CARRIAGE SERVICES INC
Form 10-Q
April 27, 2018
Table of Contents

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, 2018
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,” and “emerging growth 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
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 April 20, 2018 was 16,292,204.

Table of Contents

CARRIAGE SERVICES, INC.
INDEX

	Page
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Consolidated Balance Sheets as of December 31, 2017 and March 31, 2018	3
Consolidated Statements of Operations for the Three Months ended March 31, 2017 and 2018	4
Consolidated Statements of Cash Flows for the Three Months ended March 31, 2017 and 2018	5
Condensed Notes to Consolidated Financial Statements	6
Cautionary Statement on Forward–Looking Statements	35
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	37
Item 3. Quantitative and Qualitative Disclosures About Market Risk	46
Item 4. Controls and Procedures	47
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	48
Item 1A. Risk Factors	48
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	48
Item 3. Defaults Upon Senior Securities	48
Item 4. Mine Safety Disclosures	48
Item 5. Other Information	48
Item 6. Exhibits	48
SIGNATURE	49
INDEX OF EXHIBITS	50

Table of Contents

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

	December 31, 2017	(unaudited) March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 952	$ 779
Accounts receivable, net of allowance for bad debts of $835 in 2017 and $814 in 2018	19,655	17,817
Inventories	6,519	6,566
Prepaid expenses	2,028	1,966
Other current assets	986	572
Total current assets	30,140	27,700
Preneed cemetery trust investments	73,853	70,296
Preneed funeral trust investments	90,682	91,782
Preneed receivables, net of allowance for bad debts of $2,278 in 2017 and $2,289 in 2018	31,644	20,982
Receivables from preneed trusts	15,287	15,802
Property, plant and equipment, net of accumulated depreciation of $115,776 in 2017 and $118,864 in 2018	247,294	245,622
Cemetery property, net of accumulated amortization of $37,543 in 2017 and $38,451 in 2018	76,331	75,935
Goodwill	287,956	287,956
Intangible and other non-current assets	18,117	20,830
Cemetery perpetual care trust investments	50,229	48,285
Total assets	$ 921,533	$ 905,190
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 17,251	$ 17,320
Accounts payable	6,547	7,273
Other liabilities	1,361	3,789
Accrued liabilities	17,559	12,397
Total current liabilities	42,718	40,779
Long-term debt, net of current portion	121,034	116,886
Revolving credit facility	91,120	83,389
Convertible subordinated notes due 2021	124,441	125,733
Obligations under capital leases, net of current portion	6,361	6,371
Deferred preneed cemetery revenue	54,690	50,797
Deferred preneed funeral revenue	34,585	27,251
Deferred tax liability	31,159	31,366
Other long-term liabilities	3,378	2,819
Deferred preneed cemetery receipts held in trust	73,853	70,296
Deferred preneed funeral receipts held in trust	90,682	91,782
Care trusts' corpus	49,856	47,561
Total liabilities	723,877	695,030
Commitments and contingencies:		
Stockholders' equity:		

Common stock, $.01 par value; 80,000,000 shares authorized and 22,622,242 and 22,815,774 shares issued at December 31, 2017 and March 31, 2018, respectively	226	228
Additional paid-in capital	216,158	216,526
Retained earnings	57,904	70,038
Treasury stock, at cost; 6,523,370 shares at December 31, 2017 and March 31, 2018	(76,632)	(76,632)
Total stockholders’ equity	197,656	210,160
Total liabilities and stockholders’ equity	$ 921,533	$ 905,190

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

Table of Contents

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

	Three Months Ended March 31,	
	2017	2018
Revenues:		
Funeral	$54,211	$58,594
Cemetery	13,946	14,793
	68,157	73,387
Field costs and expenses:		
Funeral	30,429	33,502
Cemetery	8,211	8,643
Depreciation and amortization	3,471	3,773
Regional and unallocated funeral and cemetery costs	2,954	3,281
	45,065	49,199
Gross profit	23,092	24,188
Corporate costs and expenses:		
General, administrative and other	6,847	6,618
Home office depreciation and amortization	376	443
	7,223	7,061
Operating income	15,869	17,127
Interest expense	(3,029)	(3,735)
Accretion of discount on convertible subordinated notes	(1,037)	(1,160)
Other, net	3	2
Income before income taxes	11,806	12,234
Provision for income taxes	(4,722)	(3,365)
Tax benefit related to certain discrete items	—	487
Total provision for income taxes	(4,722)	(2,878)
Net income	$7,084	$9,356
Basic earnings per common share:	$0.42	$0.58
Diluted earnings per common share:	$0.39	$0.52
Dividends declared per common share	$0.050	$0.075
Weighted average number of common and common equivalent shares outstanding:		
Basic	16,597	16,094
Diluted	18,082	17,700

