with net cash proceeds from specified equity offerings, provided at least 65% of the aggregate principal amount of the Eight-Year Senior Unsecured Notes remains outstanding and the redemption occurs within 90 days of the date of the closing of the specified equity offering. On or after September 15, 2008, the Company may, at its option, redeem all or part of the Eight-Year Senior Unsecured Notes at the redemption prices (expressed as percentages of the stated principal amount) set forth below, plus accrued and unpaid interest and Liquidated Damages, if any, if redeemed during the twelve-month period beginning on September 15 of the years indicated below:

Year	Percentage
2008	103.875
2009	101.938
2010 and thereafter	100.000

The Credit Agreement and the Eight-Year Senior Unsecured Notes are guaranteed by substantially all of Alderwoods Group s wholly-owned U.S. subsidiaries, other than Alderwoods Group s insurance subsidiaries and other specified excluded subsidiaries. Alderwoods Group, the parent company, has no independent assets or operations, and the guarantees of its guarantor subsidiaries are full and unconditional, and joint and several.

In certain change of control situations, Alderwoods Group may be required to make an offer to purchase the then-outstanding Eight-Year Senior Unsecured Notes at a price equal to 101% of their stated principal amount, plus accrued and unpaid interest to the applicable repurchase date and Liquidated Damages, if any.

The Credit Agreement and the indenture governing the Eight-Year Senior Unsecured Notes restrict the Company s ability to engage in asset sales. The Credit Agreement and the indenture governing the Eight-Year Senior Unsecured Notes prohibit dispositions of assets unless the assets disposed of fulfill the requirements of specified exceptions. The indenture governing the Eight-Year Senior Unsecured Notes excepts, among other exceptions, assets with a fair market value less than $5,000,000. One specified exception contained in the Credit Agreement is dispositions of any of a group of identified discontinued assets ; another is dispositions of assets not exceeding $35,000,000 book value in the aggregate over the life of the Credit Agreement, provided that (i) the consideration received is at least equal to fair market value and (ii) not less than 75% of the consideration is paid in cash or cash equivalents. Within 270 days of the receipt of net proceeds from any such asset sale, the Company has the ability to apply such net proceeds at its option (or as otherwise required) to invest in non-current operating assets (or enter into agreements for such investment which agreements are consummated within 360 days of such receipt of asset sale proceeds). Up to $10,000,000 of such net proceeds in any fiscal year (but not in excess of $40,000,000 in the aggregate over the term of the Credit Agreement) may be applied to make capital expenditures. To the extent the Company receives net proceeds in excess of additional specified thresholds

F-113

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

and such excess is not applied to invest in non-current operating assets or make capital expenditures as described in the two immediately preceding sentences, the Company must make mandatory repayments under the Credit Agreement and, after all indebtedness under the Credit Agreement has been repaid, offer to purchase the Eight-Year Senior Unsecured Notes at a purchase price equal to 100.00% of the stated principal amount, plus accrued and unpaid interest and Liquidated Damages, if any.

Covenants in the Credit Agreement and the indenture governing the Eight-Year Senior Unsecured Notes restrict, and under specified circumstances prohibit, the payment of dividends by the Company.

NOTE 4. LEGAL CONTINGENCIES

Funeral Consumers Alliance, Inc. et al v. Alderwoods Group, Inc. et al was filed in the United States District Court for the Northern District of California in April, 2005. This case has been transferred to the United States District Court for the Southern District of Texas, Case No. CV3394. To date, six separate class action lawsuits, including *Francis H. Rocha v. Alderwoods Group, Inc. et al, Marcia Berger v. Alderwoods Group, Inc. et al, Maria Magsarili and Tony Magsarili v. Alderwoods Group, Inc. et al, Caren Speizer v. Alderwoods Group, Inc. et al,* and *Frank Moroz v. Alderwoods Group, Inc. et al,* have been consolidated into this case (Funeral Consumer Case). Two other cases, also transferred to the United States District Court for the Southern District of Texas, *Pioneer Valley Casket Co. v. Alderwoods Group, Inc. et al (Pioneer Valley)* and *Ralph Fancher et al v. Alderwoods Group, Inc. et al (Fancher)*, were consolidated into the Funeral Consumer Case for purposes of discovery only. On June 13, 2006, the United States District Court for the Southern District of Texas granted Fancher s Notice of Voluntary Dismissal, with permission to refile its case at another time. The only two remaining cases, therefore, are the Funeral Consumer Case and Pioneer Valley.

The Funeral Consumer Case is a purported class action on behalf of casket consumers throughout the United States. *Pioneer Valley* is a purported class action on behalf of independent casket distributors throughout the United States. Both class suits name as defendants the Company and four other public companies involved in the funeral or casket industry. The Funeral Consumer Case and *Pioneer Valley* allege that defendants violated federal and state antitrust laws by engaging in anticompetitive practices with respect to the sale and pricing of caskets. Both cases seek injunctions, unspecified amounts of monetary damages, and treble damages. Motions to Dismiss filed by the Company and all other defendants are pending in the Funeral Consumer Case and *Pioneer Valley*. Plaintiffs in these cases have yet to provide any meaningful information regarding their alleged damages. As a result, the Company cannot quantify its ultimate liability, if any, for the payment of damages. The Company believes plaintiffs claims are without merit and intends to vigorously defend itself in these actions.

Richard Sanchez et al v. Alderwoods Group, Inc. et al was filed in February 2005 in the Superior Court of the State of California, for the County of Los Angeles, Central District; Case No.BC328962. Plaintiffs seek to certify a nationwide class on behalf of all consumers who purchased funeral goods and services from the Company. Plaintiffs allege in essence that the Federal Trade Commission s Funeral Rule requires the Company to disclose its markups on all items obtained from third-parties in connection with funeral service contracts. Plaintiffs allege further that the Company has failed to make such disclosures. Plaintiffs seek to recover an unspecified amount of monetary damages, attorney s fees, costs and unspecified injunctive and declaratory relief. The Company believes that plaintiffs claims are without merit and intends to vigorously defend itself in this action.

On July 7, 2005, the Federal Trade Commission (the FTC) issued a letter advisory opinion regarding the lawful construction of the term cash advance item as used in the Funeral Rule. The FTC

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

opined with regard to a similar lawsuit in Texas state court: The Commission believes that the court is incorrect in ruling that all goods or services purchased from a third-party vendor are cash advance items. This interpretation sweeps far too broadly, potentially bringing within its scope every component good or service that comprises a funeral. This was not and is not the Commission s intention in the cash advance provisions of the Rule. In our opinion, the term cash advance item in the Rule applies only to those items that the funeral provider represents expressly to be cash advance items or represents by implication to be procured on behalf of a particular customer and provided to that customer at the same price the funeral provider paid for them. The FTC sets forth its analysis in the remainder of the letter.

The Company has learned that a number of plaintiffs to these actions along with the Funeral Consumers Alliance have filed a petition against the FTC in the District of Columbia Circuit Court asking the Court to overturn the FTC s July 7, 2005 Advisory Opinion.

In addition to the funeral and casket antitrust lawsuits, the Company has received a Civil Investigative Demand, dated August 4, 2005, from the Attorney General of Maryland on behalf of itself and other undisclosed state attorneys general, who have commenced an investigation of alleged anticompetitive practices in the funeral industry. The Company has received similar Civil Investigative Demands from the Attorneys General of Florida and Connecticut.

The ultimate outcome of the litigation matters described above cannot be determined at this time. An adverse decision in one or more of such matters could have a material adverse effect on the Company, its financial condition, results of operation and cash flows. However, the Company intends to aggressively defend the lawsuits.

In addition, the Company is party to other legal proceedings in the ordinary course of business, and believes it has made adequate provision for estimated potential liabilities. The Company does not expect the outcome of these proceedings, individually or in the aggregate, to have a material adverse effect on its financial position, results of operations or liquidity.

NOTE 5. SUPPLEMENTARY STATEMENTS OF CASH FLOWS DISCLOSURE

Supplemental disclosures related to the statement of cash flows consist of the following:

	12 Weeks Ended		24 Weeks Ended	
	June 17, 2006	June 18, 2005	June 17, 2006	June 18, 2005
Decrease (increase) in assets:				
Receivables, net of allowances				
Trade	$ 863	$ 4,352	$ 4,575	$ 11,483
Other	(5,620)	(14,991)	(2,495)	(14,385)
Inventories	28	(199)	357	(254)
Prepaid expenses	(102)	1,043	(1,287)	17,149
Cemetery property	(2,010)	(3,139)	(3,434)	(4,076)
Other assets	(1,532)	(1,460)	(2,293)	(3,547)
Increase (decrease) in liabilities:				
Accounts payable and accrued liabilities	6,295	906	(3,856)	(10,501)
Net effect of pre-need receivables and deferred revenue	317	(1,590)	3,288	2,933
Other liabilities	2,294	3,634	5,253	(2,892)
Insurance policy liabilities	(819)	(244)	(1,028)	767

F-115

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

	12 Weeks Ended		24 Weeks Ended	
	June 17, 2006	June 18, 2005	June 17, 2006	June 18, 2005
Other changes in non-cash balances	(1,656)	(2,136)	(5,210)	(3,529)
	$ (1,942)	$ (13,824)	$ (6,130)	$ (6,852)
Supplemental information:				
Interest paid	$ 2,464	$ 3,008	$ 12,500	$ 14,864
Income taxes paid, net of refunds	546	1,741	(650)	2,132
Bad debt expense	375	633	1,469	1,166
Stock issued as compensation in lieu of cash	67	48	152	63
Non-cash investing and financing activities:				
Restricted cash investing and financing activities:				
Purchases of funeral, cemetery, and perpetual care trust investments	$ 85,629	$ 249,159	$ 162,601	$ 356,433
Proceeds on disposition and maturities of funeral, cemetery, and perpetual care trust investments	77,872	265,648	142,336	413,116
Increase in non-controlling interests in funeral, cemetery and perpetual care trusts	16,008	11,758	48,779	23,346
Decrease in non-controlling interests in funeral, cemetery and perpetual care trusts upon fulfillment of pre-need contracts	13,258	22,397	28,583	36,411

NOTE 6. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain balance sheet accounts is as follows:

	June 17, 2006	December 31, 2005
Receivables, net of allowances:		
Customer receivables	$ 47,313	$ 50,459
Allowance for doubtful accounts	(11,743)	(10,320)
Other	15,674	12,723
	$ 51,244	$ 52,862
Pre-need funeral receivables and trust investments:		
Customer receivables	$ 38,973	$ 38,438
Allowance for contract cancellations and refunds	(14,209)	(15,988)
Funeral trust investments	303,741	282,084
Amounts receivable from funeral trusts	9,547	29,893

	$	338,052	$	334,427
Pre-need cemetery receivables and trust investments:				
Customer receivables	$	61,819	$	61,749
Unearned finance income		(6,259)		(6,232)
Allowance for contract cancellations and refunds		(15,492)		(15,648)
Cemetery merchandise and service trust investments		261,553		267,453
	$	301,621	$	307,322
Cemetery property:				
Developed land and lawn crypts	$	39,240	$	38,368
Undeveloped land		30,225		31,243
Mausoleums		46,631		46,856
	$	116,096	$	116,467

F-116

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

	June 17, 2006	December 31, 2005
Property and equipment:		
Land	$ 163,133	$ 162,287
Buildings and improvements	392,125	386,068
Automobiles	10,119	10,652
Furniture, fixtures and equipment	72,397	69,570
Computer hardware and software	31,350	29,061
Accumulated depreciation and amortization	(128,170)	(114,737)
	$ 540,954	$ 542,901
Other assets:		
Intangible assets	$ 19,930	$ 18,741
Deferred finance costs	23,291	23,359
Accumulated amortization	(16,166)	(15,258)
Notes receivable	2,829	3,016
Other	13,169	12,992
	$ 43,053	$ 42,850
Accounts payable and accrued liabilities:		
Bank overdraft.	$ 5,561	$ 7,191
Trade payables	15,454	13,634
Interest	5,148	5,169
Accrued liabilities	13,881	21,629
Accrued insurance	19,965	21,261
Accrued taxes	39,974	32,199
Other	14,001	18,651
	$ 113,984	$ 119,734
Deferred pre-need contract revenue:		
Funeral	$ 44,517	$ 72,087
Cemetery	31,313	19,531
	$ 75,830	$ 91,618
Other liabilities:		
Perpetual care liability	$ 7,958	$ 7,860
Deferred compensation	15,209	9,929
Other	5,304	4,194

	$	28,471	$	21,983

NOTE 7. SEGMENT REPORTING

The Company s reportable segments are comprised of the three businesses it operates, each of which offers different products and services: funeral homes, cemeteries and insurance. There has been no change in the basis of this segmentation, accounting policies of the segments or the basis of measurement of segment profit or loss from that disclosed in the Company s Annual Report on Form 10-K for the 52 weeks ended December 31, 2005, as filed with the SEC.

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The Company sells primarily to external customers, though any inter-segment sales or transfers occur at market price. The Company evaluates performance based on income from operations of the respective businesses.

	Funeral	Cemetery	Insurance	Other	Consolidated
For the 12 Weeks Ended:					
Revenue earned from external sales:					
June 17, 2006	$ 107,522	$ 41,505	$ 23,417	$	$ 172,444
June 18, 2005	$ 110,501	$ 43,914	$ 22,363	$	$ 176,778
Income from operations:					
June 17, 2006	$ 20,101	$ 6,224	$ 1,135	$ (18,042)	$ 9,418
June 18, 2005	$ 20,493	$ 7,275	$ 830	$ (1,702)	$ 26,896
Depreciation and amortization:					
June 17, 2006	$ 5,971	$ 3,038	$ 24	$ 723	$ 9,756
June 18, 2005	$ 5,724	$ 3,970	$ 26	$ 1,238	$ 10,958
Purchase of property and equipment:					
June 17, 2006	$ 2,016	$ 1,940	$ 37	$ 725	$ 4,718
June 18, 2005	$ 5,411	$ 916	$ 11	$ 5,371	$ 11,709
Development of cemetery property:					
June 17, 2006	$	$ 1,714	$	$	$ 1,714
June 18, 2005	$	$ 1,040	$	$	$ 1,040
For the 24 Weeks Ended:					
Revenue earned from external sales:					
June 17, 2006	$ 228,653	$ 79,336	$ 46,272	$	$ 354,261
June 18, 2005	$ 234,514	$ 82,218	$ 43,931	$	$ 360,663
Income from operations:					
June 17, 2006	$ 45,870	$ 10,898	$ 2,083	$ (32,557)	$ 26,294
June 18, 2005	$ 50,254	$ 13,752	$ 2,113	$ (12,346)	$ 53,773
Depreciation and amortization:					
June 17, 2006	$ 11,701	$ 5,953	$ 51	$ 1,561	$ 19,266
June 18, 2005	$ 11,436	$ 7,255	$ 66	$ 2,338	$ 21,095
Purchase of property and equipment:					
June 17, 2006	$ 3,549	$ 4,035	$ 40	$ 1,849	$ 9,473
June 18, 2005	$ 7,320	$ 1,941	$ 75	$ 6,978	$ 16,314
Development of cemetery property:					
June 17, 2006	$	$ 3,035	$	$	$ 3,035
June 18, 2005	$	$ 1,672	$	$	$ 1,672

Total assets at:					
June 17, 2006	$ 1,095,436	$ 813,313	$ 336,655	$ 35,385	$ 2,280,789
December 31, 2005	$ 1,107,916	$ 807,673	$ 326,160	$ 32,554	$ 2,274,303
Goodwill at:					
June 17, 2006	$ 295,913	$	$	$	$ 295,913
December 31, 2005	$ 295,890	$	$	$	$ 295,890

F-118

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The following table reconciles earnings from operations of reportable segments to total income and identifies the components of Other segment earnings from operations:

	12 Weeks Ended		24 Weeks Ended	
	June 17, 2006	June 18, 2005	June 17, 2006	June 18, 2005
Earnings from operations of funeral, cemetery and insurance segments	$ 27,460	$ 28,598	$ 58,851	$ 66,119
Other expenses of operations:				
General and administrative expenses	(18,042)	(1,702)	(32,557)	(12,346)
Income from operations	$ 9,418	$ 26,896	$ 26,294	$ 53,773

F-119

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

NOTE 8. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL INFORMATION

The following presents the condensed consolidating guarantor financial information as of June 17, 2006 and December 31, 2005 and for the 12 and 24 weeks ended June 17, 2006 and June 18, 2005 for the direct and indirect domestic subsidiaries of the Company that serve as guarantors of the 7.75% Senior Unsecured Notes due in 2012, and the Company s subsidiaries that do not serve as guarantors. Non-guarantor subsidiaries include the Canadian and Puerto Rican subsidiaries, insurance subsidiaries and certain domestic subsidiaries that are prohibited by law from guaranteeing the 7.75% Senior Unsecured Notes due in 2012.

Condensed Consolidating Balance Sheets

	June 17, 2006				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
ASSETS					
Cash and cash equivalents	$	$ 4,892	$ 3,508	$	$ 8,400
Other current assets		62,413	12,438		74,851
Pre-need funeral receivables and trust investments		266,435	306,753	(235,136)	338,052
Pre-need cemetery receivables and trust investments		282,898	267,613	(248,890)	301,621
Cemetery property and property and equipment		544,851	112,199		657,050
Insurance invested assets			298,392		298,392
Goodwill		240,380	55,533		295,913
Investment in subsidiaries	1,097,120	(92,380)		(1,004,740)	
Cemetery perpetual care trust investment		(1,247)	245,227		243,980
Other assets	7,125	17,222	38,183		62,530
Total assets	$ 1,104,245	$ 1,325,464	$ 1,339,846	$ (1,488,766)	$ 2,280,789
LIABILITIES AND STOCKHOLDERS EQUITY					
Liabilities					
Current liabilities	$ 42,563	$ 71,618	$ (197)	$	$ 113,984
Current maturities of long-term debt		2,248	23		2,271
Intercompany, net of investments in and advances to affiliates	111,797	(298,720)	186,923		
Long-term debt	351,683	4,275			355,958
Deferred pre-need funeral and cemetery contract revenue and non-controlling		536,221	588,083	(484,027)	640,277

interest in funeral and cemetery trusts					
Insurance policy liabilities			285,701		285,701
Other liabilities	19	22,111	17,085		39,215
Non-controlling interest in perpetual care trusts		(1,247)	246,468		245,221
Stockholders equity	598,183	988,958	15,760	(1,004,739)	598,162
Total liabilities and stockholders equity	$ 1,104,245	$ 1,325,464	$ 1,339,846	$ (1,488,766)	$ 2,280,789

F-120

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)
Condensed Consolidating Balance Sheets

	December 31, 2005				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
ASSETS					
Cash and cash equivalents	$	$ 4,034	$ 3,421	$	$ 7,455
Other current assets	1,964	60,070	13,497		75,531
Pre-need funeral receivables and trust investments		260,915	285,617	(212,105)	334,427
Pre-need cemetery receivables and trust investments		287,522	273,732	(253,932)	307,322
Cemetery property and property and equipment		549,860	109,508		659,368
Insurance invested assets			294,598		294,598
Goodwill		247,160	48,730		295,890
Investment in subsidiaries	1,075,366	(91,898)		(983,468)	
Cemetery perpetual care trust investment		464	243,341		243,805
Other assets	8,101	17,367	30,439		55,907
Total assets	$ 1,085,431	$ 1,335,494	$ 1,302,883	$ (1,449,505)	$ 2,274,303
LIABILITIES AND STOCKHOLDERS EQUITY					
Liabilities					
Current liabilities	$ 39,333	$ 73,597	$ 6,804	$	$ 119,734
Current maturities of long-term debt		2,412	23		2,435
Intercompany, net of investments in and advances to affiliates	82,643	(260,549)	177,906		
Long-term debt	365,683	5,357			371,040
Deferred pre-need funeral and cemetery contract revenue and non-controlling interest in funeral and cemetery trusts		533,061	573,091	(466,037)	640,115
			266,729		266,729

Insurance policy liabilities					
Other liabilities	19	20,040	12,476		32,535
Non-controlling interest in perpetual care trusts			243,962		243,962
Stockholders equity	597,753	961,576	21,892	(983,468)	597,753
Total liabilities and stockholders equity	$ 1,085,431	$ 1,335,494	$ 1,302,883	$ (1,449,505)	$ 2,274,303

F-121

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

	12 Weeks Ended June 17, 2006				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
Revenues	$	$ 127,285	$ 45,159	$	$ 172,444
Costs and expenses		104,192	40,792		144,984
General and administrative expenses	2,055	1,234	14,753		18,042
Income (loss) from operations	(2,055)	21,859	(10,386)		9,418
Interest on long-term debt	6,533	13	(75)		6,471
Intercompany charges	3,633	4,200	(7,833)		
Other expense (income), net		175	110		285
Income (loss) before income taxes	(12,221)	17,471	(2,588)		2,662
Income taxes	(323)	2,804	28		2,509
Income (loss) from continuing operations	(11,898)	14,667	(2,616)		153
Equity in subsidiaries	10,809	(740)		(10,069)	
Loss from discontinued operations					
Income (loss) before cumulative effect of change in accounting principle	(1,089)	13,927	(2,616)	(10,069)	153
Cumulative effect of change in accounting principle					
Net income (loss)	$ (1,089)	$ 13,927	$ (2,616)	$ (10,069)	$ 153

Condensed Consolidating Statement of Operations (unaudited)

	12 Weeks Ended June 18, 2005				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
Revenues	$	$ 134,168	$ 42,610	$	$ 176,778
Costs and expenses		109,596	38,992		148,588
General and administrative expenses	(181)	(12,990)	14,873		1,702
Provision for asset impairment		(408)			(408)
Income (loss) from operations	181	37,970	(11,255)		26,896

Interest on long-term debt	6,798	216	(22)	21	7,013
Intercompany charges	2,938	4,273	(7,211)		
Other expense (income), net		(197)	153		(44)
Income (loss) before income taxes	(9,555)	33,678	(4,175)	(21)	19,927
Income taxes	(839)	7,644	196		7,001
Income (loss) from continuing operations	(8,716)	26,034	(4,371)	(21)	12,926
Equity in subsidiaries	20,799	(890)		(19,909)	
Loss from discontinued operations		(703)	(163)	21	(845)
Income (loss) before cumulative effect of change in accounting principle	12,083	24,441	(4,534)	(19,909)	12,081
Cumulative effect of change in accounting principle					
Net income (loss)	$ 12,083	$ 24,441	$ (4,534)	$ (19,909)	$ 12,081

F-122

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)
Condensed Consolidating Statement of Operations (unaudited)

