CARRIAGE SERVICES INC
Form 10-Q
May 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-11961
CARRIAGE SERVICES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	76-0423828
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3040 Post Oak Boulevard, Suite 300
Houston, Texas, 77056
(Address of principal executive offices)
(713) 332-8400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 Securities Exchange Act of 1934.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the registrant's Common Stock, $.01 par value per share, outstanding as of May 1, 2015 was 18,508,874.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
CARRIAGE SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2014	(unaudited) March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$413	$317
Accounts receivable, net of allowance for bad debts of $1,127 in 2014 and $1,102 in 2015	19,264	18,637
Inventories	5,294	5,432
Prepaid expenses	4,590	4,556
Other current assets	7,144	2,369
Total current assets	36,705	31,311
Preneed cemetery trust investments	71,972	72,534
Preneed funeral trust investments	97,607	97,240
Preneed receivables, net of allowance for bad debts of $2,339 in 2014 and $1,975 in 2015	26,284	26,431
Receivables from preneed trusts	12,809	12,795
Property, plant and equipment, net of accumulated depreciation of $95,249 in 2014 and $97,565 in 2015	186,211	193,984
Cemetery property	75,564	75,264
Goodwill	257,442	261,291
Deferred charges and other non-current assets	14,264	15,136
Cemetery perpetual care trust investments	48,670	49,249
Total assets	$827,528	$835,235
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$9,838	$10,624
Accounts payable	6,472	6,463
Other liabilities	1,437	788
Accrued liabilities	15,203	12,211
Total current liabilities	32,950	30,086
Long-term debt, net of current portion	111,887	112,972
Revolving credit facility	40,500	41,000
Convertible subordinated notes due 2021	114,542	115,369
Obligations under capital leases, net of current portion	3,098	3,044
Deferred preneed cemetery revenue	56,875	56,871
Deferred preneed funeral revenue	31,265	31,187
Deferred tax liability	36,414	36,487
Other long-term liabilities	2,401	3,086
Deferred preneed cemetery receipts held in trust	71,972	72,534
Deferred preneed funeral receipts held in trust	97,607	97,240
Care trusts' corpus	48,142	49,184
Total liabilities	647,653	649,060
Commitments and contingencies:		

Stockholders’ equity:		
Common stock, $.01 par value; 80,000,000 shares authorized and 22,434,000 shares issued at December 31, 2014 and March 31, 2015	224	224
Additional paid-in capital	212,386	212,268
Accumulated deficit	(17,468)	(11,050)
Treasury stock, at cost; 3,922,000 shares at December 31, 2014 and March 31, 2015	(15,267)	(15,267)
Total stockholders’ equity	179,875	186,175
Total liabilities and stockholders’ equity	$827,528	$835,235

The accompanying condensed notes are an integral part of these Consolidated Financial Statements.

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CARRIAGE SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited and in thousands, except per share data)

	For the Three Months Ended March 31, 2014	2015
Revenues:		
Funeral	$43,964	$50,137
Cemetery	11,688	13,116
	55,652	63,253
Field costs and expenses:		
Funeral	25,883	28,415
Cemetery	6,960	7,302
Depreciation and amortization	2,415	2,802
Regional and unallocated funeral and cemetery costs	2,379	2,525
	37,637	41,044
Gross profit	18,015	22,209
Corporate costs and expenses:		
General and administrative costs and expenses	9,335	7,170
Home office depreciation and amortization	342	520
	9,677	7,690
Operating income	8,338	14,519
Interest expense	(2,844)	(2,550)
Accretion of discount on convertible subordinated notes	(171)	(827)
Loss on redemption of convertible junior subordinated debentures	(3,779)	—
Other income (loss)	1,130	(119)
Income from continuing operations before income taxes	2,674	11,023
Provision for income taxes	(1,043)	(4,605)
Net income from continuing operations	1,631	6,418
Income from discontinued operations, net of tax	587	—
Net income available to common stockholders	$2,218	$6,418
Basic earnings per common share:		
Continuing operations	$0.09	$0.35
Discontinued operations	0.03	—
Basic earnings per common share	$0.12	$0.35
Diluted earnings per common share:		
Continuing operations	$0.09	$0.34
Discontinued operations	0.03	—
Diluted earnings per common share	$0.12	$0.34
Dividends declared per common share	$0.025	$0.025
Weighted average number of common and common equivalent shares outstanding:		
Basic	17,984	18,208
Diluted	18,143	18,804

The accompanying condensed notes are an integral part of these Consolidated Financial Statements.