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

Table of Contents

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2018
Cash flows from operating activities:		
Net income	$7,084	$9,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,847	4,216
Provision for losses on accounts receivable	389	459
Stock-based compensation expense	836	1,100
Deferred income tax expense	162	207
Amortization of deferred financing costs	203	208
Amortization of capitalized commissions on preneed contracts	—	149
Accretion of discount on convertible subordinated notes	1,037	1,160
Net loss on sale and disposal of other assets	155	19
Changes in operating assets and liabilities that provided (required) cash:		
Accounts and preneed receivables	303	(533)
Inventories and other current assets	1,976	429
Intangible and other non-current assets	80	(85)
Preneed funeral and cemetery trust investments	(1,404)	3,886
Accounts payable	(2,778)	727
Accrued and other liabilities	(6,142)	(3,009)
Deferred preneed funeral and cemetery revenue	1,308	1,346
Deferred preneed funeral and cemetery receipts held in trust	1,103	(4,752)
Net cash provided by operating activities	8,159	14,883
Cash flows from investing activities:		
Capital expenditures	(3,730)	(2,065)
Net cash used in investing activities	(3,730)	(2,065)
Cash flows from financing activities:		
Borrowings from the revolving credit facility	18,800	3,700
Payments against the revolving credit facility	(21,400)	(11,500)
Payments against the term loan	(2,813)	(3,750)
Payments on other long-term debt and obligations under capital leases	(368)	(428)
Payments on contingent consideration recorded at acquisition date	(101)	(138)
Proceeds from the exercise of stock options and employee stock purchase plan contributions	315	626
Taxes paid on restricted stock vestings and exercise of non-qualified options	(509)	(294)
Dividends paid on common stock	(833)	(1,207)
Net cash used in financing activities	(6,909)	(12,991)
Net decrease in cash and cash equivalents	(2,480)	(173)
Cash and cash equivalents at beginning of period	3,286	952
Cash and cash equivalents at end of period	$806	$779

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

- 5 -

Table of Contents

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, 2018, we operated 178 funeral homes in 29 states and 32 cemeteries in 11 states. Our operations are reported in two business segments: Funeral Home Operations, which currently account for approximately 80% of our revenues and Cemetery Operations, which currently account for approximately 20% of our revenues.

Our funeral homes offer a complete range of high value personal services to meet a family’s funeral needs, including consultation, the removal and preparation of remains, the sale of caskets and related funeral merchandise, the use of funeral home facilities for visitation and remembrance services and transportation services. Our cemeteries provide interment rights (grave sites and mausoleum spaces) and related merchandise, such as markers and outer burial containers. We market funeral and cemetery services and products on both an “atneed” (time of death) and “preneed” (planned prior to death) basis.

Principles of Consolidation and Interim Condensed Disclosures

Our unaudited consolidated financial statements include the Company and its subsidiaries. All intercompany balances and transactions have been eliminated. Our interim consolidated financial statements are unaudited but include all adjustments, which consist of normal, recurring accruals, that are necessary for a fair presentation of our financial position and results of operations as of and for the interim periods presented. Our unaudited consolidated financial statements have been prepared in a manner consistent with the accounting principles described in our Annual Report on Form 10-K for the year ended December 31, 2017 unless otherwise disclosed herein, 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.

Revenue Recognition - Funeral Home Operations

Our funeral home operations are principally service businesses that generate revenues from sales of burial and cremation services and related merchandise, such as caskets and urns. Funeral services include consultation, the removal and preparation of remains, the use of funeral home facilities for visitation and remembrance services and transportation services. We provide funeral services and products on both an atneed and preneed basis.