	24 Weeks Ended June 17, 2006				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
Revenues	$	$ 263,998	$ 90,263	$	$ 354,261
Costs and expenses		214,911	80,499		295,410
General and administrative expenses	2,637	2,273	27,647		32,557
Income (loss) from operations	(2,637)	46,814	(17,883)		26,294
Interest on long-term debt	12,957	115	(123)		12,949
Intercompany charges	8,279	12,953	(21,232)		
Other expense (income), net		(87)	216		129
Income (loss) before income taxes	(23,873)	33,833	3,256		13,216
Income taxes	(7)	5,264	2,061		7,318
Income (loss) from continuing operations	(23,866)	28,569	1,195		5,898
Equity in subsidiaries	28,506	(718)		(27,788)	
Loss from discontinued operations					
Income before cumulative effect of change in accounting principle	4,640	27,851	1,195	(27,788)	5,898
Cumulative effect of change in accounting principle			(1,242)		(1,242)
Net income (loss)	$ 4,640	$ 27,851	$ (47)	$ (27,788)	$ 4,656

	24 Weeks Ended June 18, 2005				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
Revenues	$	$ 274,526	$ 86,137	$	$ 360,663
Costs and expenses		219,541	76,630		296,171
General and administrative expenses	(262)	(14,124)	26,732		12,346
Provision for asset impairment		(1,606)	(21)		(1,627)
Income (loss) from operations	262	70,715	(17,204)		53,773
Interest on long-term debt	14,108	402	18		14,528

Intercompany charges	5,147	10,756	(15,903)		
Other expense (income), net		(6,124)	281		(5,843)
Income (loss) before income taxes	(18,993)	65,681	(1,600)		45,088
Income taxes	(663)	17,519	1,337		18,193
Income (loss) from continuing operations	(18,330)	48,162	(2,937)		26,895
Equity in subsidiaries	43,548	(812)		(42,736)	
Loss from discontinued operations		(1,248)	(430)		(1,678)
Income (loss) before cumulative effect of change in accounting principle	25,218	46,102	(3,367)	(42,736)	25,217
Cumulative effect of change in accounting principle					
Net income (loss)	$ 25,218	$ 46,102	$ (3,367)	$ (42,736)	$ 25,217

F-123

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)
Condensed Consolidating Statement of Cash Flows (unaudited)

	12 Weeks Ended June 17, 2006				
	Parent Company	**Guarantors**	**Non-Guarantors**	**Consolidating Adjustments**	**Consolidated Totals**
CASH PROVIDED BY (APPLIED TO)					
Cash flows from operating activities of continuing operations	$ 4,306	$ 2,725	$ 12,839	$	$ 19,870
Cash flows from investing activities of continuing operations		(2,359)	(12,456)		(14,815)
Cash flows from financing activities of continuing operations	(4,274)	(521)			(4,795)
Increase (decrease) in cash and cash equivalents	32	(155)	383		260
Cash and cash equivalents, beginning of period	(32)	5,047	3,125		8,140
Cash and cash equivalents, end of period	$	$ 4,892	$ 3,508	$	$ 8,400

	12 Weeks Ended June 18, 2005				
	Parent Company	**Guarantors**	**Non-Guarantors**	**Consolidating Adjustments**	**Consolidated Totals**
CASH PROVIDED BY (APPLIED TO)					
Cash flows from operating activities of continuing operations	$ 18,893	$ (11,246)	$ 21,090	$ (21)	$ 28,716
Cash flows from operating activities of discontinued operations		394	(1,226)	21	(811)
Cash flows from investing activities of continuing operations		(4,657)	(13,840)		(18,497)
Cash flows from investing activities of discontinued operations		6,033	711		6,744
Cash flows from financing activities of continuing operations	(18,893)	(633)	(1,503)		(21,029)
Cash flows from financing activities of discontinued operations		(11)			(11)
		(10,120)	5,232		(4,888)

	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
Increase (decrease) in cash and cash equivalents					
Cash and cash equivalents, beginning of period		18,848	(1,970)		16,878
Cash and cash equivalents, end of period	$	$ 8,728	$ 3,262	$	$ 11,990

24 Weeks Ended June 17, 2006

	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
CASH PROVIDED BY (APPLIED TO)					
Cash flows from operating activities of continuing operations	$ 13,234	$ 5,751	$ 21,339	$	$ 40,324
Cash flows from investing activities of continuing operations		(3,679)	(21,246)		(24,925)
Cash flows from financing activities of continuing operations	(13,202)	(1,248)	(4)		(14,454)
Increase in cash and cash equivalents	32	824	89		945
Cash and cash equivalents, beginning of period	(32)	4,068	3,419		7,455
Cash and cash equivalents, end of period	$	$ 4,892	$ 3,508	$	$ 8,400

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)
Condensed Consolidating Statement of Cash Flows (unaudited)

	24 Weeks Ended June 18, 2005				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
CASH PROVIDED BY (APPLIED TO)					
Cash flows from operating activities of continuing operations	$ 49,534	$ (5,790)	$ 27,197	$	$ 70,941
Cash flows from operating activities of discontinued operations		661	1,262		(601)
Cash flows from investing activities of continuing operations		2,870	(25,766)		(22,896)
Cash flows from investing activities of discontinued operations		6,127	1,779		7,906
Cash flows from financing activities of continuing operations	(49,534)	(1,516)	(1,632)		(52,682)
Cash flows from financing activities of discontinued operations		(9)	(48)		(57)
Increase in cash and cash equivalents		2,343	268		2,611
Cash and cash equivalents, beginning of period		6,385	2,994		9,379
Cash and cash equivalents, end of period	$	$ 8,728	$ 3,262	$	$ 11,990

NOTE 9. PROVISION FOR ASSET IMPAIRMENT

In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), the Company reviews its long-lived assets for impairment when changes in circumstances indicate that the carrying amount of the asset may not be recoverable. SFAS No. 144 requires that long-lived assets to be held and used be recorded at the lower of carrying amount or fair value. Long-lived assets to be disposed of are to be recorded at the lower of carrying amount or fair value, less estimated costs to sell.

As part of the Company s ongoing assessment to ensure that each of the Company s properties fit into the Company s strategy, as at June 17, 2006 the Company had available for sale one funeral home and one cemetery property business. These properties remain unsold as of June 17, 2006. The carrying amount of these locations was $527,000 which was less than estimated aggregate fair market value. The fair market values were determined by specific offers or bids, or estimates based on comparable recent sales transactions. For the 24 weeks ended June 17, 2006, these properties had revenues and costs of $304,000 and $269,000 (June 18, 2005 $321,000 and $295,000), respectively.

The assets of $3,224,000 (December 31, 2005 $3,285,000) and liabilities of $2,697,000 (December 31, 2005 $2,731,000) of these locations have not been reclassified to assets held for sale and liabilities associated with assets held for sale in the balance sheet.

In addition, for the 24 weeks ended June 17, 2006, the Company disposed of 7 funeral home businesses which were not reclassified to discontinued operations. Revenues and costs of these disposed of locations were $312,000 and $414,000 (June 18, 2005 $894,000 and $884,000) for the 24 weeks ended June 17, 2006, respectively.

In addition to those funeral home and cemetery businesses held for sale or disposed of as identified above, the Company closed 8 funeral home locations during the 24 weeks ended June 17, 2006. The

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

criteria for identifying a location to be closed includes among other items, synergies from transferring the ongoing business to an adjacent location and the valuation of the real estate assets compared to sale as a business.

The asset impairment provisions include management estimates. As a result, actual results could differ significantly from these estimates.

NOTE 10. DISCONTINUED OPERATIONS OF ASSETS HELD FOR SALE

Over the previous four fiscal years, the Company engaged in a strategic market rationalization assessment to dispose of cemetery and funeral operating locations that did not fit into the Company s market or business strategies, as well as under-performing locations and excess cemetery land. The Company will on a smaller scale and over time, continue to assess the Company s portfolio of funeral and cemetery locations to ensure they continue to fit in the Company s strategy.

As of January 1, 2005, the Company had 18 funeral, six cemetery and four combination locations which had not been sold within one year of being added to the disposal list. The Company completed the sale of all these locations during 2005, except for one cemetery which was reclassified back to continuing operations.

The revenues and costs and impairment provisions for the locations identified as discontinued operations are presented in the following table:

	12 Weeks Ended June 18, 2005	24 Weeks Ended June 18, 2005
Revenue		
Funeral	$ 394	$ 1,853
Cemetery	144	598
	$ 538	$ 2,451
Gross margin		
Funeral	$ (170)	$ (152)
Cemetery	(60)	(237)
	(230)	(389)
Provision for asset impairment		568
Loss from discontinued operations	(230)	(957)
Interest on long-term debt	(22)	
Other expense (income), net	371	455
Loss from discontinued operations, before tax	(579)	(1,412)
Income tax provision for discontinued operations	266	266
Loss from discontinued operations	$ (845)	$ (1,678)
Depreciation included in gross margin of discontinued operations	$ 7	$ 20

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

NOTE 11. INCOME PER SHARE

The basic and diluted income per share computations for net income were as follows:

	12 Weeks Ended		24 Weeks Ended	
	June 17, 2006	**June 18, 2005**	**June 17, 2006**	**June 18, 2005**
Income (numerator):				
Net income attributable to Common stockholders	$ 153	$ 12,081	$ 4,656	$ 25,217
Shares (denominator):				
Basic weighted average number of shares of Common stock outstanding (thousands)	40,652	40,108	40,559	40,078
Effect of stock options assumed exercised (thousands)	2,025	1,282	1,863	1,297
Diluted weighted average number of shares of Common stock outstanding (thousands)	42,677	41,390	42,422	41,375

For the 12 and 24 weeks ended June 17, 2006, 4,804,750 employee and director stock options were dilutive to earnings and are included in the computation of diluted earnings per share. Warrants to purchase 2,992,000 shares of Common stock were not included in the computation of diluted earnings per share, because they were anti-dilutive.

NOTE 12. EFFECT OF HURRICANE KATRINA

The Company operated 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. The Company 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 the Company s funeral operations and other third-parties experienced significant damage to its fleet of vehicles and will not be resuming operations.

The Company is making every effort to use its existing operating facilities to provide services to customers normally served by the Company s closed locations.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Financial results

The Company s financial results include the results from operations for those locations affected by Hurricane Katrina as outlined in the following table:

	12 Weeks Ended		24 Weeks Ended	
	June 17, 2006	**June 18, 2005**	**June 17, 2006**	**June 18, 2005**
Funeral Homes				
Revenue	$ 5,604	$ 6,659	$ 12,461	$ 14,355
Number of funeral services performed	1,227	1,409	2,690	3,079
Number of same-site funeral services performed	1,225	1,173	2,688	2,574
Costs and expenses	$ 3,403	$ 5,157	$ 8,912	$ 11,402
Gross margin	$ 2,201	$ 1,502	$ 3,549	$ 2,953
Pre-need funeral contracts written	$ 1,546	$ 2,954	$ 2,837	$ 5,782
Cemeteries				
Revenue	$ 788	$ 681	$ 1,472	$ 1,424
Number of cemetery interments	205	217	423	527
Costs and expenses	$ 704	$ 666	$ 1,262	$ 1,328
Gross margin	$ 84	$ 15	$ 210	$ 96
Pre-need cemetery contracts written	$ 347	$ 346	$ 574	$ 690

Insurance coverage and long-term asset gain or loss

The Company purchases insurance coverage for property damage, including damage from wind and flood, subject to separate limits, sub-limits and deductible amounts. The Company, along with its insurance providers, is continuing to assess and estimate the extent of damages. Based on a review of the Company s insurance policy, the Company 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, the Company has considered the properties destroyed or abandoned and based on estimated insurance proceeds of $12,550,000, has realized a gain of $1,000,000 in the 12 weeks ended June 17, 2006 on the writeoff of the applicable buildings and contents.

The Company has initiated or completed much of the damage repairs and along with its insurance companies, is continuing to estimate the full extent of repairs and replacement costs. The Company 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, the Company reduced its expected costs by $200,000.

The Company has business interruption insurance that allows the recovery of operating costs and lost profits. The Company 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.

NOTE 13. PROPOSED MERGER AGREEMENT

On April 3, 2006, Service Corporation International (SCI) and the Company announced that they have entered into a merger agreement. Pursuant to the agreement, each share of the Company will be

ALDERWOODS GROUP, INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)
(Tabular amounts expressed in thousands of dollars except per share amounts)

converted into the right to receive $20.00 per share in cash. In addition, SCI will assume approximately $358 million of the Company s debt. The Company s stockholders voted on May 31, 2006 to approve this agreement.

Completion of the proposed transaction is contingent on regulatory review, including Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the Competition Act (Canada), and subject to notification under the Investment Canada Act.

As previously disclosed, subsequent to the stockholders vote the Company together with SCI entered into a timing agreement with the staff of the Federal Trade Commission (FTC) in connection with the proposed merger of the Company with a subsidiary of SCI. As also previously disclosed, each of the Company and SCI have received Second Requests from the FTC, and as a result thereof, the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, during which the parties may not consummate the proposed merger, has been extended. The parties are working toward responding to the Second Requests.

As a result of the timing agreement, Alderwoods and SCI expect to seek to negotiate a consent decree with the FTC, in which case the proposed merger could close as early as on or before September 30, 2006. Alderwoods and SCI have agreed with the FTC that if the parties are unable to reach agreement on a consent agreement with the FTC, they will not close the proposed merger before October 30, 2006. In addition, Alderwoods and SCI have agreed, under a standard provision of a recently adopted FTC protocol for administering Second Requests that if the FTC challenges the proposed transaction by filing an application for preliminary injunction in federal court, Alderwoods and SCI, jointly with the FTC, will propose a scheduling order that provides for a 60-day pre-hearing discovery period.

The Company and SCI continue to expect that the transaction will close by the end of 2006.

Table of Contents

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. The Company s internal control over financial reporting is a process designed under the supervision of the Company s CEO and CFO, and effected by the Company s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate.

Management has assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on Management s assessment under the framework in Internal Control Integrated Framework, management has concluded that internal control over financial reporting was effective as of December 31, 2005.

The Company s independent registered public accounting firm, KPMG LLP, has audited Management s assessment of the effectiveness of internal controls over financial reporting and the effectiveness of internal controls over financial reporting, as stated in their report which is included herein.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Alderwoods Group, Inc.

We have audited the accompanying consolidated balance sheets of Alderwoods Group, Inc. as at December 31, 2005 and January 1, 2005, and the related consolidated statements of operations, stockholders equity, and cash flows 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. In connection with our audits of the consolidated financial statements, we also have audited the information with respect to the Company in financial statement Schedule II included in Item 15 of the Company s annual report on Form 10-K. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alderwoods Group, Inc. as at December 31, 2005 and January 1, 2005, and the results of its operations and its cash flows 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, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Alderwoods Group, Inc. s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2006 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP
Chartered Accountants
Vancouver, Canada

March 10, 2006

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Alderwoods Group, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that Alderwoods Group, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Alderwoods Group, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Alderwoods Group, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Alderwoods Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Alderwoods Group, Inc. as of December 31, 2005 and January 1, 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for the fifty-two weeks ended December 31, 2005, fifty-two weeks ended January 1, 2005 and fifty-three weeks ended January 3, 2004, and our report dated March 10, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Chartered Accountants
Vancouver, Canada
March 10, 2006

Table of Contents

ALDERWOODS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
Expressed in thousands of dollars
except number of shares

	December 31, 2005	January 1, 2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,455	$ 9,379
Receivables, net of allowances	52,862	66,445
Inventories	15,784	16,730
Other	6,885	27,622
Assets held for sale		82,056
	82,986	202,232
Pre-need funeral receivables and trust investments	334,427	336,030
Pre-need cemetery receivables and trust investments	307,322	311,654
Cemetery property	116,467	119,042
Property and equipment	542,901	540,255
Insurance invested assets	294,598	250,785
Deferred income tax assets	13,057	8,161
Goodwill	295,890	321,134
Cemetery perpetual care trust investments	243,805	246,052
Other assets	42,850	37,082
	$ 2,274,303	$ 2,372,427
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 119,734	$ 140,662
Current maturities of long-term debt	2,435	9,083
Liabilities associated with assets held for sale		61,428
	122,169	211,173
Long-term debt	371,040	454,557
Deferred pre-need funeral and cemetery contract revenue	91,618	82,971
Non-controlling interest in funeral and cemetery trusts	548,497	553,617
Insurance policy liabilities	266,729	214,745
Deferred income tax liabilities	10,552	20,357
Other liabilities	21,983	21,954
	1,432,588	1,559,374
Non-controlling interest in perpetual care trusts	243,962	257,141
Stockholders equity		
	405	400

Common stock, $0.01 par value, 100,000,000 shares authorized, 40,458,864 issued and outstanding (2004 40,017,454)				
Capital in excess of par value		743,126		740,210
Accumulated deficit		(172,405)		(213,588)
Accumulated other comprehensive income		26,627		28,890
		597,753		555,912
	$	2,274,303	$	2,372,427

See accompanying notes to the consolidated financial statements

F-133

Table of Contents

ALDERWOODS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Expressed in thousands of dollars
except per share amounts and number of shares

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Revenue			
Funeral	$ 479,799	$ 472,935	$ 491,611
Cemetery	174,110	164,052	168,024
Insurance	95,005	80,124	61,127
	748,914	717,111	720,762
Costs and expenses			
Funeral	392,544	376,646	378,195
Cemetery	151,914	140,145	139,299
Insurance	89,937	75,415	59,375
	634,395	592,206	576,869
	114,519	124,905	143,893
General and administrative expenses	42,815	51,218	56,281
Provision for asset impairment	(1,379)	1,787	5,229
Income from operations	73,083	71,900	82,383
Interest on long-term debt and refinancing costs (Note 6)	30,069	78,079	76,453
Other expense (income), net	(4,662)	(1,162)	4,056
Income (loss) before income taxes	47,676	(5,017)	1,874
Income taxes	4,815	(1,453)	(6,485)
Net income (loss) from continuing operations	42,861	(3,564)	8,359
Discontinued operations (Note 19)			
Income (loss) from discontinued operations	(1,412)	19,400	6,870
Income taxes	266	6,487	4,422
Net income (loss) from discontinued operations	(1,678)	12,913	2,448
Net income	$ 41,183	$ 9,349	$ 10,807
Basic earnings per Common share:			
Net income (loss) from continuing operations	$ 1.06	$ (0.09)	$ 0.21
Net income (loss) from discontinued operations	(0.04)	0.32	0.06
Net income	$ 1.02	$ 0.23	$ 0.27

Diluted earnings per Common share:						
Net income (loss) from continuing operations	$	1.03	$	(0.09)	$	0.21
Net income (loss) from discontinued operations		(0.04)		0.32		0.06
Net income	$	0.99	$	0.23	$	0.27
Basic weighted average number of shares outstanding (thousands)		40,245		40,001		39,971
Diluted weighted average number of shares outstanding (thousands)		41,602		41,132		40,465

See accompanying notes to the consolidated financial statements

Table of Contents

ALDERWOODS GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
Expressed in thousands of dollars
except number of shares

	Shares	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 28, 2002	39,941,271	$ 399	$ 739,711	$ (233,744)	$ 17,036	$ 523,402
Comprehensive income:						
Net income				10,807		10,807
Other comprehensive income (loss):						
Foreign currency translation adjustment, net of income taxes of $nil					15,187	15,187
Unrealized loss on insurance invested assets, net of income tax recovery of $2,925					(4,790)	(4,790)
Less: reclassification adjustments for realized gain on insurance invested assets included in net income, net of income taxes of $345					(642)	(642)
Unrealized gain on derivatives, net of income taxes of $nil					689	689
Comprehensive income						21,251
Common stock issued:						
Stock issued in connection with the settlement of certain unsecured claims	21,140	1	106			107
Stock issued as compensation in lieu of cash	18,818		105			105
Stock issued under equity incentive plan	3,750		28			28
Balance at January 3, 2004	39,984,979	400	739,950	(222,937)	27,480	544,893
Comprehensive income:						
Net income				9,349		9,349

Other comprehensive income (loss):		
Foreign currency translation adjustment, net of income taxes of $nil	5,324	5,324
Unrealized loss on insurance invested assets, net of income tax recovery of $2,770	(2,890)	(2,890)
Less: reclassification adjustments for realized gain on insurance invested assets included in net income, net of income taxes of $1,214	(2,254)	(2,254)
Unrealized gain on derivatives, net of income taxes of $nil	1,571	1,571
Less: reclassification adjustments for realized gain on derivatives included in net income, net of income taxes of $nil	(341)	(341)
Comprehensive income		10,759

See accompanying notes to the consolidated financial statements

F-135

Table of Contents

	Shares	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Common stock issued:						
Stock issued in connection with the settlement of certain unsecured claims	5,977		31			31
Stock issued as compensation in lieu of cash	16,498		173			173
Stock issued under equity incentive plan	10,000		56			56
Balance at January 1, 2005	40,017,454	$ 400	$ 740,210	$ (213,588)	$ 28,890	$ 555,912
Comprehensive income:						
Net income				41,183		41,183
Other comprehensive income (loss):						
Foreign currency translation adjustment, net of income taxes of $nil					3,138	3,138
Unrealized loss on insurance invested assets, net of income tax recovery of $2,331					(4,328)	(4,328)
Less: reclassification adjustments for realized gain on insurance invested assets included in net income, net of income taxes of $9					(17)	(17)
Unrealized loss on derivatives, net of income taxes of $nil					(480)	(480)
Less: reclassification adjustments for realized gain on derivatives included in net income, net of income taxes of $nil					(576)	(576)
Comprehensive income						38,920

Common stock issued:						
Stock issued as compensation in lieu of cash	10,160		144			144
Stock issued under equity incentive plan	431,250	5	2,772			2,777
Balance at December 31, 2005	40,458,864	$ 405	$ 743,126	$ (172,405)	$ 26,627	$ 597,753

See accompanying notes to the consolidated financial statements

F-136

Table of Contents

ALDERWOODS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Expressed in thousands of dollars

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
CASH PROVIDED BY (APPLIED TO)			
Operations			
Net income	$ 41,183	$ 9,349	$ 10,807
(Income) loss from discontinued operations, net of tax	1,678	(12,913)	(2,448)
Items not affecting cash			
Depreciation and amortization	44,598	42,093	40,222
Amortization of debt issue costs	3,186	10,118	3,220
Insurance policy benefit reserves	49,532	40,705	28,772
Provision for asset impairment	(1,379)	1,787	5,229
Loss (gain) on disposal of assets	(4,966)	(3,530)	1,056
Deferred income taxes	13,860	(5,126)	(1,950)
Premium on long-term debt repurchase	282	32,450	1,266
Other, including net changes in other non-cash balances	(540)	(10,653)	51,022
Net cash provided by continuing operations	147,434	104,280	137,196
Net cash provided by (used in) discontinued operations	(601)	15,309	18,579
	146,833	119,589	155,775
Investing			
Proceeds on disposition of business assets	20,721	20,917	11,409
Purchase of property and equipment	(42,510)	(37,183)	(25,202)
Purchase of insurance invested assets	(126,811)	(138,346)	(117,689)
Proceeds on disposition and maturities of insurance invested assets	79,647	86,763	78,059
Net cash used in continuing operations	(68,953)	(67,849)	(53,423)
Net cash provided by discontinued operations	7,908	108,975	23,710
	(61,045)	41,126	(29,713)
Financing			
Increase in long-term debt	11,198	390,044	330,455
Repayment of long-term debt	(101,630)	(582,608)	(458,868)
Issuance of Common Stock	2,777	56	28
Net cash used in continuing operations	(87,655)	(192,508)	(128,385)
Net cash used in discontinued operations	(57)	(440)	(2,177)
	(87,712)	(192,948)	(130,562)

Decrease in cash and cash equivalents	(1,924)	(32,233)	(4,500)
Cash and cash equivalents, beginning of year	9,379	41,612	46,112
Cash and cash equivalents, end of year	$ 7,455	$ 9,379	$ 41,612

See accompanying notes to the consolidated financial statements

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts expressed in thousands of dollars except per share amounts)

NOTE 1. NATURE OF OPERATIONS

Alderwoods Group, Inc., a Delaware corporation (Alderwoods Group and, together with its subsidiaries unless the context otherwise requires, the Company) is the second-largest operator of funeral homes and cemeteries in North America based on total revenue and number of locations. As of December 31, 2005, the Company operated 594 funeral homes and 72 cemeteries and 60 combination funeral homes and cemeteries throughout North America.