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CARRIAGE SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

	For the Three Months Ended March 31,	
	2014	2015
Cash flows from operating activities:		
Net income	$2,218	$6,418
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of businesses and purchase of other assets	(2,039)	—
Depreciation and amortization	2,764	3,322
Amortization of deferred financing costs	232	226
Accretion of discount on convertible subordinated notes	171	827
Provision for losses on accounts receivable	700	424
Stock-based compensation expense	1,491	1,089
Deferred income tax (benefit) expense	(4,780)	1,559
Loss on redemption of convertible junior subordinated debentures	2,932	—
Other	(3)	—
Changes in operating assets and liabilities that provided (required) cash:		
Accounts and preneed receivables	(245)	56
Inventories and other current assets	299	3,224
Deferred charges and other	(318)	111
Preneed funeral and cemetery trust investments	(5,258)	(760)
Accounts payable	(2,566)	(9)
Accrued and other liabilities	(2,387)	(5,020)
Deferred preneed funeral and cemetery revenue	(37)	(82)
Deferred preneed funeral and cemetery receipts held in trust	5,208	1,237
Net cash provided by (used in) operating activities	(1,618)	12,622
Cash flows from investing activities:		
Acquisitions	—	(4,250)
Net proceeds from the sale of businesses and other assets	200	—
Capital expenditures	(5,048)	(6,398)
Net cash used in investing activities	(4,848)	(10,648)
Cash flows from financing activities:		
Net (payments) borrowings on the revolving credit facility	(36,900)	500
Net payments on the term loan	(3,000)	(2,344)
Payments on other long-term debt and obligations under capital leases	(185)	(370)
Proceeds from the exercise of stock options and employee stock purchase plan contributions	652	212
Dividends on common stock	(456)	(463)
Payment of loan origination costs related to the credit facility	—	(13)
Excess tax benefit of equity compensation	5,596	408
Proceeds from the issuance of convertible subordinated notes	143,750	—
Payment of debt issuance costs related to the convertible subordinated notes	(4,355)	—
Redemption of convertible junior subordinated debentures	(61,905)	—
Payments for performance-based stock awards	(16,150)	—
Net cash provided by (used in) financing activities	27,047	(2,070)

Net increase (decrease) in cash and cash equivalents	20,581	(96)
Cash and cash equivalents at beginning of period	1,377	413
Cash and cash equivalents at end of period	$21,958	$317

The accompanying condensed notes are an integral part of these Consolidated Financial Statements.

CARRIAGE SERVICES, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Carriage Services, Inc. (“Carriage”, the “Company”, “we”, “us” or “our”) is a leading provider of deathcare services and merchandise in the United States. As of March 31, 2015, we operated 165 funeral homes in 27 states and 32 cemeteries in 11 states.

Our operations are reported in two business segments: Funeral Home Operations and Cemetery Operations. Funeral homes are principally service businesses that provide funeral services (traditional burial and cremation) and sell related merchandise, such as caskets and urns. Cemeteries are primarily sales businesses that provide interment rights (grave sites and mausoleums) and related merchandise, such as markers and memorials.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Interim Condensed Disclosures

The information for the three month periods ended March 31, 2014 and 2015 is unaudited, but in the opinion of management, reflects all adjustments which are normal, recurring and necessary for a fair presentation of our financial position and results of operations as of and for the interim periods presented. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. The accompanying Consolidated Financial Statements have been prepared consistent with the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2014 and should be read in conjunction therewith.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of our Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, realization of accounts receivable, goodwill, intangible assets, property and equipment and deferred tax assets and liabilities. We base our estimates on historical experience, third-party data and assumptions that we believe to be reasonable under the circumstances. The results of these considerations form the basis for making judgments about the amount and timing of revenues and expenses, the carrying value of assets and the recorded amounts of liabilities. Actual results may differ from these estimates and such estimates may change if the underlying conditions or assumptions change. Historical performance should not be viewed as indicative of future performance, as there can be no assurance that our results of operations will be consistent from year to year.

