

SERVICE CORPORATION INTERNATIONAL

Form 11-K

June 29, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

or

o TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-6402-1

THE SCI 401(k) RETIREMENT SAVINGS PLAN

(Full title of the plan)

SERVICE CORPORATION INTERNATIONAL

(Name of issuer of the securities held pursuant to the plan)

1929 Allen Parkway

Houston, Texas 77019

(Address of the plan and address of issuer's principal executive offices)

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THE SCI 401(k) RETIREMENT SAVINGS PLAN  
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REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

To the Administrative Committee

The SCI 401(k) Retirement Savings Plan

Houston, Texas

We have audited the accompanying Statements of Net Assets Available for Benefits of The SCI 401(k) Retirement Savings Plan as of December 31, 2010 and 2009 and the related Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2010. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements 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 audits 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 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of The SCI 401(k) Retirement Savings Plan as of December 31, 2010 and 2009 and the changes in net assets available for benefits for the year ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplemental Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ HARPER & PEARSON COMPANY, P.C.

Houston, Texas

June 29, 2011

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STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	December 31, 2010	December 31, 2009
Investments:		
Pooled separate accounts	\$320,378,110	\$267,632,740
Registered investment company	6,149,811	4,237,647
SCI common stock fund	47,111,504	48,576,419
Interest-bearing cash	1,500,376	2,967,065
Self-directed accounts	847,895	540,017
Total investments	375,987,696	323,953,888
Receivables:		
Participant loans	17,513,392	15,319,763
Total assets	393,501,088	339,273,651
Liabilities:		
Excess contributions payable	1,108,557	1,050,020
Total liabilities	1,108,557	1,050,020
Net assets available for benefits	\$392,392,531	\$338,223,631

See notes to financial statements.

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STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Year Ended December 31, 2010
Additions to net assets attributed to:	
Contributions:	
Employer	\$20,992,161
Participants	27,775,824
Rollovers from other qualified plans	2,561,757
Total contributions	51,329,742
Investment income:	
Dividend and interest income	1,045,862
Net appreciation in the fair value of pooled separate accounts	29,192,361
Net appreciation in the fair value of registered investment company	245,001
Net depreciation in the fair value of SCI common stock	(613,735 )
Realized gain on sale of SCI common stock	981,433
Net appreciation in the fair value of self-directed accounts	192,928
Total investment income	31,043,850
Participant loan interest	866,570
Total additions to Net Assets	83,240,162
Deductions from net assets attributed to:	
Distributions to participants	33,930,982
Administrative expenses	463,666
Total deductions from Net Assets	34,394,648
Transfer from Palm Mortuary, Inc. 401(k) Savings Plan	5,323,386
Net increase	54,168,900
Net assets available at the beginning of the period	338,223,631
Net assets available at the end of the period	\$392,392,531

See notes to financial statements.

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THE SCI 401(k) RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

## 1. Plan Description

## General

The following description of the SCI 401(k) Retirement Savings Plan (the Plan) is provided for general information purposes only. Participants should refer to the Summary Plan Description or the Plan Document for a more complete description of the Plan's provisions.

The Plan, established July 1, 2000, is a defined contribution plan for the exclusive benefit of Service Corporation International's (SCI or the Company) United States non-union employees. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan's assets are held by Massachusetts Mutual Life Insurance Company (Mass Mutual) and participant accounts are maintained by MassMutual Retirement Services. State Street Bank and Trust Company (State Street) serves as the trustee for the SCI Common Stock Fund. Service Corporation International serves as Plan Administrator.

## Contributions

Eligible employees can participate in the Plan after completing three months of service and attaining age 21.

Employees covered by a collective bargaining agreement in which retirement benefits are provided are not eligible under the Plan. The election to contribute to the Plan is voluntary. Employees are initially enrolled in the Plan, after meeting eligibility requirements, to contribute 3% of pretax annual compensation, unless participation is specifically rejected by such employees. Participants may contribute up to a maximum of 50% of pretax annual compensation. Each individual's participant contributions were limited to \$16,500 in 2010. An additional catch-up contribution of \$5,500 was allowed for employees aged 50 and over.