The Company s funeral operations encompass making funeral and cremation arrangements on an at-need or pre-need basis. The Company s funeral operations offer a full range of funeral services, including the collection of remains, registration of death, professional embalming, use of funeral home facilities, sale of caskets and other merchandise and transportation to a place of worship, funeral chapel, cemetery or crematorium.

The Company s cemetery operations assist families in making burial arrangements and offer a complete line of cemetery products (including a selection of burial spaces, burial vaults, lawn crypts, caskets, memorials, niches, mausoleum crypts and other merchandise), the opening and closing of graves and cremation services.

The Company s insurance operations sell a variety of insurance products, primarily to fund pre-need funeral services.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal year

The Company s fiscal year ends on the Saturday nearest to December 31 in each year (whether before or after such date).

The first and second fiscal quarters each consist of 12 weeks and the third fiscal quarter consists of 16 weeks. In order to cause the fourth fiscal quarter to end on the same day as the fiscal year, the fourth fiscal quarter will consist of 13 weeks rather than 12 weeks in certain years.

Basis of Presentation

The Company is the successor to The Loewen Group Inc. (the Predecessor) and its subsidiaries, including Loewen Group International, Inc., a Delaware corporation (Loewen International). On June 1, 1999, the Predecessor filed a petition for creditor protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware (the Bankruptcy Court) and voluntarily filed an application for creditor protection under the Companies Creditors Arrangement Act (Creditors Arrangement Act) with the Ontario Superior Court of Justice, Toronto, Ontario, Canada (the Canadian Court). The Bankruptcy Court confirmed, and the Canadian Court recognized, the plan of reorganization (the Plan) in December 2001 and on January 2, 2002 (the Effective Date), the Company emerged from reorganization proceedings.

At December 31, 2001, the Company adopted fresh start reporting in accordance with AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code. As a result of the application of fresh start reporting, significant adjustments were made to the Company s historical assets and liabilities, as the fair values varied significantly from the amounts recorded by the Predecessor as of December 31, 2001.

The consolidated financial statements include the accounts of the Company, its subsidiary companies and operations controlled by the Company through sales and management agreements. All subsidiaries are

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

wholly owned, except for a few companies with small minority interests. The consolidated financial statements also include the accounts of the funeral trusts, cemetery merchandise and service trusts and perpetual care trusts, and several pooled investment funds created for such trusts in which the Company has a variable interest and is the primary beneficiary.

All significant inter-entity balances and transactions have been eliminated in the consolidated financial statements. The consolidated financial statements have been prepared using the U.S. dollar and are presented in accordance with United States generally accepted accounting principles (GAAP).

Use of estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. As a result, actual amounts could significantly differ from those estimates.

Funeral operations

Sales of at-need funeral services are recorded as revenue when the service is performed.

Pre-need funeral services contracts provide for future funeral services, generally determined by prices prevailing at the time the contract is signed. The payments made under the contract, in part, are either placed in trust or are used to pay the premiums of life insurance policies under which the Company is designated as beneficiary. Pre-need funeral services contract amounts are deferred until the service is performed. The Company estimates that trust fund investment earnings and annual insurance benefits exceed the increase in cost over time of providing the related services.

The Company records amounts in funeral trusts in which the Company is not the primary beneficiary as amounts receivable from funeral trusts. Earnings in these trusts are deferred until the service is performed. The Company does not record on the consolidated balance sheet amounts associated with insurance funded pre-need contracts for which the Company has not serviced the contract.

The Company records the assets in the funeral trusts in which the Company is the primary beneficiary as trust investments at their fair value in accordance with the FASB s Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS No. 115). The liabilities of these trusts that are consolidated consist principally of the trusted portion of the Company s obligation to the pre-need contract holders, which is reflected as non-controlling interest in the trusts.

Realized earnings from funeral trust investments and related expenses of the trusts are recognized in other expense (income). Typically, an offsetting accretion for the non-controlling interest in the trusts is included as interest expense in other expense (income). Unrealized gains and losses of funeral trust investments are recorded in both trust investments and, net of tax, in non-controlling interest in funeral trusts in the Company s consolidated balance sheet.

Selling costs related to the sale of pre-need funeral services are expensed in the period incurred.

Cemetery operations

Sales of cemetery merchandise and services and at-need cemetery interment rights are recorded as revenue when the merchandise is delivered or service is performed.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Sales of pre-need cemetery interment rights are recognized in accordance with the retail land sales provisions of Statement of Financial Accounting Standards No. 66, Accounting for Sales of Real Estate (FAS No. 66) and EITF No. 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). Accordingly, provided certain collectibility criteria are met, pre-need cemetery interment rights sales of developed cemetery property are deferred until a minimum of 10 percent of the sales price has been collected, while pre-need cemetery interment right sales of undeveloped cemetery property are deferred and revenue is recognized on a percentage of completion basis as the cemetery property is developed. Multiple element cemetery contract arrangements are allocated based on objective evidence of fair value, and revenue is recorded when the criteria for revenue recognition has been met for each element. For pre-need sales of cemetery merchandise and services, revenue is deferred until the delivery of such merchandise or performance of such services occurs.

Pursuant to various state and provincial laws, a portion of the proceeds from the sale of pre-need merchandise and services may also be required to be paid into trusts. The Company records the assets in the cemetery merchandise and service trusts in which the Company is the primary beneficiary as trust investments at their fair value in accordance with FAS No. 115.

The liabilities of the trusts consist principally of the trusted portion of the Company s obligation to the pre-need contract holders, which is reflected as non-controlling interest in the trusts.

Realized earnings from cemetery merchandise and service trust investments and related expenses of the trusts are recognized in other expense (income). Typically, an offsetting accretion expense for the non-controlling interest in the trusts is included as interest expense in other expense (income). The net amount of realized earnings on merchandise and service trust funds are recorded as cemetery revenue when the merchandise is delivered and service performed. Unrealized gains and losses of cemetery merchandise and service trust investments are recorded in both trust investments and, net of tax, in non-controlling interest in cemetery merchandise and service trusts in the Company s consolidated balance sheet.

All direct and indirect selling costs associated with the sale of cemetery products are expensed in the period incurred. The costs associated with fulfilling pre-need cemetery contracts are expensed at the same time as the related revenue is recognized. All costs associated with cemetery interment rights are expensed at the time of sale, due to the revenues being recognized pursuant to FAS No. 66. All costs associated with cemetery merchandise are expensed at the time the pre-need contract is serviced. All costs associated with cemetery services are expensed as incurred. These costs are generally not incurred until the contract is serviced, due to these costs primarily being labor costs.

Interest is imputed at a market rate for financed pre-need cemetery contracts that do not bear a market rate of interest.

Perpetual care trusts

A portion of the proceeds from cemetery sales for interment rights is generally required by law to be paid into perpetual or endowment care trusts. The Company records the assets in the perpetual care trusts as trust investments at their fair value in accordance with FAS No. 115.

The principal in perpetual care trusts is required to be held in perpetuity and is not redeemable by the Company or the customer. Accordingly, the equity interest in the perpetual care trusts is presented as a non-controlling interest in perpetual care trusts between liabilities and stockholders equity in the Company s consolidated balance sheet.

Realized earnings from cemetery perpetual care trust investments are recognized in other expense (income) in accordance with FAS No. 115. Typically, an offsetting accretion expense for the non-

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

controlling interest in perpetual care trusts is also recorded in other expense (income). Distributable earnings from the perpetual care trusts are recognized in cemetery revenue to the extent of qualifying cemetery maintenance costs. Historically, qualifying cemetery maintenance costs have exceeded distributable earnings at individual cemeteries. Unrealized gains and losses on perpetual care trust investments are recorded in both cemetery perpetual care trust investments and, net of tax, in non-controlling interest in perpetual care trusts in the Company s consolidated balance sheet. Generally, net capital gains of cemetery perpetual care trust investments are not eligible for distribution to the Company.

Insurance operations

Insurance invested assets include fixed-maturity investments, cash and short-term investments held by the Company s wholly-owned insurance company. The Company classifies all of its fixed-maturity investments held by the Company s insurance company as available-for-sale. Investments classified as available-for-sale are carried at fair value with unrealized gains and losses, net of deferred taxes, reflected directly in accumulated other comprehensive income. Short-term investments include fixed maturities which mature within one year from the date of purchase, money market mutual funds and repurchase agreements.

Insurance invested liabilities include liabilities for future policy benefits, policy claims and other benefits payable, and premiums collected in advance. The Company establishes a liability for future policy benefits related to its traditional whole life and limited-payment life insurance products using the net level premium method based on estimated investment yields and discretionary policy growth rates, mortality, persistency and other assumptions which were considered appropriate at the time the policies were issued. Benefit reserves for annuity contracts represent policy account balances before applicable surrender charges. Additionally, the Company establishes a liability for the impact of known policy benefits payable and estimated claims that have been incurred but not yet reported to the Company. The estimate of unreported claims is based on prior experience.

For traditional life and participating life products, premiums are recognized as revenue when due from policyholders. Benefits and expenses are matched with earned premiums to result in recognition of profits over the life of the policy contracts. This association is accomplished by means of the provision for liabilities for future policy benefits and the amortization of deferred policy acquisition costs.

Revenues from annuity contracts represent principally surrender charges. Expenses from annuity contracts represent principally accumulated interest. Policy account balances for annuities represent the deposits received plus accumulated interest.

Investment income, net of investment expenses, and realized gains and losses related to insurance invested assets are included within revenues.

Insurance costs and expenses include policy benefits and claims, changes in policy benefit reserves, amortization of deferred acquisition costs, commissions, salaries, employee benefits, and other operating expenses. Policy benefits and expenses are recognized in income over the life of the policy contracts.

To the extent recoverable, certain costs of acquiring new insurance business have been deferred. Such costs consist of first-year commissions in excess of renewal rates, direct underwriting and issuance costs.

The deferred policy acquisition costs on traditional life products are amortized with interest over the anticipated premium-paying period of the related policies, in proportion to the ratio of annual gross premium revenue to be received over the life of the policies. Expected premium revenue is estimated by using the same mortality and withdrawal assumptions used in computing liabilities for future policy benefits.

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Also, the present value of future profits of acquired insurance business in force is amortized over the expected premium-paying period of the policies acquired.

Cash and cash equivalents

Cash and cash equivalents include cash and term deposits with a term to maturity at acquisition of less than or equal to 90 days.

Inventories

Inventories are carried at the lower of cost, determined primarily on a specific identification basis or a first-in first-out basis, and net realizable value.

Consolidation of trusts

Beginning January 4, 2004, the Company accounts for its variable interest in the approximately 600 funeral, cemetery merchandise and service, and perpetual care trusts, and several pooled investment funds created for such trusts, in accordance with FASB interpretation No. 46 (FIN No. 46R). The consolidation of the Company s interests did not change the legal relationships among these trusts, pooled investment funds, the Company, and its holders of pre-need contracts. The Company does not consolidate certain funeral trusts for which the Company does not absorb a majority of their expected losses, as it is not considered the primary beneficiary of these funeral trusts under FIN No. 46R.

Under FIN No. 46R, the Company records the assets in the funeral, cemetery merchandise and service, and perpetual care trusts, and several pooled investment funds created for such trusts, in which the Company is the primary beneficiary as trust investments at their fair value in accordance with FAS No. 115.

The liabilities of the funeral and cemetery merchandise and service trusts, and several pooled investment funds consist principally of the trusted portion of the Company s obligation to the pre-need contract holders, which is reflected as non-controlling interest in the trusts. The equity interest in the perpetual care trusts presented as a non-controlling interest in perpetual care trusts between liabilities and stockholders equity in the Company s consolidated balance sheet as the principal in perpetual care trust is required to be held in perpetuity and is not redeemable by the Company or the customer.

Beginning January 4, 2004, realized earnings from funeral and cemetery merchandise and service trust investments and related expenses of the trusts are recognized in other expense (income). In addition, the accretion of the non-controlling interest in the trusts is included as interest expense in other expense (income). Unrealized gains and losses of funeral and cemetery merchandise and service trust investments are recorded in both trust investments and, net of tax, in non-controlling interest in funeral and cemetery trust in the Company s consolidated balance sheet.

Beginning January 4, 2004, realized earnings from cemetery perpetual care trust investments are recognized in other expense (income). Accretion expense on the non-controlling interest in perpetual care trusts is also recorded in other expense (income). To the extent of qualifying cemetery maintenance costs, distributable earnings from the perpetual care trust are recognized in cemetery revenue. Beginning January 4, 2004, unrealized gains and losses on perpetual care trust investments are recorded in both cemetery perpetual care trust investments and, net of tax, in non-controlling interest in perpetual care trusts in the Company s consolidated balance sheet. Generally, net capital gains of cemetery perpetual care trust investments are not eligible for distribution to the Company.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Creditors of the consolidated trusts, if any, have no recourse to the general credit of the Company, except as provided under contracts executed by the the Company or its subsidiaries.

Cemetery property

Cemetery property, including capitalized interest, consists of developed plots, lawn crypts, mausoleums or niches and undeveloped land, and is valued at average cost. Amounts are expensed as revenue from sales of cemetery property is recognized.

Property and equipment

Property and equipment is recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	10 to 20 years for buildings and the shorter of 10 years or the lease term for leasehold improvements
Automobiles	2 to 5 years
Furniture, fixtures and equipment	5 to 10 years
Computer hardware and software	3 to 6 years

Goodwill and intangible assets

Goodwill, resulting from reorganization value in excess of identifiable net assets and purchase acquisitions, is not amortized, but tested annually for impairment. The Company s reporting units for goodwill are its reportable funeral and cemetery operating segments, and its insurance reporting unit.

Identifiable intangible assets consist of deferred insurance policy acquisition costs, present value of future insurance business profits and acquired key employee covenants not to compete, which are amortized over their respective useful lives using a method reflecting the pattern in which such assets are consumed.

Financial instruments

Financial instruments that potentially subject the Company to concentrations of credit or collection risk principally consist of cash and cash equivalents, customer receivables, receivables from trusts, and trust investments.

The Company maintains its cash and cash equivalents in bank deposit accounts with various major financial institutions which, at times may exceed federally insured limits. The Company has not experienced any losses in such deposit accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Concentrations of credit risk with respect to customer receivables are minimal, due to the low dollar amount of each receivable, the large number of customers and the large dispersion of the receivables across many geographic areas.

Funeral and cemetery merchandise and service trust investments represent customer payments on pre-need funeral contracts and pre-need cemetery contracts that are placed into state regulated trusts, and generally do not subject the Company to significant collection risk. Funds placed into certain state regulated trusts are limited to federally insured deposits and or U.S. Government bonds. The Company s policies with respect to trust fund investments are specifically designed such that investments are

F-143

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

diversified primarily in cash, fixed income and equity securities and are maintained with various high quality and reputable counterparties, as well as to minimize concentrations of credit risk by not maintaining disproportionately large balances in any one financial counterparty. As of December 31, 2005, the Company had a significant concentration of small restricted cash trust accounts in the aggregate amount of $53,177,000 (2004 $63,175,000) with one financial institution.

A summary of the cost and fair values of financial instruments is as follows:

	December 31, 2005		January 1, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Amounts receivable from funeral trusts (see Note 3)	$ 29,893	$ 29,893	$ 27,243	$ 27,243
Long-term debt (see Note 6)	373,475	380,475	463,640	480,682
Derivative instruments (see Note 21)	941	941	2,087	2,087
	$ 404,309	$ 411,309	$ 492,970	$ 510,012

The carrying amount of cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximates fair value due to the short-term maturities of these instruments.

The carrying amount of funeral, cemetery and perpetual care trust investment and insurance investments are classified as available for sale securities and recorded at fair value based on quoted market prices.

Derivative Financial Instruments

The Company accounts for its derivative financial instruments in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (FAS No. 133). The Company records derivative instruments in the consolidated balance sheet as either an asset or liability measured at its fair value. Changes in the derivative s fair value are recognized currently in earnings unless specific hedge accounting criteria are met. The Company formally documents, designates and assesses the effectiveness of transactions that receive hedge accounting.

The Company 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 (Foreign Currency Expenditure). The Company 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 (Foreign Currency Hedge Program). The Company uses forward foreign exchange contracts and foreign exchange option contracts to partially mitigate foreign exchange variability. In accordance with FAS No. 133, the Company has designated the Foreign Currency Hedge Program as qualifying for hedge accounting.

For derivatives that qualify and are designated as hedges of future cash flows, the effective portion of changes in fair values (the Effective Portion) are reported in stockholders equity under accumulated other comprehensive income. The Effective Portion is recognized in earnings and included in general and administrative expense when the related Foreign Currency Expenditure affects earnings. In cases where the Company revises its Foreign Currency Expenditure estimates, the Effective Portion attributable to the extent of any downward change in the Foreign Currency Expenditure estimates will be reclassified from accumulated other comprehensive income to current earnings and included in general and administrative expenses. The Company designates the change in fair value of forward foreign exchange contracts due to the change in forward points and the change in fair value of foreign exchange option contracts due to the

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ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

change in time value as the Ineffective Portion. The changes in fair values of derivatives that are not designated as hedges and the Ineffective Portion are recognized currently and included with foreign exchange gains/losses, which are reported in general and administrative expense.

Stock based compensation plans

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, as interpreted by Financial Accounting Standards Board (FASB) Interpretation No. 44 (FIN 44), Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB 25 and Emerging Issues Task Force No. 00-23 (EITF 00-23), Issues related to the Accounting for Stock Compensation under APB 25 and FIN 44, and FASB Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans, and complies with the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of SFAS 123.

Under APB Opinion No. 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the Company s stock and the exercise price. Compensation expense is also recorded when the number of shares to be issued upon exercise is not determinable, as with the tandem appreciation right where the number of shares issued is dependent upon the exchange of the option for the tandem appreciation right.

SFAS No. 123 as amended by SFAS No. 148 requires a fair-value based method of accounting for an employee stock option or similar equity instrument.

Had compensation cost for the Company s stock-based plan, including options grants and restricted stock issuances been determined using the Black-Scholes option pricing model at the grant date for awards granted in accordance with the provisions of SFAS No. 123, the Company s net income would have been the amounts indicated below:

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Net income, as reported	$ 41,183	$ 9,349	$ 10,807
Total stock-based employee compensation expense determined under fair value-based method, net of tax	(2,805)	(2,584)	(2,479)
Pro forma net income	$ 38,378	$ 6,765	$ 8,328
Net income per common share:			
Basic, as reported	$ 1.02	$ 0.23	$ 0.27
Basic, pro forma	0.95	0.17	0.21
Diluted, as reported	0.99	0.23	0.27
Diluted, pro forma	0.92	0.16	0.21

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided against deferred tax assets to the extent recoverability of the asset cannot be considered to be more likely than not.

In accordance with the principles of fresh start reporting, any future reduction of valuation allowances established at the Effective Date as a result of the utilization of benefits will reduce goodwill established at the Effective Date or, if such goodwill has been reduced to zero, increase capital in excess of par value.

Foreign currency translation

The assets and liabilities of the Company s foreign subsidiaries, which have a functional currency other than the U.S. dollar, are translated into U.S. dollars at the rates of exchange as of the consolidated balance sheet date, and revenue and expenses are translated at the average rates of exchange for the periods of operation. The net gains or losses arising from the translations are included in stockholders equity as a component of accumulated other comprehensive income in the consolidated statement of stockholders equity.

Comparability

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year, due to, among other things, the reclassification of assets held for sale as discontinued operations.

Accounting changes and recent accounting standards

Recent accounting standards

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (FAS No. 123R). FAS No. 123R requires companies to recognize compensation expense in an amount equal to the fair value of the share-based payment (including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans) issued to employees. FAS No. 123R applies to all transactions involving issuance of equity by a Company in exchange for goods and services, including employee services. FAS No. 123R is effective in the first interim or annual reporting period of the first fiscal year beginning on or after June 15, 2005. The Company will adopt FAS No. 123R in the first fiscal quarter of its 2006 fiscal year and expects to use the modified prospective application method, which results in no restatement of the Company s previously issued annual consolidated financial statements. The adoption of FAS No. 123R is expected to result in additional compensation expense of approximately $3.7 million for the 2006 fiscal year.

NOTE 3. PRE-NEED FUNERAL RECEIVABLES AND TRUST INVESTMENTS

The balance in pre-need funeral receivables and trust investments represents customer receivables and funeral trust investments related to unperformed, price-guaranteed, pre-need funeral contracts. The

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

components of pre-need funeral receivables and trust investments in the consolidated balance sheets are as follows:

	December 31, 2005	January 1, 2005
Customer receivables	$ 38,438	$ 37,146
Allowance for contract cancellations and refunds	(15,988)	(17,287)
Funeral trust investments	282,084	288,928
Amounts receivable from funeral trusts	29,893	27,243
Pre-need funeral receivables and trust investments	$ 334,427	$ 336,030

For customer receivables, an allowance for cancellations and refunds is provided at the date of pre-need funeral contract sale based on management s best estimates and is offset by an allowance against deferred pre-need funeral contract revenue.