Funeral and Cemetery Operations

We record the revenue from sales of funeral and cemetery merchandise and services when the merchandise is delivered or the service is performed. Sales of cemetery interment rights are recorded as revenue in accordance with the retail land sales provisions for accounting for sales of real estate. This method provides for the recognition of revenue in the period in which the customer’s cumulative payments exceed 10% of the contract price related to the interment right. Costs related to the sales of interment rights, which include real property and other costs related to cemetery development activities, are charged to operations using the specific identification method in the period in which the sale of the interment right is recognized as revenue. Revenues to be recognized from the delivery of merchandise and performance of services related to contracts that were acquired in acquisitions are typically lower than those originated by us. Sales taxes collected are recognized on a net basis in our Consolidated Financial Statements.

Allowances for bad debts and customer cancellations are provided at the date that the sale is recognized as revenue and are based on our historical experience and the current economic environment. We also monitor changes in delinquency rates

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and provide additional bad debt and cancellation reserves when warranted. When preneed sales of funeral services and merchandise are funded through third-party insurance policies, we earn a commission on the sale of the policies. Insurance commissions are recognized as revenues at the point at which the commission is no longer subject to refund, which is typically one year after the policy is issued.

Accounts receivable included approximately $10.0 million and $8.9 million of funeral receivables at December 31, 2014 and March 31, 2015, respectively, and $9.1 million and $9.5 million of cemetery receivables at December 31, 2014 and March 31, 2015, respectively. For 2014 and 2015, accounts receivable also included minor amounts of other receivables. Non-current preneed receivables represented the payments expected to be received beyond one year from the balance sheet date. Non-current preneed receivables consisted of approximately $7.4 million and $7.5 million of funeral receivables at December 31, 2014 and March 31, 2015, respectively, and $18.9 million of cemetery receivables at December 31, 2014 and March 31, 2015. Bad debt expense totaled approximately $0.7 million and $0.4 million for the three months ended March 31, 2014 and 2015, respectively.

Preneed Funeral and Cemetery Trust Funds

Our preneed and perpetual care trust funds are reported in accordance with the principles of consolidating Variable Interest Entities (“VIEs”). An enterprise is required to perform an analysis to determine whether the enterprise’s variable interest(s) give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses of the entity that could potentially be significant to the VIE, or the right to receive benefits from the entity that could potentially be significant to the VIE. Our analysis continues to support our position as the primary beneficiary in the majority of our funeral and cemetery trust funds.

In the case of preneed trusts, the customers are the legal beneficiaries. In the case of perpetual care trusts, we do not have a right to access the corpus in the perpetual care trusts. For these reasons, we have recognized financial interests of third parties in the trust funds in our financial statements as Deferred preneed funeral and cemetery receipts held in trust and Care trusts’ corpus. The investments of such trust funds are classified as available-for-sale and are reported at fair market value; therefore, the unrealized gains and losses, as well as accumulated and undistributed income and realized gains and losses are recorded to Deferred preneed funeral and cemetery receipts held in trust and Care trusts’ corpus on our Consolidated Balance Sheets. Our future obligations to deliver merchandise and services are reported at estimated settlement amounts. Preneed funeral and cemetery trust investments are reduced by the trust investment earnings that we have been allowed to withdraw in certain states prior to maturity. These earnings, along with preneed contract collections not required by state law to be placed in trust, are recorded in Deferred preneed funeral revenue and Deferred preneed cemetery revenue until the service is performed or the merchandise is delivered.