The Company contributes a matching amount up to 6% of the participant's pretax annual compensation. The percentage of the match is based on years of vesting service with the Company and ranges from 75% to 125% of the employee's eligible contribution as described in the table below. Additional amounts may be contributed at the Company's discretion. There were no discretionary Company contributions for the year ended December 31, 2010.

Participant's Completed Years of Service	Matching Percentage	Limit
Less than 6 years	75	% up to 6%
Greater than 6 years and less than 11 years	100	% up to 6%
11 or more	125	% up to 6%

## Participant Accounts

Participant account balances are valued based upon the number of units of each investment fund owned by the participants. Each participant's account is credited with the participant's contribution, the Company's contributions, and a pro rata share of the earnings of each fund in which the participant has invested. Forfeited balances of terminated participants' non-vested accounts are used to reduce administrative expenses and future Company contributions. For the year ended December 31, 2010, forfeited balances applied to reduce employer contributions and plan expenses amounted to \$852,744 and \$187,164, respectively.

## Vesting

Participants are fully vested in their deferred salary and rollover contributions. Participants are not vested in Company contributions until they complete three years of vesting service with the Company thus becoming 100% vested.

Participant Loans

Participants may borrow from their accounts up to one half of their vested account balance to a maximum of \$50,000. The minimum amount that may be borrowed is \$1,000. Loans are to be repaid within five years, or longer if the loan is used to purchase a primary residence. The loans are secured by the balance in the participant's account and bear interest fixed at 1% above the prime rate at the date of inception. A participant may have no more than two loans outstanding at any one time.

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THE SCI 401(k) RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Participant Distributions

The Plan provides for several different types of participant withdrawals. Participants who have reached age 59<sup>1/2</sup> may make in-service withdrawals. Participants may request withdrawals before age 59<sup>1/2</sup> if they qualify for certain hardship withdrawals. Upon termination of service with the Company or death, the participant or beneficiary may receive a lump-sum amount equal to the vested amount in the participant's account. A participant whose account balance exceeds \$5,000 may elect a deferred distribution until age 70<sup>1/2</sup>.

Plan Termination

The Company expects the Plan to continue indefinitely, however, it reserves the right to terminate or amend the Plan to eliminate future benefits. If the Plan is terminated, participants will become 100% vested and account balances will be distributed by a lump-sum payment.

2. Summary of Significant Accounting Policies

Principles of Reporting

The financial statements and schedules have been prepared in accordance with accounting principles generally accepted in the United States of America and the financial reporting requirements of ERISA and are maintained on an accrual basis except for participant distributions, which are reported when paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that may affect the amounts reported in the financial statements. As a result, actual results could differ from those estimates.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Note 4 for information regarding Fair Value Measurements).

A self-directed investment account is allowed for each participant who directs an investment outside of the investment options designated by the Plan Administrator. The self-directed account shall not share in trust fund earnings but will be charged or credited as appropriate with net earnings, gains, losses, and expenses, as well as any appreciation (depreciation) in market value attributable to such account during each plan year. State Street Global Markets is asset custodian for the self-directed investment accounts.

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements. This ASU requires new disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Other than requiring additional disclosures, the adoption of this new guidance has not and will not have a material impact on the Plan's financial statements.



In September 2010, the FASB issued ASU No. 2010-25, Plan Accounting - Defined Contribution Pension Plans (Topic 962) - Reporting Loans to Participants by Defined Contribution Pension Plans. This ASU requires participant loans to be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest. The guidance is effective for fiscal years ending after December 15, 2010 with early adoption permitted. The guidance must be applied retrospectively to all periods presented. The Plan adopted this guidance in 2010 and reclassified participant loans from plan investments to a component of receivables for both periods presented in the Statements of Net Assets Available for Benefits. Other than the reclassification requirements, the adoption of this standard did not have a material impact on the Plan's financial statements.