Certain of the funeral trusts have not been consolidated, because the Company is not the primary beneficiary. Accordingly, they are reported as amounts receivable from funeral trusts. Amounts receivable from funeral trusts represent a portion of the proceeds from the sale of pre-need funeral services, deposited in accordance with state and provincial trusting laws with various financial institutions, together with accrued earnings. The Company will recognize and generally receive these amounts when the merchandise is delivered or service is performed.

As of December 31, 2005, the fair value of funeral trust investments classified as available-for-sale securities was based on quoted market prices. The carrying values of restricted cash and cash equivalents, and other investments approximate their fair values, due to their short-term to maturity. Funeral trust investments are evaluated for other-than-temporary impairment. Other-than-temporary impairment is required to be reflected in current earnings as a realized loss. It is possible that changes in interest rates, equity prices and other economic conditions in the near term could result in other-than-temporary impairment that could be significant to the Company.

It is not practical to estimate the fair value of amounts receivable from funeral trusts, because they are commingled with other third party funds in various trusts.

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The table below shows funeral trust investments at their fair values.

	December 31, 2005	January 1, 2005
Available-for-sale		
Fixed income securities:		
U.S. Treasury and other Government obligations	$ 22,724	$ 18,425
U.S. Government agencies	13,145	11,683
Corporate	12,318	10,325
Total bonds	48,187	40,433
Mortgaged-backed	20,357	17,288
Asset-backed	2,920	1,500
Total fixed income securities	71,464	59,221
Equity securities	79,645	63,177
Total available-for-sale	151,109	122,398
Restricted cash and cash equivalents	101,598	131,105
Other	29,377	35,425
Funeral trust investments	$ 282,084	$ 288,928
Unrealized gains	$ 11,709	$ 9,124
Unrealized losses	(4,758)	(2,007)

Realized investment income from the funeral trust investments, including realized gains and losses are recorded in other expense (income).

During the 52 weeks ended December 31, 2005, funeral trust available-for-sale securities with a cost of $177,151,000 were sold for proceeds of $178,995,000, resulting in $5,368,000 and $3,524,000 of realized gains and losses, respectively. The first in, first out method was used to determine the cost of funeral trust available-for-sale securities disposed of. The Company has determined that unrealized losses in the funeral trust investments are not other-than-temporary, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices.

The Company generally recommends to the trustee the mix of equities and fixed income securities in accordance with policies set by an investment committee comprised of members of senior management. The investment committee sets the mix of investments within the investment parameters set by various state and provincial regulators and with the assistance of independent professional financial advisors. The policy emphasizes a capital preservation approach while maintaining acceptable levels of income and capital appreciation.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Maturities of fixed income securities are estimated as follows:

	December 31, 2005
Due in one year or less	$ 769
Due in one to five years	26,858
Due in five to ten years	13,936
Thereafter	29,901
	$ 71,464

NOTE 4. PRE-NEED CEMETERY RECEIVABLES AND TRUST INVESTMENTS

The components of pre-need cemetery receivables and trust investments in the consolidated balance sheets are as follows:

	December 31, 2005	January 1, 2005
Customer receivables	$ 61,749	$ 64,130
Unearned finance income	(6,232)	(5,759)
Allowance for contract cancellations and refunds	(15,648)	(17,538)
Cemetery merchandise and service trust investments	267,453	270,821
	$ 307,322	$ 311,654

Cemetery merchandise and service trust investments represent a portion of the proceeds from the sale of pre-need merchandise and services, deposited in accordance with state and provincial trusting laws with various financial institutions, together with accrued earnings as of December 31, 2005. The Company will recognize and generally receive these amounts when the merchandise is delivered or service is performed.

For pre-need cemetery contract sales, other than sales of pre-need cemetery interment rights, which are recognized in accordance with the retail land sales provisions of Statement of Financial Accounting Standards No. 66, Accounting for Sales of Real Estate, an allowance for cancellations and refunds is provided at the time of sale based on management s best estimates and is offset by an allowance against deferred pre-need funeral and cemetery revenue. For customer receivables, an allowance is provided at the time of the pre-need cemetery contract sale.

As of December 31, 2005, the fair value of cemetery merchandise and service trust investments classified as available-for-sale securities was based on quoted market prices. The carrying values of restricted cash and cash equivalents, and other investments approximate their fair values, due to their short-term to maturity. Cemetery trust investments are evaluated for other-than-temporary impairment. Other-than-temporary impairment is required to be reflected in current earnings as a realized loss. It is possible that changes in interest rates, equity prices and other economic conditions in the near term could result in other than temporary impairment that could be significant to the Company.

The fair value of customer receivables is not materially different from book value, because of the large number of individual contracts, which generally have terms of one to seven years and contractual or imputed interest rates ranging from 8.00% to 9.75% per annum.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The table below shows cemetery merchandise and service trust investments at their fair values.

	December 31, 2005	January 1, 2005
Available-for-sale		
Fixed income securities:		
U.S. Treasury and other Government obligations	$ 44,647	$ 49,773
U.S. Government agencies	20,130	24,729
Corporate	21,081	19,990
Total bonds	85,858	94,492
Mortgaged-backed	36,826	34,792
Asset-backed	5,883	3,146
Total fixed income securities	128,567	132,430
Equity securities	100,069	99,845
Total available-for-sale	228,636	232,275
Restricted cash and cash equivalents	30,257	37,120
Other	8,560	1,426
Cemetery trust investments	$ 267,453	$ 270,821
Unrealized gains	$ 13,709	$ 16,194
Unrealized losses	(6,341)	(3,083)

Realized investment income from the cemetery merchandise and service trust investments, including realized gains and losses are recorded in other expense (income).

During the 52 weeks ended December 31, 2005, cemetery merchandise and service trust available-for-sale securities with a cost of $160,541,000 were sold for proceeds of $162,212,000, resulting in $4,865,000 and $3,194,000 of realized gains and losses, respectively. The first in, first out method was used to determine the cost of cemetery trust available-for-sale securities disposed of. The Company has determined that unrealized losses in the cemetery merchandise and service trust investments are not other-than-temporary, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices.

The Company recommends to the trustee the mix of equities and fixed income securities in accordance with policies set by an investment committee comprised of members of senior management. The investment committee sets the mix of investments within the investment parameters set by various state and provincial regulators and with the assistance of independent professional financial advisors. The policy set by the investment committee emphasizes, through an investment grade focus, a capital preservation approach while maintaining acceptable levels of income and capital appreciation.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Maturities of fixed income securities are estimated as follows:

	December 31, 2005
Due in one year or less	$ 1,099
Due in one to five years	48,327
Due in five to ten years	24,512
Thereafter	54,629
	$ 128,567

The customer receivables as of December 31, 2005, are expected to mature as follows:

	End of Fiscal Year
2006	$ 32,416
2007	15,070
2008	7,382
2009	3,778
2010	1,521
Thereafter	1,582
	$ 61,749

NOTE 5. CEMETERY PERPETUAL CARE TRUST INVESTMENTS

A portion of the proceeds from cemetery sales for interment rights is generally required by law to be paid into perpetual care trusts.

As of December 31, 2005, the fair value of perpetual care trust investments classified as available-for-sale securities were based on quoted market prices. The carrying values of restricted cash and cash equivalents, and other investments approximate their fair values, due to their short-term to maturity. Perpetual care trust investments are evaluated for other-than-temporary impairment. Other-than-temporary impairment is reflected as a reduction in perpetual care trust investments with an offsetting reduction in non-controlling interest in perpetual care trust. It is possible that changes in interest rates, equity prices and other economic conditions in the near term could result in other than temporary impairment that could be significant to the Company.

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The table below shows perpetual care trust investments at their fair values.

	December 31, 2005	January 1, 2005
Available-for-sale		
Fixed income securities:		
U.S. Treasury and other Government obligations	$ 52,918	$ 36,871
U.S. Government agencies	28,043	34,664
Corporate	35,346	38,433
Total bonds	116,307	109,968
Mortgaged-backed	63,548	74,707
Asset-backed	12,089	11,319
Total fixed income securities	191,944	195,994
Equity securities	28,158	27,673
Total available-for-sale	220,102	223,667
Restricted cash and cash equivalents	23,263	21,611
Other	440	774
Cemetery perpetual care trust investments	$ 243,805	$ 246,052
Unrealized gains	$ 4,084	$ 5,271
Unrealized losses	(5,535)	(2,344)

During the 52 weeks ended December 31, 2005, perpetual care trust available-for-sale securities with a cost of $147,912,000 were sold for proceeds of $149,451,000, resulting in $4,482,000 and $2,943,000 of realized gains and losses, respectively. The first in, first out method was used to determine the cost of perpetual care trust available-for-sale securities disposed of. The Company has determined that unrealized losses in the perpetual care trust investments are not other-than-temporary, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices.

The Company recommends to the trustee the mix of equities and fixed income securities in accordance with policies set by an investment committee comprised of members of senior management. The investment committee sets the mix of investments within the investment parameters set by various state and provincial regulators and with the assistance of independent professional financial advisors. The policy set by the investment committee emphasizes, through an investment grade focus, a capital preservation approach while maintaining acceptable levels of income and capital appreciation.

Maturities of fixed income securities are estimated as follows:

	December 31, 2005
Due in one year or less	$ 1,196
Due in one to five years	65,463

Due in five to ten years		35,456
Thereafter		89,829
	$	191,944

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

NOTE 6. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2005		January 1, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit facility(a)	$ 4,000	$ 4,000	$	$
Senior secured term loan B due in 2009(a)(b)	161,683	161,683	246,826	246,826
7.75% Senior unsecured notes due in 2012(c)	200,000	207,000	200,000	216,760
12.25% Senior unsecured notes due in 2009(d)			4,509	4,791
Promissory notes and capitalized obligations, certain of which are secured by assets of certain subsidiaries	7,792	7,792	12,305	12,305
	373,475	380,475	463,640	480,682
Less, current maturities of long-term debt	2,435	2,435	9,083	9,365
	$ 371,040	$ 378,040	$ 454,557	$ 471,317

(a) In 2003, the Company entered into a senior secured facility (the Credit Agreement), which after subsequent amendments, includes a $368,000,000 Senior Secured Term Loan B due September 29, 2009 (the Term Loan B) and a $75,000,000 revolving credit facility (the Revolving Credit Facility), of which $35,000,000 is available in the form of letters of credit.

The Revolving Credit Facility is intended to be used primarily to fund the Company s working capital requirements. The Revolving Credit Facility bears interest at a rate per annum in accordance with graduated pricing based upon the Company s consolidated leverage ratio, and the Company has the option to elect an interest rate equal to either (i) a base rate (7.25% at December 31, 2005), plus 1.75% (based upon the Company s consolidated leverage ratio at December 31, 2005), or (ii) LIBOR (4.54% for the three-month LIBOR at December 31, 2005), plus 2.75% (based upon the Company s consolidated leverage ratio at December 31, 2005). An annual fee of 0.50% is charged on the unused portion of the Revolving Credit Facility. The Revolving Credit Facility matures on September 29, 2008.

Material covenants in the Credit Agreement include a requirement to maintain a minimum interest coverage ratio and fixed charge coverage ratio, a requirement not to exceed a maximum leverage ratio, an annual maximum on capital expenditures and cemetery development, and specified maximum amounts for capital lease obligations, indebtedness, acquisitions, certain investments, and sales of accounts receivable. Outstanding principal amounts and interest accrued and unpaid may, at the election of the requisite lenders, become immediately due and payable and further commitments by the lenders to make loans may, at the election of the requisite lenders, be terminated upon the occurrence of events of default specified in the Credit Agreement. As of December 31, 2005, the Company was in compliance with all covenants and was not in breach of any provision of the Credit Agreement that would cause an event of default to occur. The Credit Agreement is secured by specified real property, and substantially all personal property of Alderwoods Group and specified subsidiaries.

On March 18, 2005, Alderwoods Group, Inc. entered into an amendment to the Credit Agreement. The amendment modifies the Credit Agreement to provide Alderwoods Group, Inc. additional flexibility to introduce an employee stock purchase plan and other long-term incentive plans, increase

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

the letter of credit sub-limit under the Revolving Credit Facility to $35,000,000 from $25,000,000, and make certain other agreed upon changes.

As of December 31, 2005, the amount available under the Revolving Credit Facility was $75,000,000, less $17,644,000 in outstanding letters of credit and a revolving credit facility balance of $4,000,000.

(b) The Term Loan B provides the Company with an option to elect an interest rate equal to either (i) a base rate (7.25% at December 31, 2005), plus 1.00%, or (ii) LIBOR (4.54% for the three-month LIBOR at December 31, 2005), plus 2.00%. The weighted average rate of interest was 6.31% at December 31, 2005. The Term Loan B is repayable in quarterly principal installments from December 31, 2005, to June 13, 2009 (subject to reduction for prepayments) of 0.25% of the aggregate principal amount of the Term Loan B outstanding as of December 3, 2004, with a lump sum payment of the then-outstanding amount on the maturity date. The Company has prepaid the required quarterly principal installments up to and including the first quarter of its 2007 fiscal year.

As a result of the amendment to the Credit Agreement on August 19, 2004, the Company expensed $1,164,000 of unamortized deferred finance costs, which is included in interest expense for the 52 weeks ended January 1, 2005. In addition, $3,280,000 of refinancing fees and costs incurred in connection with the Credit Agreement amendments on August 19, 2004, and December 3, 2004, is also included in interest expense for the 52 weeks ended January 1, 2005.

(c) On August 19, 2004, the Company issued the 7.75% Senior Unsecured Notes, due in 2012 (the Eight-Year Senior Unsecured Notes). Interest accrues at an annual rate of 7.75% and is payable semi-annually on March 15 and September 15 or, if such day is not a business day, the next succeeding business day. At any time prior to September 15, 2007, the Company may, at its option, redeem up to 35% of the aggregate principal amount of the Eight-Year Senior Unsecured Notes at a redemption price of 107.75% of the stated principal amount, plus accrued and unpaid interest and Liquidated Damages (as defined in the indenture governing the Eight-Year Senior Unsecured Notes), if any, with net cash proceeds from specified equity offerings, provided at least 65% of the aggregate principal amount of the Eight-Year Senior Unsecured Notes remains outstanding and the redemption occurs within 90 days of the date of the closing of the specified equity offering. On or after September 15, 2008, the Company may, at its option, redeem all or part of the Eight-Year Senior Unsecured Notes at the redemption prices (expressed as percentages of the stated principal amount) set forth below, plus accrued and unpaid interest and Liquidated Damages, if any, if redeemed during the twelve-month period beginning on September 15 of the years indicated below:

Year	**Percentage**
2008	103.875
2009	101.938
2010 and thereafter	100.000

(d) On January 2, 2002, the Company issued the 12.25% Senior Unsecured Notes, due 2009. On April 21, 2004, the Company repurchased the principal amount of $9,248,000 at a premium of $1,110,000, plus accrued interest. The premium is included in interest expense for the 52 weeks ended January 1, 2005.

On August 19, 2004, the Company repurchased the principal amount of $316,243,000 at a premium of $31,340,000, plus accrued interest pursuant to an offer to purchase and consent solicitation. The premium is included in interest expense for the 52 weeks ended January 1, 2005.

On January 3, 2005, the Company repurchased the remaining principal amount of $4,509,000 at a premium of $282,000, plus accrued interest. The premium is included in interest expense for the 52 weeks ended December 31, 2005.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The Credit Agreement and the Eight-Year Senior Unsecured Notes are guaranteed by substantially all of Alderwoods Group s wholly-owned U.S. subsidiaries, other than Alderwoods Group s insurance subsidiaries and other specified excluded subsidiaries. Alderwoods Group, the parent company, has no independent assets or operations, and the guarantees of its guarantor subsidiaries are full and unconditional, and joint and several.

In certain change of control situations, Alderwoods Group is required to make an offer to purchase the then-outstanding Eight-Year Senior Unsecured Notes at a price equal to 101% of their stated principal amount, plus accrued and unpaid interest to the applicable repurchase date and Liquidated Damages, if any.

The Credit Agreement and the indenture governing the Eight-Year Senior Unsecured Notes restrict the Company s ability to engage in asset sales. The Credit Agreement and the indenture governing the Eight-Year Senior Unsecured Notes prohibit dispositions of assets unless the assets disposed of fulfill the requirements of specified exceptions. The indenture governing the Eight-Year Senior Unsecured Notes excepts, among other exceptions, assets with a fair market value less than $5,000,000. One specified exception contained in the Credit Agreement is dispositions of any of a group of identified discontinued assets; another is dispositions of assets not exceeding $35,000,000 book value in the aggregate over the life of the Credit Agreement, provided that (i) the consideration received is at least equal to fair market value and (ii) not less than 75% of the consideration is paid in cash or cash equivalents. Within 270 days of the receipt of net proceeds from any such asset sale, the Company has the ability to apply such net proceeds at its option (or as otherwise required) to invest in non-current operating assets (or enter into agreements for such investment which agreements are consummated within 360 days of such receipt of asset sale proceeds). Up to $10,000,000 of such net proceeds in any fiscal year (but not in excess of $40,000,000 in the aggregate over the term of the Credit Agreement) may be applied to make capital expenditures. To the extent the Company receives net proceeds in excess of additional specified thresholds and such excess is not applied to invest in non-current operating assets or make capital expenditures as described in the two immediately preceding sentences, the Company must make mandatory repayments under the Credit Agreement and, after all indebtedness under the Credit Agreement has been repaid, offer to purchase the Eight-Year Senior Unsecured Notes at a purchase price equal to 100.00% of the stated principal amount, plus accrued and unpaid interest and Liquidated Damages, if any.

Covenants in the Credit Agreement and the indenture governing the Eight-Year Senior Unsecured Notes restrict, and under specified circumstances prohibit, the payment of dividends by the Company.

In connection with the issuance of the Eight-Year Senior Unsecured Notes, the Company entered into a registration rights agreement, pursuant to which the Company was required, on or prior to May 16, 2005, to file an exchange offer registration statement on an appropriate form under the Securities Act of 1933 with the SEC. On May 12, 2005, the Company filed the exchange offer registration statement with the SEC. The registration statement was subsequently declared effective by the SEC on June 7, 2005. On June 8, 2005, the Company commenced an exchange offer (the Exchange Offer) pursuant to which holders of the Eight-Year Senior Unsecured Notes were given the opportunity to exchange their outstanding notes for new notes with substantially identical terms covered by the exchange offer registration statement. The Company consummated the Exchange Offer on July 18, 2005.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Maturities of long-term debt principal are as follows:

	End of Fiscal Year
2006	$ 2,435
2007	4,055
2008	7,618
2009	157,570
2010	184
Thereafter	201,613
	$ 373,475

NOTE 7. INSURANCE ACTIVITIES

Revenue from insurance operations is comprised of the following:

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Premiums	$ 81,943	$ 67,833	$ 52,251
Interest, dividend and other investment income	13,036	10,560	8,753
Realized investment gains	26	1,731	123
	$ 95,005	$ 80,124	$ 61,127

As of December 31, 2005 and January 1, 2005, the fair values of insurance operation investments classified as available-for-sale were based on quoted market prices. The carrying values of cash and short-term investments and other investments approximate their fair values, due to their short-term to maturity. Fixed maturity securities are classified as available-for-sale and carried at fair value. Investments in debt securities are evaluated for other than temporary impairment. Other temporary impairment is reflected in current period income as a realized loss. It is possible that a significant change in economic conditions in

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

the near term could result in losses that could be significant to the Company. Insurance invested assets carrying and fair values consist of the following:

	December 31, 2005	January 1, 2005
Available-for-sale		
Fixed income securities:		
U.S. Treasury and other Government obligations	$ 37,378	$ 36,405
U.S. state and political subdivisions	1,235	1,201
Corporate	114,715	107,981
Total bonds	153,328	145,587
Collateralized mortgages	66,455	47,490
Mortgaged-backed	56,028	45,385
Asset-backed	15,773	10,227
Total available-for-sale	291,584	248,689
Cash and short-term investments	2,917	2,004
Other	97	92
Insurance invested assets	$ 294,598	$ 250,785
Unrealized gains	$ 6,435	$ 7,666
Unrealized losses	(3,239)	714

During the 52 weeks ended December 31, 2005, insurance investments classified as available-for-sale with a cost of $37,357,000 (2004 $40,021,000), were sold for proceeds of $37,382,000 (2004 $41,752,000), resulting in $565,000 (2004 $1,976,000) and $540,000 (2004 $245,000) of realized gains and losses, respectively. The specific cost method was used to determine the cost of available-for-sale securities disposed of. The Company has determined that unrealized losses in insurance invested assets are not other-than-temporary, as the unrealized losses were due to temporary fluctuations in interest rates.

Insurance invested assets are predominantly in fixed income securities. The Company manages the mix of fixed income securities in accordance with policies set by an investment committee comprised of members of senior management. The investment committee sets and modifies the mix of investments with the assistance of independent professional financial advisors. The policy emphasizes a conservative approach while maintaining acceptable levels of income and capital appreciation.

Maturities of fixed income securities are estimated as follows:

	December 31, 2005	January 1, 2005
Due in one year or less	$ 10,502	$ 1,904
Due in one to five years	35,212	43,760
Due in five to ten years	29,951	21,125
Thereafter	77,663	78,798

	$	153,328	$	145,587

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

NOTE 8. STOCKHOLDERS EQUITY

Capital stock

The Company is authorized to issue 10,000,000 shares of Preferred Stock, with a par value of $0.01 per share, of which none have been issued.

The Company is authorized to issue 100,000,000 shares of Common Stock, with a par value of $0.01 per share.

In addition, warrants to purchase 2,992,000 shares of Common Stock were issued on the Effective Date, January 2, 2002. The warrants entitle the holders to purchase, at any time up to January 2, 2007, shares of Common Stock at an exercise price of $25.76 per share. The exercise price of the warrants exceeded the fair value of the Company s Common Stock on the date of issuance and throughout the 52 weeks ended December 31, 2005, 53 weeks ended January 1, 2005, and 53 weeks ended January 3, 2004. None of the warrants have been exercised.