In accordance with respective state laws, we are required to deposit a specified amount into perpetual and memorial care trust funds for each interment/entombment right and certain memorials sold. Income from the trust funds is distributed to us and used to provide care and maintenance of the cemeteries and mausoleums. Such trust fund income is recognized as revenue when realized by the trust and distributable to us. We are restricted from withdrawing any of the principal balances of these funds.

An enterprise is required to perform an analysis to determine whether the enterprise’s variable interest(s) give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses of the entity that could potentially be significant to the VIE, or the right to receive benefits from the entity that could potentially be significant to the VIE. Our analysis continues to support our position as the primary beneficiary in the majority of our funeral and cemetery trust funds.

Trust management fees are earned by us for investment management and advisory services that are provided by our wholly-owned registered investment advisor (“CSV RIA”). As of March 31, 2015, CSV RIA provided these services to two institutions, which have custody of 76% of our trust assets, for a fee based on the market value of trust assets. Under state trust laws, we are allowed to charge the trust a fee for advising on the investment of the trust assets and these fees are recognized as income in the period in which services are provided.

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Property, Plant and Equipment

Property, plant and equipment (including equipment under capital leases) are stated at cost. The costs of ordinary maintenance and repairs are charged to operations as incurred, while renewals and betterments are capitalized. Depreciation of property, plant and equipment (including equipment under capital leases) is computed based on the straight-line method.

Property, plant and equipment was comprised of the following at December 31, 2014 and March 31, 2015:

	December 31, 2014	March 31, 2015
	(in thousands)	
Land	$66,957	$68,107
Buildings and improvements	148,483	156,257
Furniture, equipment and automobiles	66,020	67,185
Property, plant and equipment, at cost	281,460	291,549
Less: accumulated depreciation	(95,249)	(97,565)
Property, plant and equipment, net	$186,211	$193,984

We recorded depreciation expense of approximately $2.2 million and $2.6 million for the three months ended March 31, 2014 and 2015, respectively.

Discontinued Operations

Effective January 1, 2015, we adopted the Financial Accounting Standards Board's ("FASB") new guidance for reporting discontinued operations. In April 2014, the FASB amended the definition of "discontinued operations" to include only disposals or held-for-sale classifications for components or groups of components of an entity that represent a strategic shift that either has or will have a major effect on the entity's operations or financial results. Examples of a strategic shift that has or will have a major effect on an entity's operations and financial results include a disposal of a major geographical area, line of business, equity method of investment or other parts of an entity. We continually review locations to optimize the sustainable earning power and return on our invested capital. These reviews could entail selling certain non-strategic businesses. During the three months ended March 31, 2015, there were no divestitures of our funeral or cemetery businesses.

Business Combinations

Tangible and intangible assets acquired and liabilities assumed are recorded at fair value and goodwill is recognized for any difference between the price of the acquisition and fair value. We customarily estimate related transaction costs known at closing. To the extent that information not available to us at the closing date of an acquisition subsequently becomes available during the allocation period, we may adjust goodwill, assets or liabilities associated with such acquisition. Acquisition related costs are recognized separately from acquisitions and are expensed as incurred. During the three months ended March 31, 2015, we acquired one funeral home business in Clarksville, Tennessee. See Note 3 to the Consolidated Financial Statements herein for more information concerning this acquisition. There were no business acquisitions in the three months ended March 31, 2014.

Goodwill

The excess of the purchase price over the fair value of identifiable net assets of businesses acquired is recorded as goodwill. Goodwill has primarily been recorded in connection with the acquisition of funeral businesses. Goodwill is tested annually for impairment by assessing the fair value of each of our reporting units. The funeral segment reporting units consist of our East, Central and West regions in the United States, and we perform our annual impairment test of goodwill using information as of August 31st of each year. In addition, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant adverse changes in the business climate which may be indicated by a decline in our market capitalization or decline in operating results. Our methodology for goodwill impairment testing is described in more detail in Notes 1 and 4 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014 and further discussion of current period goodwill activity is included in Note 4 to the Consolidated Financial Statements herein.