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THE SCI 401(k) RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Net appreciation (depreciation) in the fair value of the pooled separate accounts and registered investment company consist of net realized and unrealized appreciation (depreciation). Each investment fund's appreciation (depreciation) is allocated to participants based upon their proportionate share of assets in each investment fund.

**Risks and Uncertainties**

The Plan provides for several investment options, which are exposed to various risks, such as interest rate risk, market risk and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits.

**Administrative Expense**

Administrative expenses represent record keeping fees paid to Mass Mutual. Legal and audit fees are paid by SCI.

**3. Investments**

Investments that comprised 5% or more of the Plan's net assets available for benefits are as follows:

	December 31, 2010	December 31, 2009
MassMutual Select Large Cap Value Fund	\$21,970,702	\$19,931,347
MassMutual Select Overseas Fund	\$20,895,781	\$20,512,567
MassMutual Premier Capital Appreciation Fund	\$25,255,607	\$25,179,098
MassMutual Stable Income Fund	\$78,980,394	\$78,744,794
MassMutual Total Return Fund	\$36,397,071	\$29,568,569
MassMutual Select Destination Retirement 2020 Fund	\$25,850,470	\$17,288,071
SCI Common Stock Fund	\$47,111,504	\$48,576,419
MassMutual Select Small Cap Growth Equity Fund	\$22,251,855	*

\* Amount is less than 5% of net assets available for Plan benefits.

**4. Fair Value Measurements****Financial Instruments Recorded at Fair Value**

Fair Value Measurements Topic of the FASB Accounting Standards Codification (ASC) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under Fair Value Measurements Topic of the ASC are described below:

• Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

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Level 2 - Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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## THE SCI 401(k) RETIREMENT SAVINGS PLAN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

The following is a description of the valuation techniques used for assets measured at fair value for the years ended December 31, 2010 and 2009:

The underlying investments held in registered investment companies, pooled separate accounts, SCI common stock fund, and self-directed accounts are valued at the net asset value of units held by the Plan at year end.

The methods above described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value of investments are categorized as follows at December 31, 2010 and 2009:

	2010			
	Level 1	Level 2	Level 3	Total
Pooled Separate Accounts				
Retirement Date Funds (a)	\$—	\$74,993,629	\$—	\$74,993,629
U.S. Equities and Bonds	—	224,488,700	—	224,488,700
International Equities and Bonds	—	20,895,781	—	20,895,781
SCI Common Stock Fund	—	47,111,504	—	47,111,504
Interest-Bearing Cash	1,500,376	—	—	1,500,376
Self Directed Accounts	—	847,895	—	847,895
PIMCO Real Return Fund	—	6,149,811	—	6,149,811
Total Investments at Fair Value	\$1,500,376	\$374,487,320	\$—	\$375,987,696
	2009			
	Level 1	Level 2	Level 3	Total
Pooled Separate Accounts				
Retirement Date Funds (a)	\$—	\$51,301,409	\$—	\$51,301,409
U.S. Equities and Bonds	—	195,818,764	—	195,818,764
International Equities and Bonds	—	20,512,567	—	20,512,567
SCI Common Stock Fund	—	48,576,419	—	48,576,419
Interest-Bearing Cash	2,967,065	—	—	2,967,065
Self Directed Accounts	—	540,017	—	540,017
PIMCO Real Return Fund	—	4,237,647	—	4,237,647
Total Investments at Fair Value	\$2,967,065	\$320,986,823	\$—	\$323,953,888

(a) This category includes investments in highly diversified funds designed to remain appropriate for investors in terms of risk throughout a variety of life circumstances.

## 5. Excess Contributions

Benefit distributions of \$33,930,982 for the plan year ended December 31, 2010 include payments of \$1,108,557 owed to certain active participants to return to them excess deferral and matching contributions as required to satisfy the relevant nondiscrimination provisions of the Plan. That amount is also included in the plan's statements of net assets available for benefits as excess contribution payable at December 31, 2010. The excess contributions were refunded to certain participants in March 2011.