Stock Based Compensation Plans

Director Compensation Plan

Pursuant to the Company s Director Compensation Plan (the Director Compensation Plan), each director of the Company who is not an employee of the Company or any of its subsidiaries has the option of receiving his or her annual base retainer and attendance fees in cash, Common Stock or a combination thereof. Further, each participant may elect to have Common Stock paid in the form of deferred Common stock (Deferred Stock), which will be credited to a booking account in the name of the participant. The Deferred Stock is subject to a deferral period during which the participant has no right to transfer any rights under his or her Deferred Stock and has no other rights of ownership therein. The Company has reserved 100,000 shares of Common Stock for issuance as compensation in lieu of cash under the Director Compensation Plan, of which 53,674 shares have been issued as of December 31, 2005.

Employee Stock Purchase Plan

In 2005, the Company s shareholders approved the adoption of a compensatory employee stock purchase plan to provide for the purchase on the open market, to a maximum of 1,100,000 shares of Common Stock of the Company. Eligible employees may authorize payroll deductions of up to 5% of their regular base salary to purchase shares of Common Stock of the Company on the open market on a monthly basis. The Company will make a cash contribution to purchase shares of Common Stock of the Company as additional compensation to each participant equal to 50% of the employee s contribution for that month. During the 52 weeks ended December 31, 2005, a total of 46,653 shares were purchased and distributed to employees at an average price of $16.10 per share and compensation expense of $250,000 was incurred.

2005-2007 Executive Strategic Incentive Plan

The 2005-2007 Executive Strategic Incentive Plan, approved by the Board of Directors on July 21, 2005, is a performance based compensation plan designed to motivate and reward the senior management team for achieving shareholder value objectives. The plan provides cash awards to the senior executives based on the Company s Common Stock reaching a threshold target price of $17.00 in December 2007. The amount of the cash award increases the more the stock price exceeds the $17.00 threshold target price. Achieving a stock price of $17.00 results in an aggregate cash award of $5.6 million. Achieving a stock price of $18.00 results in an aggregate cash award of $8.0 million. The aggregate cash award

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

increases by $1.6 million for every $1.00 in stock appreciation beyond $18.00. No compensation expense was recorded in the 52 weeks ended December 31, 2005 as market value at December 31, 2005 was less than the threshold target price for the Executive Strategic Incentive Plan.

2005 Equity Incentive Plan

In April of 2005, the Company s shareholders approved the 2005 Equity Incentive Plan that permits the grant of (i) options to the employees and members of the Company s Board of Directors, with or without tandem appreciation rights, and (ii) restricted Common Stock units. A total of 1,800,000 shares are reserved for grant under the plan. Stock options have 3-year terms and vest at a rate of 25% on the first, 25% on the second and 50% on the third anniversaries of the date of grant.

The tandem appreciation rights entitle the employee to exchange the employee s option right for a number of shares equal in value to the appreciated value of the options. The exchange of the option for the tandem appreciation right requires an immediate exercise of the tandem appreciation right and will cause the immediate termination of the related option right. An exchange of an option right for a tandem appreciation right may only be made when the relevant option is otherwise exercisable. Although the options granted had an exercise price equal to or greater than the market value of the underlying Common Stock on the grant date, the number of shares to be issued upon exercise is not determinable as it is dependent upon the exchange of the option for a tandem appreciation right. In applying the intrinsic value-based method, the Company did not record a stock-based compensation expense for the 52 weeks ended December 31, 2005 as the market value at December 31, 2005 was less than the exercise price.

As of December 31, 2005, the Company had granted 242,200 shares of restricted Common Stock units to employees. The restricted Common Stock units do not vest for the first three years after the date grant. Thereafter, the restricted Common Stock units vest in years 3 to 10 based upon the share price of the Company s Common Stock. After three years of service, the restricted Common Stock units vest 70% at a $17 share price, and an additional 15% at a $17.50 share price and the final 15% at an $18 share price. Once granted, the restricted Common Stock units are not included in total shares outstanding and are not included in the weighted average number of common shares outstanding in each period used to calculate basic earnings per share until vested. No compensation expense was recorded in the 52 weeks ended December 31, 2005 as market value at December 31, 2005 was less than the vesting price for the restricted Common Stock units.

2002 Equity Incentive Plan

On January 2, 2002 the Company implemented the 2002 Equity Incentive Plan that permits the grants of stock options to the employees and members of the Company s Board of Directors. A total of 4,500,000 shares are reserved for grant under the plan. Stock options are granted with an exercise price equal to the stock s fair market value at the date of grant. Except in certain cases, stock options have 3-year terms and vest at a rate of 25% on the first, 25% on the second and 50% on the third anniversaries of the date of grant. For option grants under the 2002 Equity Plan, no stock-based compensation expense was recorded in the 52 weeks ended December 31, 2005, 52 weeks ended January 1, 2005 and 53 weeks ended January 3, 2004, as all options granted under this plan had an exercise price equal to or greater than the market value of the underlying Common Stock on the grant date.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The following is a summary of the total number of outstanding stock options and restricted Common Stock units under both plans:

	Outstanding Options (thousands)	Weighted Average Exercise Price (dollars per Common share)	Outstanding Restricted Common Stock Units (thousands)	Weighted Average Exercise Price (dollars per Common share)
Balance at December 28, 2002	3,470	$ 11.07		$
Granted	1,220	3.65		
Exercised	(4)	7.59		
Cancelled	(501)	11.39		
Balance at January 3, 2004	4,185	8.87		
Granted	70	9.43		
Exercised	(10)	5.62		
Cancelled				
Balance at January 1, 2005	4,245	8.89		
Granted	1,308	15.09	248	15.99
Exercised	(431)	6.44		
Cancelled	(91)	8.25	(11)	15.99
Balance at December 31, 2005	5,031	$ 10.75	237	$ 15.99

The following table summarizes information about stock options outstanding at December 31, 2005:

Range of Exercise Prices (dollars per Common share)		Number Outstanding (thousands)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price (dollars per Common share)	Number Exercisable Common share (thousands)	Weighted-Average Exercise Price (dollars per Common share)
$ 3.65	$ 5.96	919	7.24	$ 3.65	459	$ 3.65
$ 5.97	$ 7.59	1,035	6.48	7.47	1,035	7.47
$ 7.60	$13.23	2,049	6.59	12.95	1,750	13.19
$13.24	$15.99	1,028	9.57	15.99		
		5,031			3,244	

The fair value of stock options used to compute the pro forma net loss and loss per Common share disclosures was calculated as of the grant date, using the Black-Scholes option-pricing model with the following assumptions:

Weighted-average assumptions	December 31, 2005	January 1, 2005	January 3, 2004
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	45.0%	41.5%	32.9%
Risk-free interest rate	3.64%	1.93%	3.1%
Expected option life in years	5	3	3

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The weighted average fair value of the Company s stock options issued under the 2002 Equity Incentive Plan and the 2005 Equity Incentive Plan, calculated using the Black-Scholes option-pricing model, granted during the 52 weeks ended December 31, 2005, was $6.70 (2004 $2.84, 2003 $0.96) per option.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected price volatility and option life. The expected option life is based on the Predecessor s historical experience as well as the vesting periods and terms of the stock options. The Company uses expected volatility rates, which are based on a combination of the Company s historical volatility rates, plus the historical volatility rates of other companies in the death care industry, trended into future years. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company s stock options.

NOTE 9. LEGAL CONTINGENCIES

The Company is a party to legal proceedings in the ordinary course of its business, and believes it has made adequate provision for any potential estimated liabilities.

Funeral Consumers Alliance, Inc. et al v. Alderwoods Group, Inc. et al was filed in the United States District Court for the Northern District of California in April, 2005. This case has been transferred to the United States District Court for the Southern District of Texas, Case No. CV3394. To date, six separate class action lawsuits, including, *Francis H. Rocha v. Alderwoods Group, Inc. et al, Marcia Berger v. Alderwoods Group, Inc. et al, Maria Magsarili and Tony Magsarili v. Alderwoods Group, Inc. et al, Caren Speizer v. Alderwoods Group, Inc. et al,* and *Frank Moroz v. Alderwoods Group, Inc. et al* (Funeral Consumer Cases) have been consolidated into this case. Two other cases, also transferred to the United States District Court for the Southern District of Texas, *Pioneer Valley Casket Co. v. Alderwoods Group, Inc. et al (Pioneer Valley*) and *Ralph Fancher et al v. Alderwoods Group, Inc. et al (Fancher*), have been consolidated into this case for purposes of discovery only.

All of these cases, including *Pioneer Valley* and *Fancher* are purported class actions on behalf of casket consumers throughout the United States. The suits name as defendants the Company and four other public companies involved in the funeral or casket industry. Except for *Fancher,* which alleges violations of State of Tennessee antitrust laws only, all of the Funeral Consumer Cases and *Pioneer Valley* allege that defendants violated federal and state antitrust laws by engaging in anticompetitive practices with respect to the sale and pricing of caskets. All of the cases, including *Fancher,* seek injunctions, unspecified amounts of monetary damages, and treble damages. Motions to Dismiss filed by the Company and all other defendants are pending in the Funeral Consumer Cases and *Pioneer Valley.* The Company intends to file a Motion to Dismiss in the *Fancher* case as well. Plaintiffs in all these cases have yet to provide any meaningful information regarding their alleged damages. As a result, the Company cannot quantify its ultimate liability, if any, for the payment of damages. The Company believes plaintiffs claims are without merit and intends to vigorously defend itself in these actions.

Richard Sanchez et al v. Alderwoods Group, Inc. et al was filed in February 2005 in the Superior Court of the State of California, for the County of Los Angeles, Central District; Case No.BC328962. Plaintiffs seek to certify a nationwide class on behalf of all consumers who purchased funeral goods and services from the Company. Plaintiffs allege in essence that the Federal Trade Commission s Funeral Rule requires the Company to disclose its markups on all items obtained from third-parties in connection with funeral service contracts. Plaintiffs allege further that the Company has failed to make such disclosures.

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Plaintiffs seek to recover an unspecified amount of monetary damages, attorney s fees, costs and unspecified injunctive and declaratory relief. The Company believes that plaintiffs claims are without merit and intends to vigorously defend itself in this action.

On July 7, 2005, the Federal Trade Commission (the FTC) issued a letter advisory opinion regarding the lawful construction of the term cash advance item as used in the Funeral Rule. The FTC opined with regard to a similar lawsuit in Texas state court: The Commission believes that the court is incorrect in ruling that all goods or services purchased from a third-party vendor are cash advance items. This interpretation sweeps far too broadly, potentially bringing within its scope every component good or service that comprises a funeral. This was not and is not the Commission s intention in the cash advance provisions of the Rule. In our opinion, the term cash advance item in the Rule applies only to those items that the funeral provider represents expressly to be cash advance items or represents by implication to be procured on behalf of a particular customer and provided to that customer at the same price the funeral provider paid for them. The FTC sets forth its analysis in the remainder of the letter.

The Company has learned that a number of plaintiffs to these actions along with the Funeral Consumers Alliance have filed a petition against the FTC in the District of Columbia Circuit Court asking the Court to overturn the FTC s July 7, 2005 Advisory Opinion.

In addition to the funeral and casket antitrust lawsuits, the Company has received a Civil Investigative Demand, dated August 4, 2005, from the Attorney General of Maryland on behalf of itself and other undisclosed state attorneys general, who have commenced an investigation of alleged anticompetitive practices in the funeral industry. The Company has received similar Civil Investigative Demands from the Attorneys General of Florida and Connecticut.

The ultimate outcome of the litigation matters described above cannot be determined at this time. An adverse decision in one or more of such matters could have a material adverse effect on the Company, its financial condition, results of operation and cash flows. However, the Company intends to aggressively defend the lawsuits.

In addition, the Company is party to other legal proceedings in the ordinary course of business, and believes it has made adequate provision for any potential estimated liabilities. The Company does not expect the outcome of these proceedings, individually or in the aggregate, to have a material adverse effect on its financial position, results of operations or liquidity.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Leases

The future annual payments for operating leases with terms greater than one year, primarily for premises, automobiles and office equipment, are as follows:

	Premises	Automobiles	Other	Total
2006	$ 6,608	$ 789	$ 432	$ 7,829
2007	5,054	385	264	5,703
2008	4,131	99	108	4,338
2009	3,611	24	2	3,637
2010	3,036	13		3,049
Thereafter	15,026			15,026

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

In addition to the automobile leases noted in the table above, as at December 31, 2005, the Company leased approximately 1,233 vehicles under a master operating lease agreement, which has a minimum lease term of 12 months. The Company s practice is to continue these leases on a month-to-month basis after the expiry of the minimum lease term. Lease payments for these vehicles are projected to be $7,310,000 in 2006.

Total expense incurred under all operating leases for the 52 weeks ended December 31, 2005, was $19,717,000 (2004 $21,739,000, 2003 $23,181,000).

Environmental contingencies and liabilities

The Company s operations are subject to numerous environmental laws, regulations and guidelines adopted by various governmental authorities in the jurisdictions in which the Company operates. On a continuing basis, the Company s business practices are designed to assess and evaluate environmental risk and, when necessary, conduct appropriate corrective measures. Liabilities are recorded when known or considered probable and reasonably estimable.

The Company provides for environmental liabilities using its best estimates. Actual environmental liabilities could differ significantly from these estimates.

NOTE 11. INCOME TAXES

The provision (recovery) for income taxes on income (loss) from continuing operations consists of the following:

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Current:			
United States	$ (11,011)	$ (3,243)	$ (5,575)
Foreign	(117)	319	386
State and local	2,083	6,597	654
	(9,045)	3,673	(4,535)
Deferred:			
United States	7,535	(1,380)	(1,950)
Foreign	2,393	(31)	
State and local	3,932	(3,715)	
	13,860	(5,126)	(1,950)
Total provision	$ 4,815	$ (1,453)	$ (6,485)

The components of income (loss) before income taxes consist of the following:

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004

United States	$ 38,839	$ 7,372	$ 632
Foreign	7,425	7,011	8,112
	$ 46,264	$ 14,383	$ 8,744

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The reconciliation of the statutory federal income tax rate related to the Company s effective tax rate is as follows:

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
State and local taxes	4.9	(54.9)	23.7
Non-deductible or non-taxable amounts, change in valuation allowance and other	2.9	(73.2)	(0.5)
Favourable resolution of tax uncertainties	(31.8)	120.8	(293.2)
Effective income tax rate	11.0%	27.7%	(235.0)%

The Company made income tax payments of $5,431,000 (2004 $8,160,000, 2003 $9,920,000), excluding income tax refunds received of $1,516,000 (2004 $1,323,000, 2003 $17,029,000), during the 52 weeks ended December 31, 2005.

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The tax effects of temporary differences that give rise to significant deferred tax assets and liabilities are as follows:

	December 31, 2005	January 1, 2005
Deferred tax assets		
Receivables	$ 6,817	$ 11,297
Cemetery property	55,163	57,195
Accounts payable and accrued liabilities	13,577	14,239
Pre-need funeral and cemetery obligations	180,801	195,749
Insurance policy liabilities	15,172	11,828
Covenants not to compete	8,057	9,814
Deferred agency costs	11,665	15,349
Operating loss carryforwards	90,686	91,855
Capital loss carryforwards	235,911	234,281
Other	621	4,896
Total deferred tax assets before valuation allowance	618,470	646,503
Valuation allowance	(401,350)	(427,364)
Total deferred tax assets after valuation allowance	217,120	219,139
Deferred tax liabilities		
Property and equipment	28,115	33,374
Pre-need funeral receivables and trust investments	103,548	113,534
Pre-need cemetery receivables and trust investments	51,250	55,104
Insurance invested assets	1,304	2,433
Goodwill	25,771	20,203
Other	4,627	6,687
Total deferred tax liabilities	214,615	231,335
Net deferred tax assets (liabilities) of continuing operations	$ 2,505	$ (12,196)

Although realization of the Company s net deferred tax assets is not assured, management believes that it is more likely than not that reversals of deferred tax liabilities and the expected profitability of the Company will provide sufficient taxable income to realize the deferred tax assets after consideration of the valuation allowance. It is possible that the estimated valuation allowance could change in the near term due to matters such as the timing and manner of reversals of deferred tax liabilities, sales of operations and future actual income or losses. 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 the Effective Date would be treated as a reduction of goodwill established on the Effective Date, with any excess over the value assigned to such goodwill recognized as a capital transaction.

F-165

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

As a result of the Company s emergence from reorganization proceedings, all federal net operating loss carryforwards generated by the Company prior to emergence and during fiscal 2002, have been eliminated. The Company s net operating loss carryforwards pertaining to federal, state, local, and foreign jurisdictions will expire as follows:

	End of Fiscal Year
2006	$ 5,359
2007	4,198
2008	4,907
2009	20,194
2010	4,348
Thereafter	628,316
	$ 667,322

The amount of loss carryforwards reflects the Company s best estimate of the effects that the confirmation and implementation of the Plan will have on the reduction and in some cases elimination of certain net operating loss carryforwards for income tax purposes. These amounts are subject to final determination by taxation authorities. Further, the Company expects its ability to utilize certain net operating losses to offset future Company taxable income in any particular year may be limited because distribution of the Company s Common Stock to the Company s creditors pursuant to the Plan resulted in an ownership change as defined in Section 382 of the Internal Revenue Code. The Company believes that uncertainty exists with respect to future realization of the loss carryforwards and a full valuation allowance has been established for the net operating loss carryforwards that the Company estimates will expire unused.

Deferred tax liabilities are not recognized for basis differences related to investments in foreign subsidiaries that are essentially permanent in duration.

Goodwill that is expected to be deductible for tax purposes at December 31, 2005 is $73,459,000 (2004 $89,122,000, 2003 $105,561,000).

NOTE 12. RETIREMENT PLANS

The Company has a 401(K) Retirement Savings Plan for United States employees who may defer between 1% and 75% of their eligible compensation. The Company will match between 50% and 100% of employee contributions to a maximum of either 2% of employees eligible compensation for certain employees or $2,000 for others. There are no required future contributions under this plan in respect of past service.

The Company has a Registered Retirement Savings Plan for Canadian employees who may contribute either 3% or 5% of their compensation which is matched by an equal contribution to the plan by the Company on behalf of employees. There are no required future contributions under this plan in respect of past service.

The Company s total expense for these retirement plans for the 52 weeks ended December 31, 2005, was approximately $2,663,000 (2004 $2,675,000, 2003 $2,650,000).

The Company has defined benefit plans for certain employees of its Rose Hills subsidiary. The plans are frozen, and as such the Company does not incur new service costs. The present value of these benefits has been funded or accrued in the condensed consolidated financial statements of the Company. At December 31, 2005, the Company recorded total plan assets of $11,234,200 (2004 $12,816,100) and corresponding benefit obligation of $19,951,500

(2004 $19,709,900).

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

NOTE 13. SUPPLEMENTARY STATEMENTS OF CASH FLOWS DISCLOSURE

Supplemental disclosures related to the statement of cash flows consist of the following:

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Decrease (increase) in assets:			
Receivables, net of allowances			
Trade	$ 19,783	$ (2,387)	$ (6,775)
Other	(4,766)	(5,823)	18,325
Inventories	937	837	1,515
Prepaid expenses	19,630	(657)	(2,283)
Cemetery property	(9,614)	(10,241)	(3,276)
Other assets	(5,650)	(18,932)	(12,535)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	(25,845)	(14,146)	(7,296)
Net effect of pre-need receivables and deferred revenue	8,820	35,528	52,425
Other liabilities	(2,131)	6,494	(2,760)
Insurance policy liabilities	2,452	1,831	5,811
Other changes in non-cash balances	(4,156)	(3,157)	7,871
	$ (540)	$ (10,653)	$ 51,022
Supplemental information:			
Interest paid	$ 29,443	$ 53,918	$ 77,290
Income taxes paid, net of refunds	3,915	6,837	(7,109)
Long-term debt issue costs paid	965	12,094	10,908
Bad debt expense	3,211	3,722	3,661
Non-cash investing and financing activities:			
Stock issued in connection with the settlement of certain unsecured claims		31	107
Stock issued as compensation in lieu of cash	144	173	105
Capital leases entered into			160
Restricted cash investing and financing activities:			
Purchases of funeral, cemetery, and perpetual care trust investments	$ 539,161	$ 356,254	$
Proceeds on disposition and maturities of funeral, and cemetery, and perpetual care trust investments	490,658	375,191	
	59,763	50,602	

Increase in non-controlling interests in funeral, cemetery and perpetual care trusts		
Decrease in non-controlling interests in funeral, cemetery and perpetual care trusts	110,782	81,575

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

NOTE 14. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain balance sheet accounts is as follows:

	December 31, 2005	January 1, 2005
Receivables, net of allowances:		
Customer receivables	$ 50,459	$ 68,721
Allowance for doubtful accounts	(10,320)	(12,029)
Other	12,723	9,753
	$ 52,862	$ 66,445
Cemetery property:		
Developed land and lawn crypts	$ 38,368	$ 37,623
Undeveloped land	31,243	30,685
Mausoleums	46,856	50,734
	$ 116,467	$ 119,042
Property and equipment:		
Land	$ 162,287	$ 166,252
Buildings and improvements	386,068	368,501
Automobiles	10,652	13,013
Furniture, fixtures and equipment	69,570	54,432
Computer hardware and software	29,061	23,311
Accumulated depreciation	(114,737)	(85,254)
	$ 542,901	$ 540,255
Other assets:		
Intangible assets	$ 18,741	$ 15,060
Deferred finance costs	23,359	22,411
Accumulated amortization	(15,258)	(12,222)
Notes receivable	3,016	2,696
Other	12,992	9,137
	$ 42,850	$ 37,082
Accounts payable and accrued liabilities:		
Bank overdraft.	$ 7,191	$ 7,209
Trade payables	13,634	19,847
Interest	5,169	7,210
Accrued liabilities	21,629	32,423
Accrued insurance	21,261	18,058

Accrued taxes		32,199		44,785
Other		18,651		11,130
	$	119,734	$	140,662

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

	December 31, 2005	January 1, 2005
Deferred pre-need contract revenue:		
Funeral	$ 72,087	$ 69,098
Cemetery	19,531	13,873
	$ 91,618	$ 82,971
Other liabilities:		
Perpetual care liability	$ 7,860	$ 7,490
Notes payable	12,104	12,667
Other	2,019	1,797
	$ 21,983	$ 21,954

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Other expense (income), net:			
For funeral, cemetery and perpetual care trust investments:			
Realized gains	$ (14,715)	$ (15,748)	$
Realized losses	9,660	10,009	
Interest and dividend income	(26,707)	(24,915)	
Trust investment expenses and income taxes	5,036	5,169	
Interest expense related to non-controlling interest in funeral and cemetery trusts	15,803	18,335	
Non-controlling interest in perpetual care trusts	10,923	7,150	
(Gain) loss on disposal of business and other assets	(4,964)	(3,529)	1,056
Other	302	2,367	3,000
	$ (4,662)	$ (1,162)	$ 4,056

The trust investment and non-controlling interest balances do not have comparable 2003 balances due to the Company adopting FIN No. 46R at the beginning of its 2004 fiscal year on January 4, 2004.