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Intangible Assets

Our intangible assets include tradenames resulting from acquisitions. Our tradenames are included in Deferred charges and other non-current assets on our Consolidated Balance Sheets. Our tradenames are considered to have an indefinite life and are not subject to amortization. We test for impairment of intangible assets annually at the end of each year.

In addition to our annual review, we assess the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may be greater than the fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant under performance relative to historical results and significant negative industry or economic trends.

Stock Plans and Stock-Based Compensation

We have stock-based employee and director compensation plans under which we may grant restricted stock, stock options, performance awards and stock from our employee stock purchase plan, which are described in more detail in Note 18 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014. We recognize compensation expense in an amount equal to the fair value of the share-based awards expected to vest over the requisite service period. Fair value is determined on the date of the grant. The fair value of options or awards containing options is determined using the Black-Scholes valuation model. See Note 15 to the Consolidated Financial Statements herein for additional information on our stock-based compensation plans.

Computation of Earnings Per Common Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options and our convertible subordinated notes.

Share-based awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are recognized as participating securities and included in the computation of both basic and diluted earnings per share. Our grants of restricted stock awards to our employees and directors are considered participating securities, and we have prepared our earnings per share calculations attributable to common stockholders to exclude outstanding unvested restricted stock awards, using the two-class method, in both the basic and diluted weighted average shares outstanding calculation.

The fully diluted weighted average shares outstanding for the three months ended March 31, 2015, and the corresponding calculation of fully diluted earnings per share, include approximately 0.3 million shares that would have been issued upon the conversion of our convertible subordinated notes as a result of the application of the if-converted method prescribed by the FASB Accounting Standards Codification (“ASC”) 260.

Fair Value Measurements

We define fair value as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We disclose the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date. We currently do not have any assets that have fair values determined by Level 3 inputs and no liabilities measured at fair value. We have not elected to measure any additional financial instruments and certain other items at fair value that are not currently required to be measured at fair value.

To determine the fair value of assets and liabilities in an environment where the volume and level of activity for the asset or liability have significantly decreased, the exit price is used as the fair value measurement. For the three months ended March 31, 2015, we did not incur significant decreases in the volume or level of activity of any asset or liability. We consider an impairment of debt and equity securities other-than-temporary unless (a) the investor has the ability and intent to hold an investment and (b) evidence indicating the cost of the investment is recoverable before we are more likely than not required to sell the investment. If an impairment is indicated, then an adjustment is made to reduce the carrying amount to fair value with a corresponding reduction to deferred preneed receipts held in trust. In the three months ended March 31, 2015, we recorded impairments totaling $1.8 million for other-than-temporary declines in the fair value related to unrealized losses on certain investments. Refer to Notes 5 and 9 for further discussion concerning these impairments. We did not record any impairments in the three months ended March 31, 2014.

In the ordinary course of business, we are typically exposed to a variety of market risks. Currently, these are primarily related to changes in fair market values related to outstanding debts and changes in the values of securities associated with the preneed and perpetual care trusts. Management is actively involved in monitoring exposure to market risk and developing and utilizing risk management techniques when appropriate and when available for a reasonable price. Additional required disclosures are provided in Notes 5, 9 and 10 to the Consolidated Financial Statements herein.

Income Taxes

We and our subsidiaries file a consolidated U.S. Federal income tax return, separate income tax returns in 14 states in which we operate and combined or unitary income tax returns in 13 states in which we operate. We record deferred taxes for temporary differences between the tax basis and financial reporting basis of assets and liabilities. We record a valuation allowance to reflect the estimated amount of deferred tax assets for which realization is uncertain. Management reviews the valuation allowance at the end of each quarter and makes adjustments if it is determined that it is more likely than not that the tax benefits will be realized.

We analyze tax benefits for uncertain tax positions and how they are to be recognized, measured and derecognized in financial statements; provide certain disclosures of uncertain tax matters; and specify how reserves for uncertain tax positions should be classified on our Consolidated Balance Sheets. We have reviewed our income tax positions and identified certain tax deductions, primarily related to business acquisitions that are not certain. Our policy with respect to potential penalties and interest is to record them as “Other” expense and “Interest” expense, respectively. While we do not anticipate a material change of our unrecognized tax benefits during the next twelve months, the entire balance of unrecognized tax benefits, if recognized, would affect our effective tax rate.