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THE SCI 401(k) RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

6. Income Taxes

A determination letter was received June 30, 2004 from the Internal Revenue Service which declared that the Plan qualifies under Section 401(a) of the Internal Revenue Code as being exempt from income taxes. The Plan has been amended since receiving the determination letter and the Plan Administrator believes that the Plan is currently being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Plan Administrator believes that the Plan was qualified and was tax exempt as of the financial statement date.

GAAP provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an entity's financial statements. GAAP requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Plan believes that all significant tax positions utilized by the Plan will more likely than not be sustained upon examination. As of December 31, 2010, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2007 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as tax expense in the Statement of Changes in Net Assets Available for Benefits.

7. Transfer from Palm Mortuary, Inc. 401(k) Savings Plan

In April 2010, the account balances of the Palm Mortuary, Inc. 401(k) Savings Plan were transferred into the Plan as the result of a merger. A total of \$5,323,386 was transferred to the Plan. All eligible participants of the Palm Mortuary, Inc. 401(k) Savings Plan are credited with years of service with Palm Mortuary, Inc. for vesting purposes under the Plan.

8. Party-in-Interest

The Plan invests in various funds offered by Mass Mutual and State Street. These investments are considered party-in-interest transactions because Mass Mutual and State Street serve as Trustees for the Plan. The Plan Administrator has approved of these investment options.

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## THE SCI 401(K) RETIREMENT SAVINGS PLAN

Schedule of Assets (Held at End of Year)

December 31, 2010

EIN: 74-1488375 PIN: 002

(a)	(b)	(c)	(d)	(e)
	Identity of issue, borrower, lessor or similar party	Description of investment	Cost	Current Value
*	Massachusetts Mutual Life Insurance Co	MassMutual Government Money Market Fund	**	\$20,871
*	Massachusetts Mutual Life Insurance Co	MassMutual International Growth Fund	**	1,427,866
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Destination Retirement 2050 Fund	**	3,475,020
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Destination Retirement Income Fund	**	5,831,610
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Destination Retirement 2010 Fund	**	12,774,967
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Destination Retirement 2020 Fund	**	25,850,470
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Destination Retirement 2030 Fund	**	18,062,678
*	Massachusetts Mutual Life Insurance Co	MassMutual Stable Income Fund	**	78,980,394
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Destination Retirement 2040 Fund	**	8,998,884
*	Massachusetts Mutual Life Insurance Co	MassMutual Premier Capital Appreciation Fund	**	25,255,607
*	Massachusetts Mutual Life Insurance Co	MassMutual Mid Cap Value Fund	**	1,991,819
*	Massachusetts Mutual Life Insurance Co	MassMutual Total Return Fund	**	36,397,071
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Mid Cap Growth Fund	**	6,924,832
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Small Cap Growth Equity Fund	**	22,251,855
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Overseas Fund	**	20,895,781
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Large Cap Value Fund	**	21,970,702
*	Massachusetts Mutual Life Insurance Co	Select Fundamental Value (Wellington) Fund	**	1,298,552
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Indexed Equity Fund	**	11,469,980
*	Massachusetts Mutual Life Insurance Co	MassMutual Select Small Company Value Fund	**	16,499,151

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*	State Street Global Markets	Self-Directed Accounts	**	847,895
*	Pacific Investment Management Co	PIMCO Real Return Fund	**	6,149,811
*	Service Corporation International	SCI Common Stock Fund	**	47,111,504
*	State Street Bank & Trust Co	Interest Bearing Cash	**	1,500,376
	Participant Loans	Loans with interest rates of 4.25% to 10.25%	-0-	17,513,392
				\$393,501,088

\* Party-in-interest as defined by ERISA.

\*\* Cost omitted for participant directed investments.

See accompanying Report of Independent Registered Public Accounting Firm.



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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the SCI 401(k) Retirement Savings Plan Administrator (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

The SCI 401(k) Retirement Savings Plan

By: SCI Funeral and Cemetery Purchasing Cooperative, Inc.

Date: June 29, 2011      By: /s/ Jane Jones

Vice President of Human Resources

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