NOTE 15. GOODWILL

FAS No. 142 requires that goodwill be reviewed for impairment annually, as well as upon the occurrence of certain events that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Under FAS No. 142, goodwill impairment is deemed to exist, and must then be further assessed, if a reporting unit s carrying amount exceeds its estimated fair value. The Company s reporting units are funeral, cemetery and insurance, which are consistent with the Company s operating segments. All of the Company s goodwill is recorded in the funeral reporting unit. In accordance with FAS No. 142, the Company undertook its annual goodwill impairment review during the third fiscal quarters of 2005, 2004 and 2003, and, as a result, there was no indication of goodwill impairment as at October 8, 2005, October 9, 2004 or October 4, 2003, as the estimated fair value of the funeral reporting

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

unit exceeded its carrying amount. The fair value of the funeral reporting unit was determined by using a discounted cash flow valuation methodology consistent with that applied at the Effective Date, with a discount rate comparable with other enterprises in the death care industry, adjusted for risks associated with differences in company size, certain characteristics specific to the Company and cash flow projection risk.

The changes in the carrying amount of goodwill for the funeral reporting unit are as follows:

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005
Balance, beginning of year	$ 321,134	$ 320,640
Reduction in valuation allowance against deferred tax assets established at time of emergence from reorganization proceedings	(19,535)	
Reduction in deferred tax liability established at time of emergence from reorganization proceedings	(5,683)	
Effect of foreign currency and other	(26)	494
Balance, end of year	$ 295,890	$ 321,134

During the year, the Company recorded a reduction of $33.9 million in the valuation allowance on the Company s deferred tax assets established at time of emergence from reorganization proceedings, as it was determined that it is more likely than not that a portion of the deferred tax assets will be realized. In accordance with SFAS No. 109 Accounting for Income Taxes and SOP 90-7 Financial Reporting by Entities in Reorganization under Bankruptcy Code, $19.5 million of the reversal was applied against goodwill recorded at the time of Company s emergence from reorganization proceedings (see Note 2). The remaining $14.4 million of the reversal was recorded as a tax benefit during the year.

At emergence from reorganization proceedings, the Company recorded deferred income tax liabilities based on estimating temporary differences from differing treatment of items for tax and accounting purposes. During the 52 weeks ended December 31, 2005, the Company reduced this estimate by $5.7 million and recorded an offsetting reduction to goodwill.

NOTE 16. SEGMENT REPORTING

The Company s reportable segments are comprised of the three businesses it operates, each of which offers different products and services: funeral homes, cemeteries and insurance (see Note 1).

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The Company sells primarily to external customers, though any inter-segment sales or transfers occur at market price. The Company evaluates performance based on income from operations of the respective businesses.

	Funeral	Cemetery	Insurance	Other	Consolidated
Revenue earned from external sales:					
52 weeks ended December 31, 2005	$ 479,799	$ 174,110	$ 95,005	$	$ 748,914
52 weeks ended January 1, 2005	$ 472,935	$ 164,052	$ 80,124	$	$ 717,111
53 weeks ended January 3, 2004	$ 491,611	$ 168,024	$ 61,127	$	$ 720,762
Income from operations:					
52 weeks ended December 31, 2005	$ 87,280	$ 23,550	$ 5,068	$ (42,815)	$ 73,083
52 weeks ended January 1, 2005	$ 94,640	$ 23,768	$ 4,710	$ (51,218)	$ 71,900
53 weeks ended January 3, 2004	$ 110,529	$ 26,383	$ 1,752	$ (56,281)	$ 82,383
Depreciation:					
52 weeks ended December 31, 2005	$ 24,864	$ 14,827	$ 148	$ 4,759	$ 44,598
52 weeks ended January 1, 2005	$ 24,283	$ 14,062	$ 166	$ 3,582	$ 42,093
53 weeks ended January 3, 2004	$ 24,194	$ 13,364	$ 139	$ 2,525	$ 40,222
Total assets:					
December 31, 2005	$ 1,107,916	$ 807,673	$ 326,160	$ 32,554	$ 2,274,303
January 1, 2005	$ 1,154,019	$ 878,350	$ 272,823	$ 67,235	$ 2,372,427
January 3, 2004	$ 1,218,974	$ 668,357	$ 481,622	$ 84,050	$ 2,453,003
Goodwill:					
December 31, 2005	$ 295,890	$	$	$	$ 295,890
January 1, 2005	$ 321,134	$	$	$	$ 321,134
Purchase of property and equipment:					
52 weeks ended December 31, 2005	$ 25,715	$ 5,477	$ 105	$ 11,213	$ 42,510
52 weeks ended January 1, 2005	$ 23,273	$ 3,362	$ 74	$ 10,474	$ 37,183
53 weeks ended January 3, 2004	$ 18,640	$ 2,292	$ 183	$ 4,087	$ 25,202
Development of cemetery property:					
52 weeks ended December 31, 2005	$	$ 3,178	$	$	$ 3,178
52 weeks ended January 1, 2005	$	$ 3,100	$	$	$ 3,100
53 weeks ended January 3, 2004	$	$ 2,122	$	$	$ 2,122

The following table reconciles earnings from operations of reportable segments to total earnings and identifies the components of Other segment earnings from operations:

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Earnings from operations of funeral, cemetery and insurance segments	$ 115,898	$ 123,118	$ 138,664
Other expenses of operations:			
General and administrative expenses	(42,815)	(51,218)	(56,281)
Income from operations	$ 73,083	$ 71,900	$ 82,383

F-171

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The following table reconciles total assets of reportable segments and details the components of Other segment assets, which is mainly comprised of corporate assets:

	December 31, 2005	January 1, 2005	January 3, 2004
Total assets of funeral, cemetery and insurance segments	$ 2,241,749	$ 2,305,191	$ 2,368,953
Other assets includes:			
Cash	757	2,039	30,911
Receivables	7,188	5,294	5,116
Prepaid expenses	5,604	24,572	23,736
Property and equipment	23,345	16,494	9,186
Other	(4,340)	18,837	15,101
	$ 2,274,303	$ 2,372,427	$ 2,453,003

The Company operates principally in the United States and also has operations in Canada. The Company s United Kingdom operations are classified as discontinued operations and were disposed of on October 20, 2003. The following tables depict the revenue earned and the long-lived assets held in the reportable geographic segments.

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Revenue:			
United States	$ 685,429	$ 660,470	$ 665,488
Canada	63,485	56,641	55,274
	$ 748,914	$ 717,111	$ 720,762

	December 31, 2005	January 1, 2005	January 3, 2004
Property and equipment and cemetery property:			
United States	$ 564,303	$ 573,280	$ 592,057
Canada	95,065	86,017	74,625
	$ 659,368	$ 659,297	$ 666,682

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

NOTE 17. CONDENSED CONSOLIDATING GUARANTOR FINANCIAL INFORMATION

The following presents the condensed consolidating guarantor financial information as of the 52 weeks ended December 31, 2005 and the 52 weeks ended January 1, 2005 and for the 52 weeks ended December 31, 2005, the 52 weeks ended January 1, 2005 and the 53 weeks ended January 3, 2004 for the direct and indirect domestic subsidiaries of the Company that serve as guarantors of the 7.75% senior unsecured notes due in 2012, and the Company s subsidiaries that do not serve as guarantors. Non-guarantor subsidiaries include the Canadian and Puerto Rican subsidiaries, insurance subsidiary and certain domestic subsidiaries that are prohibited by law from guaranteeing the 7.75% senior unsecured notes due in 2012.

Condensed Consolidating Balance Sheets

	December 31, 2005				
	Parent Company	**Guarantors**	**Non-Guarantors**	**Consolidating Adjustments**	**Consolidated Totals**
ASSETS					
Cash and cash equivalents	$	$ 4,034	$ 3,421	$	$ 7,455
Other current assets	1,964	60,070	13,497		75,531
Pre-need funeral receivables and trust investments		260,915	285,617	(212,105)	334,427
Pre-need cemetery receivables and trust investments		287,522	273,732	(253,932)	307,322
Cemetery property and property and equipment		549,860	109,508		659,368
Insurance invested assets			294,598		294,598
Goodwill		247,160	48,730		295,890
Investment in subsidiaries	1,075,366	(91,898)		(983,468)	
Cemetery perpetual care trust investment		464	243,341		243,805
Other assets	8,101	17,367	30,439		55,907
Total assets	$ 1,085,431	$ 1,335,494	$ 1,302,883	$ (1,449,505)	$ 2,274,303
LIABILITIES AND STOCKHOLDERS EQUITY					
Liabilities					
Current liabilities	$ 39,333	$ 73,597	$ 6,804	$	$ 119,734
Current maturities of long-term debt		2,412	23		2,435
Intercompany, net of investments in and advances to affiliates	82,643	(260,549)	177,906		
Long-term debt	365,683	5,357			371,040
Deferred pre-need funeral and cemetery contract revenue and non-controlling interest in funeral		533,061	573,091	(466,037)	640,115

and cemetery trusts					
Insurance policy liabilities			266,729		266,729
Other liabilities	19	20,040	12,476		32,535
Non-controlling interest in perpetual care trusts			243,962		243,962
Stockholders equity	597,753	961,576	21,892	(983,468)	597,753
Total liabilities and stockholders equity	$ 1,085,431	$ 1,335,494	$ 1,302,883	$ (1,449,505)	$ 2,274,303

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)
Condensed Consolidating Balance Sheets

	January 1, 2005				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
ASSETS					
Cash and cash equivalents	$	$ 6,385	$ 2,994	$	$ 9,379
Other current assets		98,759	12,038		110,797
Assets held for sale		31,695	72,649	(22,288)	82,056
Pre-need funeral receivables and trust investments		261,568	292,069	(217,607)	336,030
Pre-need cemetery receivables and trust investments		283,435	271,003	(242,784)	311,654
Cemetery property and property and equipment		557,671	101,626		659,297
Insurance invested assets			250,785		250,785
Goodwill		274,691	46,443		321,134
Investment in subsidiaries	995,959	(93,014)		(902,945)	
Cemetery perpetual care trust investment		827	245,225		246,052
Other assets	10,339	15,926	18,978		45,243
Total assets	$ 1,006,298	$ 1,437,943	$ 1,313,810	$ (1,385,624)	$ 2,372,427
LIABILITIES AND STOCKHOLDERS EQUITY					
Liabilities					
Current liabilities	$ 42,827	$ 84,062	$ 13,773	$	$ 140,662
Current maturities of long-term debt	4,509	2,838	1,736		9,083
Intercompany, net of investments in and advances to affiliates	(43,792)	(131,602)	175,394		
Liabilities associated with assets held for sale		24,515	59,201	(22,288)	61,428
Long-term debt	446,826	7,708	23		454,557
Deferred pre-need funeral and cemetery contract revenue and non-controlling interest in funeral and cemetery trusts		521,111	575,868	(460,391)	636,588
Insurance policy liabilities			214,745		214,745
Other liabilities	16	29,410	12,885		42,311
Non-controlling interest in perpetual care trusts			257,141		257,141

Stockholders equity	555,912	899,901	3,044	(902,945)	555,912
Total liabilities and stockholders equity	$ 1,006,298	$ 1,437,943	$ 1,313,810	$ (1,385,624)	$ 2,372,427

F-174

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)
Condensed Consolidating Statement of Operations

52 Weeks Ended December 31, 2005

	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
Revenues	$	$ 565,211	$ 183,703	$	$ 748,914
Costs and expenses		470,250	164,145		634,395
General and administrative expenses	(1,996)	(13,985)	58,796		42,815
Provision for asset impairment		(1,008)	(371)		(1,379)
Income (loss) from operations	1,996	109,954	(38,867)		73,083
Interest on long-term debt	29,510	688	(129)		30,069
Intercompany charges	16,286	32,039	(48,325)		
Other expense (income), net		(5,480)	818		(4,662)
Income (loss) before income taxes	(43,800)	82,707	8,769		47,676
Income taxes	(3,246)	16,088	(8,027)		4,815
Net income (loss) from continuing operations	(40,554)	66,619	16,796		42,861
Equity in subsidiaries	81,737	(2,210)		(79,527)	
Discontinued operations					
Loss from discontinued operations		(1,247)	(165)		(1,412)
Income taxes		(2)	268		266
Net loss from discontinued operations		(1,245)	(433)		(1,678)
Net income	$ 41,183	$ 63,164	$ 16,363	$ (79,527)	$ 41,183

F-175

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)
Condensed Consolidating Statement of Operations

	52 Weeks Ended January 1, 2005				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
Revenues	$	$ 554,520	$ 162,591	$	$ 717,111
Costs and expenses		449,833	142,373		592,206
General and administrative expenses	(362)	2,592	48,988		51,218
Provision for asset impairment		1,283	504		1,787
Income (loss) from operations	362	100,812	(29,274)		71,900
Interest on long-term debt	80,264	1,222	223	(3,630)	78,079
Intercompany charges	11,321	22,909	(34,230)		
Other expense (income), net		(1,565)	403		(1,162)
Income (loss) before income taxes	(91,223)	78,246	4,330	3,630	(5,017)
Income taxes	(5,848)	2,345	2,050		(1,453)
Net income (loss) from continuing operations	(85,375)	75,901	2,280	3,630	(3,564)
Equity in subsidiaries	94,724	(4,116)		(90,608)	
Discontinued operations					
Income from discontinued operations		341	22,689	(3,630)	19,400
Income taxes			6,487		6,487
Net income from discontinued operations		341	16,202	(3,630)	12,913
Net income	$ 9,349	$ 72,126	$ 18,482	$ (90,608)	$ 9,349

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)
Condensed Consolidating Statement of Operations

	53 Weeks Ended January 3, 2004				
	Parent Company	**Guarantors**	**Non-Guarantors**	**Consolidating Adjustments**	**Consolidated Totals**
Revenues	$	$ 575,817	$ 144,945	$	720,762
Costs and expenses		450,859	126,010		576,869
General and administrative expenses	(2,789)	12,180	46,890		56,281
Provision for asset impairment		5,383	(154)		5,229
Income (loss) from operations	2,789	107,395	(27,801)		82,383
Interest on long-term debt	65,051	11,499	1,281	(1,378)	76,453
Intercompany charges	20,308	(71,062)	50,754		
Other expense (income), net		1,995	2,061		4,056
Income (loss) before income taxes	(82,570)	164,963	(81,897)	1,378	1,874
Income taxes	(8,162)	179	1,498		(6,485)
Net income (loss) from continuing operations	(74,408)	164,784	(83,395)	1,378	8,359
Equity in subsidiaries	85,215	905		(86,120)	
Discontinued operations					
Income (loss) from discontinued operations		(11,300)	19,548	(1,378)	6,870
Income taxes			4,422		4,422
Net income (loss) from discontinued operations		(11,300)	15,126	(1,378)	2,448
Net income (loss)	$ 10,807	$ 154,389	$ (68,269)	$ (86,120)	$ 10,807

F-177

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)
Condensed Consolidating Statement of Cash Flows

	52 Weeks Ended December 31, 2005				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
CASH PROVIDED BY (APPLIED TO)					
Cash flows from operating activities of continuing operations	$ 83,157	$ 148	$ 64,129	$	$ 147,434
Cash flows from operating activities of discontinued operations		795	(1,396)		(601)
Cash flows from investing activities of continuing operations		(6,587)	(62,366)		(68,953)
Cash flows from investing activities of discontinued operations		6,128	1,780		7,908
Cash flows from financing activities of continuing operations	(83,157)	(2,826)	(1,672)		(87,655)
Cash flows from financing activities of discontinued operations		(9)	(48)		(57)
Increase (decrease) in cash and cash equivalents		(2,351)	427		(1,924)
Cash and cash equivalents, beginning of period		6,385	2,994		9,379
Cash and cash equivalents, end of period	$	$ 4,034	$ 3,421	$	$ 7,455

Condensed Consolidating Statement of Cash Flows

	52 Weeks Ended January 1, 2005				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
CASH PROVIDED BY (APPLIED TO)					
Cash flows from operating activities of continuing operations	$ 116,629	$ (57,133)	$ 41,154	$ 3,630	$ 104,280
Cash flows from operating activities of discontinued operations		16,975	5,943	(7,609)	15,309
Cash flows from investing activities of continuing operations	65,000	(4,088)	(63,761)	(65,000)	(67,849)

Cash flows from investing activities of discontinued operations		29,070	79,905		108,975
Cash flows from financing activities of continuing operations	(181,629)	(14,355)	(65,503)	68,979	(192,508)
Cash flows from financing activities of discontinued operations		(351)	(89)		(440)
Decrease in cash and cash equivalents		(29,882)	(2,351)		(32,233)
Cash and cash equivalents, beginning of period		36,267	5,345		41,612
Cash and cash equivalents, end of period	$	$ 6,385	$ 2,994	$	$ 9,379

F-178

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)
Condensed Consolidating Statement of Cash Flows

	53 Weeks Ended January 3, 2004				
	Parent Company	Guarantors	Non-Guarantors	Consolidating Adjustments	Consolidated Totals
CASH PROVIDED BY (APPLIED TO)					
Cash flows from operating activities of continuing operations	$ (19,653)	$ 142,116	$ 13,355	$ 1,378	$ 137,196
Cash flows from operating activities of discontinued operations		9,354	10,910	(1,685)	18,579
Cash flows from investing activities of continuing operations	10,000	(11,428)	(41,995)	(10,000)	(53,423)
Cash flows from investing activities of discontinued operations		8,255	15,455		23,710
Cash flows from financing activities of continuing operations	9,653	(147,911)	(434)	10,307	(128,385)
Cash flows from financing activities of discontinued operations		(205)	(1,972)		(2,177)
Increase (decrease) in cash and cash equivalents		181	(4,681)		(4,500)
Cash and cash equivalents, beginning of period		36,089	10,023		46,112
Cash and cash equivalents, end of period	$	$ 36,270	$ 5,342	$	$ 41,612

NOTE 18. PROVISION FOR ASSET IMPAIRMENT

In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS No. 144), the Company reviews its long-lived assets for impairment when changes in circumstances indicate that the carrying amount of the asset may not be recoverable. FAS No. 144 requires that long-lived assets to be held and used be recorded at the lower of carrying amount or fair value. Long-lived assets to be disposed of are to be recorded at the lower of carrying amount or fair value, less estimated cost to sell.

Previously, the Company designated certain parcels of surplus real estate as held for sale, as they do not meet the Company s future geographic and strategic objectives. During the 52 weeks ended December 31, 2005, the Company determined that the carrying amounts of certain parcels of the surplus real estate now exceeded the fair market value, less estimated cost to sell. Accordingly, the Company has recorded a long-lived asset impairment recovery of $1,379,000 for the 52 weeks ended December 31, 2005 (2004 charge of $1,922,000, 2003 charge of $4,395,000).

As of December 31, 2005, in conjunction with the Company s ongoing assessment to ensure that each of the Company s properties fit into the Company s strategy, the Company held two funeral home operations and one cemetery operation for sale. The carrying amount of these locations was $341,000. The fair market values were determined by specific offers or bids, or estimates based on comparable recent sales transactions. As the fair value exceeded the carrying value of these locations no long-lived asset impairment was recorded in 2005. For the 52 weeks ended December 31, 2005, these properties had funeral home revenues and costs of $392,000 and $533,000 (2004 $563,000 and $410,000; 2003 $779,000 and $800,000), respectively.

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

The assets of $3,121,200 (January 1, 2005 $3,275,700) and liabilities of $1,857,700 (January 1, 2005 $1,953,500) of these locations are classified according to their nature in the consolidated balance sheets and, on the basis of immateriality have not been identified separately as to assets held for sale and liabilities associated with assets held for sale in the balance sheet.

In addition, for the 52 weeks ended December 31, 2005, the total revenues and costs of disposed funeral home locations which were not reclassified to discontinued operations were $3,274,000 and $3,120,300 (2004 $5,341,700 and $4,740,300; 2003 $6,209,500 and $4,865,300), respectively.

The fair market value was determined by specific offer or bid, or an estimate based on comparable recent sales transactions. The asset impairment provisions include management estimates. As a result, actual results could differ significantly from these estimates.

NOTE 19. DISCONTINUED OPERATIONS OF ASSETS HELD FOR SALE

Over the previous three fiscal years, the Company engaged in a strategic market rationalization assessment to dispose of cemetery and funeral operating locations that did not fit into the Company s market or business strategies, as well as under-performing locations and excess cemetery land. The Company will on a smaller scale and over time, continue to assess the Company s portfolio of funeral and cemetery locations to ensure they continue to fit in the Company s strategy. Once a property is added to the disposal list, the Company expects to complete the sale within one year. As of January 1, 2005, the Company had 18 funeral, six cemetery and four combination locations which have not been sold within one year of being added to the disposal list. The Company completed the sale of all these locations during 2005, except for one cemetery which was reclassified back to continuing operations. As a result the Company has reclassified the prior fiscal years to reflect any comparative amounts on a similar basis.

During 2003, the Company identified Security Plan Life Insurance Company, its wholly-owned home service insurance company, as a non-strategic asset, because it was not part of the Company s pre-need funeral sales efforts. The Company s continuing wholly-owned pre-need life insurance company is Mayflower National Life Insurance Company. On June 17, 2004, the Company 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 $85,000,000. The sale concluded on October 1, 2004. After payment of applicable taxes and expenses, and the recapitalization of Mayflower National Life Insurance Company, the Company utilized $65,000,000 of the proceeds to reduce long-term debt. The Company recorded a pre-tax gain on the sale of $16,011,000.

The Company 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. The Company has also reclassified the prior fiscal years 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.

Discontinued operations consists of long-lived asset impairment provisions, gains and losses recorded on disposition, and operating results of the locations. 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. Depreciation and amortization is not recorded once an asset has been identified as held for sale. The fair market value was determined by specific offer or bid, or an estimate based on comparable recent sales transactions. Impairment provisions on assets previously identified as held for sale resulted from changes in previously estimated proceeds, net asset values and closing costs. The long-lived asset impairment

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

provisions are based on management estimates. As a result, actual results could differ significantly from these estimates.