Subsequent Events

Management evaluated events and transactions during the period subsequent to March 31, 2015 through the date the financial statements were issued for potential recognition or disclosure in the accompanying financial statements covered by this report.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Presentation of Debt Issuance Costs

In April 2015, the FASB issued Accounting Standards Update (“ASU”), Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. To simplify the presentation of debt issuance costs, the amendments in this ASU require that entities that have historically presented debt issuance costs as an asset, related to a recognized debt liability, will be required to present those costs as a direct deduction from the carrying value of the related debt liability. This presentation will result in debt issuance costs being presented in the same way debt discounts have historically been handled. This ASU does not change the recognition, measurement or subsequent measurement guidance for debt issuance costs. This ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of this ASU is permitted for financial statements that have not been previously issued. The new guidance should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on debt issuance costs asset and the debt liability. Our adoption of this ASU is not expected to have a material effect on our financial statements. We plan to adopt the provisions of this ASU for our fiscal year beginning January 1, 2016.

Extraordinary and Unusual Items

In January 2015, the FASB issued an amendment to ASC Subtopic 225-20, Income Statement - Extraordinary and Unusual Items. This amendment eliminates the concept of reporting extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Preparers will not have to assess whether a particular event or transaction is extraordinary and likewise, auditors and regulators no longer need to evaluate whether a preparer treated an unusual and/or infrequent item appropriately. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include such items. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendment prospectively. A reporting entity also may apply the amendment retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of

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the fiscal year of adoption. Our adoption of this amendment to Subtopic 225-20 is not expected to have a material effect on our financial statements. We plan to adopt the provisions of ASC Subtopic 225-20 for our fiscal year beginning January 1, 2016.

Revenue from Contracts with Customers

In May 2014, the FASB created ASC Topic 606, Revenue from Contracts with Customers. ASC Topic 606 supersedes the revenue recognition requirements under ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity is required to perform the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized. The new guidance is effective for the annual reporting period beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. On April 1, 2015, the FASB voted to propose an amendment to delay the effective date of the new rules on revenue recognition for one year, which is currently in a comment period. If the FASB moves forward with the proposal, the new effective date will be for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Entities can still adopt the amendments as of the original effective date for annual periods beginning after December 15, 2016. We are currently evaluating the impact the adoption of this new accounting standard will have on our Consolidated Financial Statements.

3. ACQUISITIONS

Our growth strategy includes the execution of our Strategic Acquisition Model. We assess the strategic positioning of acquisition candidates based on the demographics, strength of brand, competitive standing, market size, market share, barriers to entry and volume and price trends. The value of the acquisition candidates is based on local market competitive dynamic which allows for appropriate and differentiating enterprise valuations and flexibility to customize the transactions.

On February 25, 2015, we acquired a funeral home business in Clarksville, Tennessee for approximately $8.8 million. The purchase price consisted of cash of approximately $4.3 million which was paid at closing and $4.5 million which represents the net present value of future deferred payments totaling $5.5 million. The deferred payments are being paid in 20 equal quarterly installments of approximately $0.3 million commencing on the close date and each January 1, April 1, July 1 and October 1 for the next five years. We acquired substantially all of the assets of the business. The pro forma impact of the acquisition on the prior period is not presented as the impact is not material to our Consolidated Financial Statements. The results of this acquisition are included in our results of operations from the date of the acquisition.

The following table summarizes the fair value of the assets acquired (in thousands):

Current assets	$39
Property, plant & equipment	3,697
Goodwill	3,849
Deferred charges and other non-current assets	1,196
Purchase price	$8,781

The Deferred charges and other non-current assets relate to the fair value of tradenames we acquired. There were no business acquisitions in the three months ended March 31, 2014.