The Company s debt agreements require sale proceeds (above specified limits) from assets held for sale to be applied towards the repayment of debt. During 2004 and 2003, the Company used such proceeds to pay down the Term Loan B. Accordingly, interest expense for discontinued operations was calculated by applying the applicable interest rates during the periods in which the repayment conditions were in effect to both the amounts of principal repaid and to the expected proceeds of assets remaining to be sold as of December 31, 2005. Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

The carrying amount, the fair market value, less estimated costs to sell, revenues and costs and impairment provisions for the locations identified as held for sale are presented in the following tables.

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Revenue			
Funeral	$ 1,853	$ 19,829	$ 43,917
Cemetery	598	14,303	26,579
Insurance		41,720	54,956
	$ 2,451	$ 75,852	125,452
Gross margin			
Funeral	$ (152)	$ 874	$ 4,512
Cemetery	(237)	672	1,815
Insurance		9,382	12,207
	(389)	10,928	18,534
Long-lived asset impairment on assets identified as held for sale	568	15,361	20,179
Other expense (income), net	455	(27,505)	(10,050)
Income (loss) from discontinued operations	(1,412)	23,072	8,405
Interest on long-term debt		3,672	1,535
Income (loss) from discontinued operations, before tax	(1,412)	19,400	6,870
Income tax provision for discontinued operations:			
Current	266	4,730	1,322
Deferred		1,757	3,100
	266	6,487	4,422
Net income (loss) from discontinued operations	$ (1,678)	$ 12,913	$ 2,448
Depreciation included in gross margin of discontinued operations	$ 20	$ 626	$ 2,609

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Details of assets held for sale at January 1, 2005, are as follows:

	Funeral	Cemetery	Total
Assets held for sale			
Current assets	$ 2,141	$ 215	$ 2,356
Pre-need receivables and investments	21,818	33,790	55,608
Property and equipment	11,110		11,110
Other assets	209	12,773	12,982
	$ 35,278	$ 46,778	$ 82,056
Liabilities associated with assets held for sale			
Current liabilities	$ 67	$ 260	$ 327
Deferred pre-need contract revenue	1,971	3,691	5,662
Non-controlling interest in funeral and cemetery trusts	20,034	34,306	54,340
Other liabilities	412	687	1,099
	$ 22,484	$ 38,944	$ 61,428
Non-controlling interest in perpetual care trusts	$	$ 11,819	$ 11,819

NOTE 20. INCOME PER SHARE

The basic and diluted income per share computations for net income were as follows:

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Income (numerator):			
Net income attributable to Common stockholders	$ 41,183	$ 9,349	$ 10,807
Shares (denominator):			
Basic weighted average number of shares of Common stock outstanding (thousands)	40,245	40,001	39,971
Effect of stock options assumed exercised	1,357	1,131	494
Diluted weighted average number of shares of Common stock outstanding (thousands)	41,602	41,132	40,465

For the 52 weeks ended December 31, 2005, 1,357,000 employee and director stock options were dilutive to earnings and are included in the calculation of diluted income per share. Employee and director stock options to purchase 1,028,000 shares of Common Stock, warrants to purchase 2,992,000 shares of Common Stock and

236,800 shares of restricted Common Stock units were not included in the computation of diluted loss per share, because they were anti-dilutive.

NOTE 21. DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2005, the fair value of all of the Company s derivatives under the Foreign Currency Hedge Program was an unrealized gain of $941,000 (2004 $2,087,000), which is included in other current assets in the Company s consolidated balance sheet. The Effective Portion is $863,000

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

(2004 $1,919,000) and is included in accumulated other comprehensive income in the Company s consolidated balance sheet. The Ineffective Portion is $89,900 and is included in general and administrative expenses for the 52 weeks ended December 31, 2005 (2004 $168,000, 2003 $48,000). Included in general and administrative expenses for the 52 weeks ended December 31, 2005, was a net gain of $1,816,000 (2004 $639,000, 2003 $nil) of which $1,749,000 (2004 $341,000, 2003 $nil) was the Effective Portion and $67,000 (2004 $298,000, 2003 $nil) was the Ineffective Portion. The Company uses the cumulative dollar offset method to measure hedge effectiveness.

As of December 31, 2005, a portion of the Company s Foreign Currency Expenditure from the period January 2, 2005, to March 2007, was hedged. As of December 31, 2005, the Company estimates that based on current exchange rates and maturity dates of the Company s derivatives, $836,800 would be expected to be reclassified from accumulated other comprehensive income to current earnings and included in general and administrative expenses over the next 12 months.

NOTE 22. EFFECT OF HURRICANE KATRINA

During the 52 weeks ended December 31, 2005, some of the Company s operations were affected by Hurricane Katrina. The Company operated 30 funeral homes, four cemeteries and a limousine company in these areas of Louisiana and Mississippi that were affected by the hurricane on August 29, 2005. The Company has experienced some damage at all of these locations. Repair work has begun at many of the 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 the Company s funeral operations and other third-parties experienced significant damage to its fleet of vehicles and will not be resuming operations.

The Company is making every effort to use its existing operating facilities to provide services to customers normally served by one of the Company s closed locations.

The Company s insurance subsidiary is also 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 the Company s operating results.

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

Financial results

The Company s financial results include the results from operations for those locations affected by Hurricane Katrina as outlined in the following table:

	52 Weeks Ended December 31, 2005	52 Weeks Ended January 1, 2005	53 Weeks Ended January 3, 2004
Funeral Homes			
Revenue	$ 29,460	$ 29,728	$ 29,813
Costs and expenses	24,175	24,530	24,962
Gross Margin	$ 5,285	$ 5,198	$ 4,851
Number of funeral services performed	6,389	6,371	6,687
Number of same-site funeral services performed	5,665	5,110	5,405
Pre-need funeral contracts written	$ 9,871	$ 11,982	$ 12,081
Cemeteries			
Revenue	$ 2,953	$ 3,275	$ 4,134
Costs and expenses	2,835	2,869	2,625
Gross Margin	$ 118	$ 406	$ 1,509
Number of cemetery interments	1,041	892	931
Pre-need cemetery contracts written	$ 1,262	$ 1,300	$ 1,455

Insurance coverage and long-term asset gain or loss

The Company purchases insurance coverage for property damage, including damage from wind and flood, subject to separate limits, sub-limits and deductible amounts. The Company, along with its insurance companies, is continuing to assess and estimate the extent of damages. Based on a review of the Company s insurance policy, the Company 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, insurance proceeds have not yet been fully estimated and as a result, any estimated loss or gain for these properties cannot be determined. The net book value of buildings and contents for those locations not in operation aggregates approximately $4.3 million at December 31, 2005.

The Company has 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, the Company s 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.

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

The Company 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

Table of Contents

ALDERWOODS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts expressed in thousands of dollars except per share amounts)

across our 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.

The Company has business interruption insurance that allows the recovery of operating costs and lost profits. The Company 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 December 31, 2005.

NOTE 23. QUARTERLY FINANCIAL DATA (UNAUDITED)

Certain of the Company s quarterly financial data in the table below have been adjusted from the Company s 2005 and 2004 quarterly reports on Form 10-Q, due to the reclassification of assets held for sale as discontinued operations.

The 2004 adjustments below represent the incremental adjustments as previously reported on the Company s Annual Report on Form 10-K (Item 8 Note 22) for the 52 weeks ended January 1, 2005.

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
52 Weeks Ended December 31, 2005:				
Revenue, previously stated	$ 173,468	$ 214,782	$ 176,778	$ 183,796
Adjustment to reclassify for discontinued operations				90
Revenue, adjusted	$ 173,468	$ 214,782	$ 176,778	$ 183,886
Gross profit, previously stated	$ 27,126	$ 22,901	$ 28,190	$ 36,301
Adjustment to reclassify for discontinued operations				1
Gross profit, adjusted	$ 27,126	$ 22,901	$ 28,190	$ 36,302
Net income	$ 9,061	$ 6,905	$ 12,081	$ 13,136
Basic income per Common share	$ 0.22	$ 0.17	$ 0.30	$ 0.33
Diluted income per Common share	$ 0.21	$ 0.16	$ 0.29	$ 0.32
52 Weeks Ended January 1, 2005:				
Revenue, previously stated	$ 167,103	$ 210,665	$ 162,188	$ 176,834
Adjustment to reclassify for discontinued operations	54	105	93	69
Revenue, adjusted	$ 167,157	$ 210,770	$ 162,281	$ 176,903
Gross profit, previously stated	$ 28,498	$ 32,735	$ 28,770	$ 34,808
Adjustment to reclassify for discontinued operations	93	1	15	(15)
Gross profit, adjusted	$ 28,591	$ 32,736	$ 28,785	$ 34,793
Net income (loss)	$ 24,365	$ (13,379)	$ (6,476)	$ 4,839
Basic income (loss) per Common share	$ 0.61	$ (0.33)	$ (0.16)	$ 0.12
Diluted income (loss) per Common share	$ 0.60	$ (0.33)	$ (0.16)	$ 0.12

The exchange agent for the exchange offer is:
Global Bondholder Services Corporation
By facsimile:
(For Eligible Institutions only):
(212) 430-3775
Confirmation:
(212) 430-3774

By Mail:	*By Overnight Courier:*	*By Hand:*
65 Broadway Suite 704 New York, NY 10006	65 Broadway Suite 704 New York, NY 10006	65 Broadway Suite 704 New York, NY 10006

Any questions or requests for assistance or for additional copies of the prospectus or the letter of transmittal may be directed to the information agent at the telephone numbers set forth below.

The information agent for the exchange offer is:
Global Bondholder Services Corporation
65 Broadway Suite 704
New York, NY 10006
Attn: Corporate Actions
Banks and Brokers call: (212) 430-3774
Toll free (866) 873-7700

Table of Contents

We have not authorized any dealer, salesperson or other person to give you written information other than this prospectus or to make representations as to matters not stated in this prospectus. You must not rely on unauthorized information. This prospectus is not an offer to sell the notes or our solicitation of your offer to buy the notes in any jurisdiction where that would not be permitted or legal. Neither the delivery of this prospectus nor any sales made hereunder after the date of this prospectus shall create an implication that the information contained herein or the affairs of the company have not changed since the date of this prospectus.

Until l , 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.

Service Corporation International

Offer to Exchange

Registered 7 3/8% Senior Notes due 2014

Registered 7 5/8% Senior Notes due 2018

for

All Outstanding 7 3/8% Senior Notes due 2014 issued on October 3, 2006

All Outstanding 7 5/8% Senior Notes due 2018 issued on October 3, 2006

($500,000,000 aggregate principal amount outstanding)

PROSPECTUS

l , 2006

Table of Contents

PART II

Item 20. ***Indemnification of Directors and Officers.***

Service Corporation International is a Texas corporation.

Article 2.02-1 of the Texas Business Corporation Act (the TBCA) provides that any director or officer of a Texas corporation may be indemnified against judgments, penalties, fines, settlements and reasonable expenses actually incurred by him in connection with or in defending any action, suit or proceeding in which he was, is, or is threatened to be made a named defendant by reason of his position as director or officer, provided that he conducted himself in good faith and reasonably believed that, in the case of conduct in his official capacity as a director or officer of the corporation, such conduct was in the corporation s best interests; and, in all other cases, that such conduct was at least not opposed to the corporation s best interests. In the case of a criminal proceeding, a director or officer may be indemnified only if he had no reasonable cause to believe his conduct was unlawful. If a director or officer is wholly successful, on the merits or otherwise, in connection with such a proceeding, such indemnification is mandatory.

Under the Company s Restated Articles of Incorporation, as amended (the Articles of Incorporation), no director of the registrant will be liable to the registrant or any of its shareholders for monetary damages for an act or omission in the director s capacity as a director, except for liability (i) for any breach of the director s duty of loyalty to the registrant or its shareholders, (ii) for acts or omission not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) for any transaction for which the director received an improper benefit, whether or not the benefit resulted from an action taken within the scope of the director s office, (iv) for acts or omissions for which the liability of a director is expressly provided by statute, or (v) for acts related to an unlawful stock repurchase or dividend payment. The Articles of Incorporation further provide that, if the statutes of Texas are amended to further limit the liability of a director, then the liability of the Company s directors will be limited to the fullest extent permitted by any such provision.

The Company s Bylaws provide for indemnification of officers and directors of the registrant and persons serving at the request of the registrant in such capacities for other business organizations against certain losses, costs, liabilities, and expenses incurred by reason of their positions with the registrant or such other business organizations. The Company also has policies insuring its officers and directors and certain officers and directors of its wholly owned subsidiaries against certain liabilities for actions taken in such capacities, including liabilities under the Securities Act of 1933, as amended (the Act). In addition, the Company has an Indemnification Agreement with each of its directors and officers providing for the indemnification of each such person to the fullest extent permitted by Texas law.

Table of Contents

Item 21. ***Exhibits and Financial Statement Schedules.***

(a) Exhibits.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated April 2, 2006, by and among the Company, Coronado Acquisition Corporation and Alderwoods (Incorporated by reference to Exhibit 2.1 to Form 8-K dated April 5, 2006).
3.1	Restated Articles of Incorporation. (Incorporated by reference to Exhibit 3.1 to Registration Statement No. 333-10867 on Form S-3).
3.2	Articles of Amendment to Restated Articles of Incorporation. (Incorporated by reference to Exhibit 3.1 to Form 10-Q for the fiscal quarter ended September 30, 1996).
3.3	Statement of Resolution Establishing Series of Shares of Series D Junior Participating Preferred Stock, dated July 27, 1998. (Incorporated by reference to Exhibit 3.2 to Form 10-Q for the fiscal quarter ended June 30, 1998).
3.4	Bylaws, as amended. (Incorporated by reference to Exhibit 3.1 to Form 10-Q for the fiscal quarter ended June 30, 2004).
4.1	Rights Agreement dated as of May 14, 1998 between the Company and Harris Trust and Savings Bank. (Incorporated by reference to Exhibit 99.1 to Form 8-K dated May 14, 1998).
4.2	Agreement Appointing a Successor Rights Agent Under Rights Agreement, dated June 1, 1999, by the Company, Harris Trust and Savings Bank and The Bank of New York. (Incorporated by reference to Exhibit 4.1 to Form 10-Q for the fiscal quarter ended June 30, 1999).
4.3	Indenture dated as of February 1, 1993 (the Indenture), by and between the Company and The Bank of New York, as trustee. (Incorporated by reference to Exhibit 4.1 to Form S-4 filed September 2, 2004 (File No. 333-118763)).
4.4	Second Supplemental Indenture to the Indenture dated as of June 15, 2005. (Incorporated by reference to Exhibit 4.1 to Form 8-K dated June 15, 2005).
4.5	Form of 7.00% Senior Note due 2017. (Included in Exhibit 4.4).
4.6	Registration Rights Agreement dated as of June 15, 2005 among the Company and the Initial Purchasers thereto. (Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 15, 2005).
4.7	Third Supplemental Indenture dated as of October 3, 2006 between Service Corporation International and The Bank of New York Trust Company, N.A., as successor to The Bank of New York, as trustee (incorporated by reference from

	Exhibit 4.1 to the Company s Current Report on Form 8-K filed October 3, 2006).
4.8	Form of $7^{3}/8$% Senior Notes due 2014 (Included in Exhibit 4.7).
4.9	Fourth Supplemental Indenture dated as of October 3, 2006 between Service Corporation International and The Bank of New York Trust Company, N.A., as successor to The Bank of New York, as trustee (incorporated by reference from Exhibit 4.3 to the Company s Current Report on Form 8-K filed October 3, 2006).
4.10	Form of $7^{5}/8$% Senior Notes due 2018 (Included in Exhibit 4.9).
4.11	2014 Notes Registration Rights Agreement dated as of October 3, 2006 among Service Corporation International and the Initial Purchasers (incorporated by reference from Exhibit 10.1 to the Company s Current Report on Form 8-K filed October 3, 2006).
4.12	2018 Notes Registration Rights Agreement dated as of October 3, 2006 among Service Corporation International and the Initial Purchasers (incorporated by reference from Exhibit 10.2 to the Company s Current Report on Form 8-K filed October 3, 2006).
5.1*	Opinion of Locke Liddell & Sapp LLP as to the legality of the securities offered hereby.
10.1	Retirement Plan For Non-Employee Directors. (Incorporated by reference to Exhibit 10.1 to Form 10-K for the fiscal year ended December 31, 1991).
10.2	First Amendment to Retirement Plan For Non-Employee Directors. (Incorporated by reference to Exhibit 10.2 to Form 10-K for the fiscal year ended December 31, 2000).

Table of Contents

Exhibit Number	Description
10.3	Agreement dated May 14, 1992 between the Company, R. L. Waltrip and related parties relating to life insurance. (Incorporated by reference to Exhibit 10.4 to Form 10-K for the fiscal year ended December 31, 1992).
10.4	Employment Agreement, dated January 1, 1998, between SCI Executive Services, Inc. and R. L. Waltrip. (Incorporated by reference to Exhibit 10.3 to Form 10-K for the fiscal year ended December 31, 1998).
10.5	First Amendment to Employment Agreement, dated February 25, 2003, between SCI Executive Services, Inc. and R. L. Waltrip. (Incorporated by reference to Exhibit 10.5 to Form 10-K for the fiscal year ended December 31, 2002).
10.6	Second Amendment to Employment Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and R. L. Waltrip. (Incorporated by reference to Exhibit 10.6 of Form 10-K for fiscal year end December 31, 2005).
10.7	Non-Competition Agreement and Amendment to Employment Agreement, dated November 11, 1991, among the Company, R. L. Waltrip and Claire Waltrip. (Incorporated by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended December 31, 1992).
10.8	Separation and Release Agreement, dated January 18, 2000, among the Company, SCI Executive Services, Inc. and W. Blair Waltrip. (Incorporated by reference to Exhibit 10.6 to Form 10-K for the fiscal year ended December 31, 1999).
10.9	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and B. D. Hunter. (Incorporated by reference to Exhibit 10.8 to Form 10-K for the fiscal year ended December 31, 2003).
10.10	Release, Consultative and Noncompetition Agreement by SCI Funeral & Cemetery Purchasing Cooperative, Inc., SCI Executive Services, Inc., Huntco International, Inc. and B. D. Hunter, dated February 9, 2005. (Incorporated by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended December 31, 2004).
10.11	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and Thomas L. Ryan. (Incorporated by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended December 31, 2003).
10.12	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Thomas L. Ryan. (Incorporated by reference to Exhibit 10.12 to Form 10-K for the fiscal year ended December 31, 2005).
10.13	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and Michael R. Webb. (Incorporated by reference to

	Exhibit 10.10 to Form 10-K for the fiscal year ended December 31, 2003).
10.14	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Michael R. Webb. (Incorporated by reference to Exhibit 10.14 of Form 10-K for fiscal year end December 31, 2005).
10.15	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and Jeffrey E. Curtiss. (Incorporated by reference to Exhibit 10.11 to Form 10-K for the fiscal year ended December 31, 2003).
10.16	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Jeffrey E. Curtiss. (Incorporated by reference to Exhibit 10.16 of Form 10-K for fiscal year end December 31, 2005).
10.17	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and James M. Shelger. (Incorporated by reference to Exhibit 10.17 of Form 10-K for the fiscal year end December 31, 2005).
10.18	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and James M. Shelger. (Incorporated by reference to Exhibit 10.18 of Form 10-K for the fiscal year end December 31, 2005).
10.19	Form of Employment and Noncompetition Agreement pertaining to non-senior officers. (Incorporated by reference to Exhibit 10.12 to Form 10-K for the fiscal year ended December 31, 2003).

Table of Contents

Exhibit Number	Description
10.20	Form of Addendum to Employment and Noncompetition Agreement pertaining to the preceding exhibit. (Incorporated by reference to Exhibit 10.20 of Form 10-K for the fiscal year end December 31, 2005).
10.21	1993 Long-Term Incentive Stock Option Plan. (Incorporated by reference to Exhibit 4.12 to Registration Statement No. 333-00179 on Form S-8).
10.22	Amendment to 1993 Long-Term Incentive Stock Option Plan, dated February 12, 1997. (Incorporated by reference to Exhibit 10.15 to Form 10-K for the fiscal year ended December 31, 1996).
10.23	Amendment to 1993 Long-Term Incentive Stock Option Plan, dated November 13, 1997. (Incorporated by reference to Exhibit 10.17 to Form 10-K for fiscal year ended December 31, 1997).
10.24	Amended 1996 Incentive Plan. (Incorporated by reference to Appendix B to Proxy Statement dated May 13, 2004).
10.25	Split Dollar Life Insurance Plan. (Incorporated by reference to Exhibit 10.36 to Form 10-K for the fiscal year ended December 31, 1995).
10.26	Supplemental Executive Retirement Plan for Senior Officers (as Amended and Restated Effective as of January 1, 1998). (Incorporated by reference to Exhibit 10.28 to Form 10-K for the fiscal year ended December 31, 1998).
10.27	First Amendment to Supplemental Executive Retirement Plan for Senior Officers. (Incorporated by reference to Exhibit 10.28 to Form 10-K for the fiscal year ended December 31, 2000).
10.28	SCI 401(k) Retirement Savings Plan as Amended and Restated. (Incorporated by reference to Exhibit 4.7 to Registration Statement No. 333-119681).
10.29	First Amendment to the SCI 401(k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarterly period ended September 30, 2004).
10.30	Second Amendment to the SCI 401(k) Retirement Savings Plan, and Third Amendment to the SCI 401(k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.26 to Form 10-K for the fiscal year ended December 31, 2004).
10.31	Director Fee Plan. (Incorporated by reference to Annex B to Proxy Statement dated April 13, 2001).
10.32	First Amendment, dated November 13, 2002, to Director Fee Plan. (Incorporated by reference to Exhibit 10.33 to Form 10-K for the fiscal year ended December 31,

	2002).
10.33	Second Amendment to Director Fee Plan dated May 8, 2003. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarterly period ended June 30, 2003).
10.34	1996 Nonqualified Incentive Plan. (Incorporated by reference to Exhibit 99.1 to Registration Statement No. 333-33101).
10.35	Amendment to 1996 Nonqualified Incentive Plan dated November 13, 1997. (Incorporated by reference to Exhibit 99.2 to Registration Statement No. 333-50084).
10.36	Amendment to 1996 Nonqualified Incentive Plan dated November 11, 1999. (Incorporated by reference to Exhibit 99.3 Registration Statement No. 333-50084).
10.37	Amendment to 1996 Nonqualified Incentive Plan dated February 14, 2001. (Incorporated by reference to Exhibit 99.4 to Registration Statement No. 333-67800).
10.38	Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 1.1 to Registration Statement No. 2-62484 on Form S-8).
10.39	Amendment No. 1 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 15.1 to Registration Statement No. 2-62484 on Form S-8).
10.40	Amendment No. 2 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 28.3 to Registration Statement No. 33-25061 on Form S-8).
10.41	Amendment No. 3 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 28.4 to Registration Statement No. 33-35708 on Form S-8).