4. GOODWILL

Many of the former owners and staff of acquired funeral homes and certain cemeteries have provided high quality service to families for generations. The resulting loyalty often represents a substantial portion of the value of a business. The excess of the purchase price over the fair value of net identifiable assets acquired and liabilities assumed, as determined by management in business acquisition transactions accounted for as purchases, is recorded as goodwill.

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The following table presents the changes in goodwill on our Consolidated Balance Sheets during the three months ended March 31, 2015 (in thousands):

Goodwill as of December 31, 2014	$257,442
Increase in goodwill related to acquisitions	3,849
Goodwill as of March 31, 2015	$261,291

The $3.8 million increase to goodwill related to acquisitions represents the goodwill recorded in connection with the funeral home acquired in February 2015.

5. PRENEED TRUST INVESTMENT

Preneed Cemetery Trust Investments

Preneed cemetery trust investments represent trust fund assets that we are generally permitted to withdraw when the merchandise or services are provided. The components of Preneed cemetery trust investments on our Consolidated Balance Sheets at December 31, 2014 and March 31, 2015 were as follows (in thousands):

	December 31, 2014	March 31, 2015
Preneed cemetery trust investments, at fair value	$74,198	$74,742
Less: allowance for contract cancellation	(2,226)	(2,208)
Preneed cemetery trust investments, net	$71,972	$72,534

Upon cancellation of a preneed cemetery contract, a customer is generally entitled to receive a refund of the corpus, and in some cases, some or all of the earnings held in trust. In certain jurisdictions, we may be obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust, including some or all investment income. As a result, when realized or unrealized losses of a trust result in the trust being under funded, we assess whether we are responsible for replenishing the corpus of the trust, in which case a loss provision is recorded. At March 31, 2015, our preneed cemetery trust investments were not under-funded.

Earnings from our preneed cemetery trust investments are recognized in revenue when a service is performed or merchandise is delivered. Trust management fees charged by our wholly-owned registered investment advisor are included in revenue in the period in which they are earned.

Where quoted prices are available in an active market, investments held by the trusts are classified as Level 1 investments pursuant to the three-level valuation hierarchy. Our Level 1 investments include cash and common stock. Where quoted market prices are not available for the specific security, fair values are estimated by using quoted prices of similar securities in active markets or other inputs other than quoted prices that can corroborate observable market data. These investments are fixed income securities including municipal bonds, foreign debt, corporate debt, preferred stocks and mortgage backed securities, all of which are classified within Level 2 of the valuation hierarchy. We review and update our fair value hierarchy classifications quarterly. There were no transfers between Levels 1 and 2 in the three months ended March 31, 2015. There are no Level 3 investments in the preneed cemetery trust investment portfolio. See Note 10 for further information of the fair value measurement and the three-level valuation hierarchy.

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The cost and fair market values associated with preneed cemetery trust investments at March 31, 2015 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$1,028	$—	$—	$1,028
Fixed income securities:					
Municipal bonds	2	348	—	(12)	336
Foreign debt	2	6,060	72	(261)	5,871
Corporate debt	2	29,393	494	(987)	28,900
Preferred stock	2	18,828	343	(300)	18,871
Common stock	1	17,952	2,235	(1,484)	18,703
Trust securities		$73,609	$3,144	$(3,044)	$73,709
Accrued investment income		$1,033			$1,033
Preneed cemetery trust investments					$74,742
Market value as a percentage of cost					100.1 %

The estimated maturities of the fixed income securities included above are as follows (in thousands):

Due in one year or less	$18
Due in one to five years	5,998
Due in five to ten years	7,154
Thereafter	40,808
Total	$53,978

The cost and fair market values associated with preneed cemetery trust investments at December 31, 2014 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$5,591	$—	$—	$5,591
Fixed income securities:					
Municipal bonds	2	347	9	—	356
Foreign debt	2	5,874	—	(237)	5,637
Corporate debt	2	30,108	362	(2,167)	28,303
Preferred stock	2	19,154	199	(325)	19,028
Mortgage backed securities	2	1	—	—	1
Common stock	1	13,128	2,357	(966)	