Table of Contents

Exhibit Number	Description
10.42	Amendment No. 4 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K dated December 21, 1993).
10.43	Amendment No. 5 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.31 to Form 10-K for the fiscal year ended December 31, 1999).
10.44	Amendment No. 6 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.44 to Form 10-K for the fiscal year ended December 31, 2002).
10.45	Amendment No. 7 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.45 to Form 10-K for the fiscal year ended December 31, 2002).
10.46	Agreement between Merrill Lynch Canada Inc. and Service Corporation International. (Incorporated by reference to Exhibit 28.5 to Post-Effective Amendment No. 1 to Registration Statement No. 33-8907 on Form S-8).
10.47	First Amendment to Agreement between Merrill Lynch Canada Inc. and Service Corporation International. (Incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K dated December 21, 1993).
10.48	Employee Stock Purchase Plan Administration Agreement dated July 25, 2001 between Service Corporation International (Canada) Limited and Fastrak Systems Inc. (Incorporated by reference to Exhibit 10.48 to Form 10-K for the fiscal year ended December 31, 2002).
10.49	Form of Indemnification Agreement for officers and directors. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarterly period ended September 30, 2004).
10.50	Amended and Restated Revolving Credit Agreement dated as of August 11, 2004 among the Company, as Borrower, the lenders party thereto, JPMorgan Chase Bank, as Administrative Agent, Bank of America, N.A., as Syndication Agent, and Calyon New York Branch, Southwest Bank of Texas, N.A. and Merrill Lynch Capital Corporation, as Co-Documentation Agents, J.P. Morgan Securities, Inc., and Banc of America Securities LLC, as Joint Bookrunners and Joint Lead Arrangers. (Incorporated by reference to Exhibit 99.6 to Form 10-Q for the fiscal quarter ended June 30, 2004).
10.51	Agreement and First Amendment to Amended and Restated Credit Agreement among the Company, as Borrower, the lenders party thereto, JPMorgan Chase Bank, National Association, as Administrative Agent, Bank of America, N.A., as Syndication Agent, and Calyon New York Branch, Amegy Bank, National Association and Merrill Lynch Capital Corporation, as Co-Documentation Agents, and JPMorgan Chase Bank National Association, as Administrative Agent. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the fiscal quarter ended March 31, 2005).

10.52	Form of 2005 Executive Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.52 to Form 10-K for the fiscal year ended December 31, 2005).
10.53	Commitment Letter, dated as of April 2, 2006, by and among Service Corporation International, Chase Lincoln First Commercial Corporation and J.P. Morgan Securities Inc. (Incorporated by reference to Exhibit 10.1 to Form 8-K dated April 5, 2006).
10.54	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and Sumner J. Waring, III. (Incorporated by reference to Exhibit 10.2 to Form 10-Q filed May 10, 2006).
10.55	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Sumner J. Waring, III. (Incorporated by reference to Exhibit 10.3 to Form 10-Q filed May 10, 2006).
10.56	Employment and Noncompetition Agreement, dated January 1, 2004 between SCI Executive Services, Inc. and Stephen M. Mack. (Incorporated by reference to Exhibit 10.4 to Form 10-Q filed May 10, 2006).
10.57	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Stephen M. Mack. (Incorporated by reference to Exhibit 10.5 to Form 10-Q filed May 10, 2006).

Table of Contents

Exhibit Number	Description
12.1	Ratio of Earnings to Fixed Charges. (Incorporated by reference to Exhibit 12.1 to Form 10-K for the fiscal year ended December 31, 2005).
21.1	Subsidiaries of the Company. (Incorporated by reference to Exhibit 21.1 to Form 10-K for the fiscal year ended December 31, 2005).
23.1*	Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP) with respect to SCI.
23.2*	Consent of Locke Liddell & Sapp LLP. (Included in Exhibit 5.1).
23.3*	Consent of Independent Registered Public Accounting Firm (KPMG LLP) with respect to Alderwoods.
24.1*	Powers of Attorney (see Signature page).
25.1*	Statement of Eligibility of The Bank of New York Trust Company, N.A.
25.2*	Statement of Eligibility of The Bank of New York Trust Company, N.A.
99.1*	Form of Letter to Holders of Old Notes.
99.2*	Form of Letter of Transmittal (with accompanying Substitute Form W-9 and related Guidelines).
99.3*	Form of Notice of Guaranteed Delivery.
99.4*	Form of Letter to Registered Holders and The Depository Trust Company Participants.
99.5*	Form of Letter to Clients (with form of Instructions to Registered Holder and/or The Depository Trust Company Participant).
99.6*	Form of Exchange Agent Agreement.

* Filed herewith.

All supporting schedules have been omitted because they are not required or the information required to be set forth therein is included in the consolidated financial statements or in the notes thereto.

Item 22. ***Undertakings.***

(A) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(B) The undersigned Registrant hereby undertakes:

(1) To respond to requests for information that is incorporated by reference in the prospectus pursuant to Item 4, 10(b), 11, 13 of this Form S-4, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the Registration Statement through the date of responding to the request.

(2) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the Registration Statement when it became effective.

Table of Contents

SIGNATURES AND POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1933, the Registrant, Service Corporation International, has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Houston, State of Texas, on October 10, 2006.

Service Corporation International
By: /s/ James M. Shelger

James M. Shelger,
Senior Vice President, General Counsel and Secretary

We, the undersigned officers and directors of Service Corporation International, hereby severally constitute and appoint James M. Shelger our true and lawful attorney with full power to sign for us and in our names in the capacities indicated below the Registration Statement on Form S-4 filed herewith and any and all pre-effective and post-effective amendments to said Registration Statement and any related registration statements filed pursuant to Rule 462(b), and to file the same, with exhibits thereto and other documents in connection therewith, and generally to do all such things in our name and behalf in our capacities as officers and directors to enable Service Corporation International to comply with the provisions of the Securities Act of 1933, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to said Registration Statement and any and all amendments thereto.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ R. L. Waltrip (R. L. Waltrip)	Chairman of the Board	October 10, 2006
/s/ Thomas L. Ryan (Thomas L. Ryan)	President, Chief Executive Officer and Director (Principal Executive Officer)	October 10, 2006
/s/ Eric D. Tanzberger (Eric D. Tanzberger)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	October 10, 2006
/s/ Jeffrey I. Beason (Jeffrey I. Beason)	Vice President and Corporate Controller (Chief Accounting Officer)	October 10, 2006
/s/ Alan R. Buckwalter, III (Alan R. Buckwalter, III)	Director	October 10, 2006
/s/ Anthony L. Coelho (Anthony L. Coelho)	Director	October 10, 2006

II-7

Table of Contents

Signature	Title	Date
/s/ A. J. Foyt, Jr. (A. J. Foyt, Jr.)	Director	October 10, 2006
/s/ S. Malcolm Gillis (S. Malcolm Gillis)	Director	October 10, 2006
/s/ Victor L. Lund (Victor L. Lund)	Director	October 10, 2006
/s/ John W. Mecom, Jr. (John W. Mecom, Jr.)	Director	October 10, 2006
/s/ Clifton H. Morris, Jr. (Clifton H. Morris, Jr.)	Director	October 10, 2006
/s/ W. Blair Waltrip (W. Blair Waltrip)	Director	October 10, 2006
/s/ Edward E. Williams (Edward E. Williams)	Director	October 10, 2006

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated April 2, 2006, by and among the Company, Coronado Acquisition Corporation and Alderwoods (Incorporated by reference to Exhibit 2.1 to Form 8-K dated April 5, 2006).
3.1	Restated Articles of Incorporation. (Incorporated by reference to Exhibit 3.1 to Registration Statement No. 333-10867 on Form S-3).
3.2	Articles of Amendment to Restated Articles of Incorporation. (Incorporated by reference to Exhibit 3.1 to Form 10-Q for the fiscal quarter ended September 30, 1996).
3.3	Statement of Resolution Establishing Series of Shares of Series D Junior Participating Preferred Stock, dated July 27, 1998. (Incorporated by reference to Exhibit 3.2 to Form 10-Q for the fiscal quarter ended June 30, 1998).
3.4	Bylaws, as amended. (Incorporated by reference to Exhibit 3.1 to Form 10-Q for the fiscal quarter ended June 30, 2004).
4.1	Rights Agreement dated as of May 14, 1998 between the Company and Harris Trust and Savings Bank. (Incorporated by reference to Exhibit 99.1 to Form 8-K dated May 14, 1998).
4.2	Agreement Appointing a Successor Rights Agent Under Rights Agreement, dated June 1, 1999, by the Company, Harris Trust and Savings Bank and The Bank of New York. (Incorporated by reference to Exhibit 4.1 to Form 10-Q for the fiscal quarter ended June 30, 1999).
4.3	Indenture dated as of February 1, 1993 (the Indenture), by and between the Company and The Bank of New York, as trustee. (Incorporated by reference as Exhibit 4.1 to Form S-4 filed September 2, 2004 (File No. 333-118763)).
4.4	Second Supplemental Indenture to the Indenture dated as of June 15, 2005. (Incorporated by reference as Exhibit 4.1 to Form 8-K dated June 15, 2005).
4.5	Form of 7.00% Senior Note due 2017. (Included in Exhibit 4.4).
4.6	Registration Rights Agreement dated as of June 15, 2005 among the Company and the Initial Purchasers thereto. (Incorporated by reference to Exhibit 10.1 to Form 8-K dated June 15, 2005).
4.7	Third Supplemental Indenture dated as of October 3, 2006 between Service Corporation International and The Bank of New York Trust Company, N.A., as successor to The Bank of New York, as trustee (incorporated by reference from Exhibit 4.1 to the Company s Current Report on Form 8-K filed October 3, 2006).

4.8	Form of 7^{3}/8% Senior Notes due 2014 (Included in Exhibit 4.7).
4.9	Fourth Supplemental Indenture dated as of October 3, 2006 between Service Corporation International and The Bank of New York Trust Company, N.A., as successor to The Bank of New York, as trustee (incorporated by reference from Exhibit 4.3 to the Company s Current Report on Form 8-K filed October 3, 2006).
4.10	Form of 7^{5}/8% Senior Notes due 2018 (Included in Exhibit 4.9).
4.11	2014 Notes Registration Rights Agreement dated as of October 3, 2006 among Service Corporation International and the Initial Purchasers (incorporated by reference from Exhibit 10.1 to the Company s Current Report on Form 8-K filed October 3, 2006).
4.12	2018 Notes Registration Rights Agreement dated as of October 3, 2006 among Service Corporation International and the Initial Purchasers (incorporated by reference from Exhibit 10.2 to the Company s Current Report on Form 8-K filed October 3, 2006).
5.1*	Opinion of Locke Liddell & Sapp LLP as to the legality of the securities offered hereby.
10.1	Retirement Plan For Non-Employee Directors. (Incorporated by reference to Exhibit 10.1 to Form 10-K for the fiscal year ended December 31, 1991).
10.2	First Amendment to Retirement Plan For Non-Employee Directors. (Incorporated by reference to Exhibit 10.2 to Form 10-K for the fiscal year ended December 31, 2000).
10.3	Agreement dated May 14, 1992 between the Company, R. L. Waltrip and related parties relating to life insurance. (Incorporated by reference to Exhibit 10.4 to Form 10-K for the fiscal year ended December 31, 1992).

Table of Contents

Exhibit Number	Description
10.4	Employment Agreement, dated January 1, 1998, between SCI Executive Services, Inc. and R. L. Waltrip. (Incorporated by reference to Exhibit 10.3 to Form 10-K for the fiscal year ended December 31, 1998).
10.5	First Amendment to Employment Agreement, dated February 25, 2003, between SCI Executive Services, Inc. and R. L. Waltrip. (Incorporated by reference to Exhibit 10.5 to Form 10-K for the fiscal year ended December 31, 2002).
10.6	Second Amendment to Employment Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and R. L. Waltrip. (Incorporated by reference to Exhibit 10.6 of Form 10-K for fiscal year end December 31, 2005).
10.7	Non-Competition Agreement and Amendment to Employment Agreement, dated November 11, 1991, among the Company, R. L. Waltrip and Claire Waltrip. (Incorporated by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended December 31, 1992).
10.8	Separation and Release Agreement, dated January 18, 2000, among the Company, SCI Executive Services, Inc. and W. Blair Waltrip. (Incorporated by reference to Exhibit 10.6 to Form 10-K for the fiscal year ended December 31, 1999).
10.9	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and B. D. Hunter. (Incorporated by reference to Exhibit 10.8 to Form 10-K for the fiscal year ended December 31, 2003).
10.10	Release, Consultative and Noncompetition Agreement by SCI Funeral & Cemetery Purchasing Cooperative, Inc., SCI Executive Services, Inc., Huntco International, Inc. and B. D. Hunter, dated February 9, 2005. (Incorporated by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended December 31, 2004).
10.11	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and Thomas L. Ryan. (Incorporated by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended December 31, 2003).
10.12	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Thomas L. Ryan. (Incorporated by reference to Exhibit 10.12 to Form 10-K for the fiscal year ended December 31, 2005).
10.13	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and Michael R. Webb. (Incorporated by reference to Exhibit 10.10 to Form 10-K for the fiscal year ended December 31, 2003).
10.14	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Michael R. Webb. (Incorporated by

	reference to Exhibit 10.14 of Form 10-K for fiscal year end December 31, 2005).
10.15	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and Jeffrey E. Curtiss. (Incorporated by reference to Exhibit 10.11 to Form 10-K for the fiscal year ended December 31, 2003).
10.16	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Jeffrey E. Curtiss. (Incorporated by reference to Exhibit 10.16 of Form 10-K for the fiscal year end December 31, 2005).
10.17	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and James M. Shelger. (Incorporated by reference to Exhibit 10.17 of Form 10-K for the fiscal year end December 31, 2005).
10.18	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and James M. Shelger. (Incorporated by reference to Exhibit 10.18 of Form 10-K for the fiscal year end December 31, 2005).
10.19	Form of Employment and Noncompetition Agreement pertaining to non-senior officers. (Incorporated by reference to Exhibit 10.12 to Form 10-K for the fiscal year ended December 31, 2003).
10.20	Form of Addendum to Employment and Noncompetition Agreement pertaining to the preceding exhibit. (Incorporated by reference to Exhibit 10.20 of Form 10-K for the fiscal year end December 31, 2005).
10.21	1993 Long-Term Incentive Stock Option Plan. (Incorporated by reference to Exhibit 4.12 to Registration Statement No. 333-00179 on Form S-8).

Table of Contents

Exhibit Number	Description
10.22	Amendment to 1993 Long-Term Incentive Stock Option Plan, dated February 12, 1997. (Incorporated by reference to Exhibit 10.15 to Form 10-K for the fiscal year ended December 31, 1996).
10.23	Amendment to 1993 Long-Term Incentive Stock Option Plan, dated November 13, 1997. (Incorporated by reference to Exhibit 10.17 to Form 10-K for fiscal year ended December 31, 1997).
10.24	Amended 1996 Incentive Plan. (Incorporated by reference to Appendix B to Proxy Statement dated May 13, 2004).
10.25	Split Dollar Life Insurance Plan. (Incorporated by reference to Exhibit 10.36 to Form 10-K for the fiscal year ended December 31, 1995).
10.26	Supplemental Executive Retirement Plan for Senior Officers (as Amended and Restated Effective as of January 1, 1998). (Incorporated by reference to Exhibit 10.28 to Form 10-K for the fiscal year ended December 31, 1998).
10.27	First Amendment to Supplemental Executive Retirement Plan for Senior Officers. (Incorporated by reference to Exhibit 10.28 to Form 10-K for the fiscal year ended December 31, 2000).
10.28	SCI 401(k) Retirement Savings Plan as Amended and Restated. (Incorporated by reference to Exhibit 4.7 to Registration Statement No. 333-119681).
10.29	First Amendment to the SCI 401(k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarterly period ended September 30, 2004).
10.30	Second Amendment to the SCI 401(k) Retirement Savings Plan, and Third Amendment to the SCI 401(k) Retirement Savings Plan. (Incorporated by reference to Exhibit 10.26 to Form 10-K for the fiscal year ended December 31, 2004).
10.31	Director Fee Plan. (Incorporated by reference to Annex B to Proxy Statement dated April 13, 2001).
10.32	First Amendment, dated November 13, 2002, to Director Fee Plan. (Incorporated by reference to Exhibit 10.33 to Form 10-K for the fiscal year ended December 31, 2002).
10.33	Second Amendment to Director Fee Plan dated May 8, 2003. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarterly period ended June 30, 2003).
10.34	1996 Nonqualified Incentive Plan. (Incorporated by reference to Exhibit 99.1 to Registration Statement No. 333-33101).

10.35	Amendment to 1996 Nonqualified Incentive Plan dated November 13, 1997. (Incorporated by reference to Exhibit 99.2 to Registration Statement No. 333-50084).
10.36	Amendment to 1996 Nonqualified Incentive Plan dated November 11, 1999. (Incorporated by reference to Exhibit 99.3 Registration Statement No. 333-50084).
10.37	Amendment to 1996 Nonqualified Incentive Plan dated February 14, 2001. (Incorporated by reference to Exhibit 99.4 to Registration Statement No. 333-67800).
10.38	Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 1.1 to Registration Statement No. 2-62484 on Form S-8).
10.39	Amendment No. 1 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 15.1 to Registration Statement No. 2-62484 on Form S-8).
10.40	Amendment No. 2 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 28.3 to Registration Statement No. 33-25061 on Form S-8).
10.41	Amendment No. 3 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 28.4 to Registration Statement No. 33-35708 on Form S-8).
10.42	Amendment No. 4 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K dated December 21, 1993).
10.43	Amendment No. 5 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.31 to Form 10-K for the fiscal year ended December 31, 1999).
10.44	Amendment No. 6 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.44 to Form 10-K for the fiscal year ended December 31, 2002).

Table of Contents

Exhibit Number	Description
10.45	Amendment No. 7 to the Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.45 to Form 10-K for the fiscal year ended December 31, 2002).
10.46	Agreement between Merrill Lynch Canada Inc. and Service Corporation International. (Incorporated by reference to Exhibit 28.5 to Post-Effective Amendment No. 1 to Registration Statement No. 33-8907 on Form S-8).
10.47	First Amendment to Agreement between Merrill Lynch Canada Inc. and Service Corporation International. (Incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K dated December 21, 1993).
10.48	Employee Stock Purchase Plan Administration Agreement dated July 25, 2001 between Service Corporation International (Canada) Limited and Fastrak Systems Inc. (Incorporated by reference to Exhibit 10.48 to Form 10-K for the fiscal year ended December 31, 2002).
10.49	Form of Indemnification Agreement for officers and directors. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarterly period ended September 30, 2004).
10.50	Amended and Restated Revolving Credit Agreement dated as of August 11, 2004 among the Company, as Borrower, the lenders party thereto, JPMorgan Chase Bank, as Administrative Agent, Bank of America, N.A., as Syndication Agent, and Calyon New York Branch, Southwest Bank of Texas, N.A. and Merrill Lynch Capital Corporation, as Co-Documentation Agents, J.P. Morgan Securities, Inc., and Banc of America Securities LLC, as Joint Bookrunners and Joint Lead Arrangers. (Incorporated by reference to Exhibit 99.6 to Form 10-Q for the fiscal quarter ended June 30, 2004).
10.51	Agreement and First Amendment to Amended and Restated Credit Agreement among the Company, as Borrower, the lenders party thereto, JPMorgan Chase Bank, National Association, as Administrative Agent, Bank of America, N.A., as Syndication Agent, and Calyon New York Branch, Amegy Bank, National Association and Merrill Lynch Capital Corporation, as Co-Documentation Agents, and JPMorgan Chase Bank National Association, as Administrative Agent. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the fiscal quarter ended March 31, 2005).
10.52	Form of 2005 Executive Deferred Compensation Plan. (Incorporated by reference to Exhibit 10.52 to Form 10-K for the fiscal year ended December 31, 2005).
10.53	Commitment Letter, dated as of April 2, 2006, by and among Service Corporation International, Chase Lincoln First Commercial Corporation and J.P. Morgan Securities Inc. (Incorporated by reference to Exhibit 10.1 to Form 8-K dated April 5, 2006).
10.54	

	Employment and Noncompetition Agreement, dated January 1, 2004, between SCI Executive Services, Inc. and Sumner J. Waring, III. (Incorporated by reference to Exhibit 10.2 to Form 10-Q filed May 10, 2006).
10.55	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Sumner J. Waring, III. (Incorporated by reference to Exhibit 10.3 to Form 10-Q filed May 10, 2006).
10.56	Employment and Noncompetition Agreement, dated January 1, 2004 between SCI Executive Services, Inc. and Stephen M. Mack. (Incorporated by reference to Exhibit 10.4 to Form 10-Q filed May 10, 2006).
10.57	Addendum to Employment and Noncompetition Agreement, dated December 1, 2005, between SCI Executive Services, Inc. and Stephen M. Mack. (Incorporated by reference to Exhibit 10.5 to Form 10-Q filed May 10, 2006).
12.1	Ratio of Earnings to Fixed Charges. (Incorporated by reference to Exhibit 12.1 to Form 10-K for the fiscal year ended December 31, 2005).
21.1	Subsidiaries of the Company. (Incorporated by reference to Exhibit 21.1 to Form 10-K for the fiscal year ended December 31, 2005).
23.1*	Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP) with respect to SCI.
23.2*	Consent of Locke Liddell & Sapp LLP. (Included in Exhibit 5.1).
23.3*	Consent of Independent Registered Public Accounting Firm (KPMG LLP) with respect to Alderwoods.

Table of Contents

Exhibit Number	Description
24.1*	Powers of Attorney (see Signature page).
25.1*	Statement of Eligibility of The Bank of New York Trust Company, N.A.
25.2*	Statement of Eligibility of The Bank of New York Trust Company, N.A.
99.1*	Form of Letter to Holders of Old Notes.
99.2*	Form of Letter of Transmittal (with accompanying Substitute Form W-9 and related Guidelines).
99.3*	Form of Notice of Guaranteed Delivery.
99.4*	Form of Letter to Registered Holders and The Depository Trust Company Participants.
99.5*	Form of Letter to Clients (with form of Instructions to Registered Holder and/or The Depository Trust Company Participant).
99.6*	Form of Exchange Agent Agreement.

* Filed herewith.