Funeral arrangements sold at the time of death are referred to as atneed funeral contracts. We record the revenue from atneed funeral contracts when the merchandise is delivered or the service is performed. Merchandise delivery and service performance generally takes place shortly after the time of need. Payment is due at or before time of transfer. Outstanding balances due from customers, if any, on atneed funeral contracts are included in Accounts receivable on our Consolidated Balance Sheets.

Funeral arrangements sold prior to death occurring are referred to as preneed funeral contracts. In many instances, the customer pays for the preneed contract over a period of time. The performance of a preneed funeral contract is secured by placing the funds collected, less amounts that we may retain under state regulations, in trust for the benefit of the customer or by the customer's purchase of a life insurance policy, the proceeds of which will pay for such services at the time of need. These methods are intended to fund preneed funeral contracts, cover the original contract price and generally include an element of growth (earnings) designed to offset future inflationary cost increases.

Table of Contents

Revenue from preneed funeral contracts, along with accumulated earnings, is deferred until the time the merchandise is delivered or the service is performed. The principal and accumulated earnings of the trusts are withdrawn at maturity (death) or cancellation. The cumulative trust income earned and the increases in insurance benefits on the insurance products are recognized when the service is performed. The amounts deposited in trusts that we control are included in the non-current asset section of our Consolidated Balance Sheets. Beginning January 1, 2018, balances due on undelivered preneed funeral trust contracts have been reclassified to reduce Deferred preneed funeral revenue on our Consolidated Balance Sheet, as noted in our table of Deferred Revenue in Note 3 to the Consolidated Financial Statements. See Note 2 to the Consolidated Financial Statements included herein for additional information related to our adoption of the new revenue recognition standard on January 1, 2018.

The earnings from our preneed funeral trust investments, as well as trust management fees charged by our wholly-owned registered investment advisory firm, ("CSV RIA"), are recorded as Preneed trust earnings - funeral, as noted in our table of disaggregated revenues in Note 3. As of March 31, 2018, CSV RIA provided these services to two institutions, which have custody of 79% 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.

When preneed funeral contracts are funded through third-party insurance policies, we earn a commission on the sale of the policies. Insurance commissions are recorded as Preneed funeral commission income, as noted in our table of disaggregated revenues in Note 3, at the point at which the commission is no longer subject to refund, which is typically one year after the policy is issued. Preneed funeral contracts to be funded at maturity by insurance policies totaled $371.5 million at March 31, 2018 and are not included on our Consolidated Balance Sheets.

See Note 3 to the Consolidated Financial Statements included herein for additional information on our revenues.

Revenue Recognition - Cemetery Operations

Our cemetery operations generate revenues primarily through sales of cemetery interment rights (primarily grave sites, lawn crypts, mausoleum spaces and niches), related cemetery merchandise (such as outer burial containers, memorial markers and floral placements) and services (interments, inurnments and installation of cemetery merchandise). We provide cemetery services and products on both an atneed and preneed basis.

Cemetery arrangements sold at the time of death are referred to as atneed cemetery contracts. We record the revenue from atneed cemetery contracts when the product is delivered or the service is performed. Payment is due at or before time of transfer. Outstanding balances due from customers, if any, on completed atneed contracts are included in Accounts receivable on our Consolidated Balance Sheet.

Cemetery arrangements sold prior to death occurring are referred to as preneed cemetery contracts. Preneed cemetery contracts are usually financed through interest-bearing installment sales contracts, generally with terms of up to five years. In substantially all cases, we receive an initial down payment at the time the contract is signed.

We record revenue on the sales of cemetery property interment rights at the time the contract is signed. Customers select a specific location and space for their interment right, thus, restricting us from other use or transfer of the contracted cemetery property. The interment right is deeded to the customer when the contract is paid in full. Revenue from preneed sales of cemetery merchandise and services contracts, along with accumulated earnings, is not recognized until the time the merchandise is transferred or the service is performed. Earnings on these installment contracts are recorded as Preneed cemetery finance charges, as noted in our table of disaggregated revenues in Note 3 to the Consolidated Financial Statements.

The performance of the preneed cemetery contracts is secured by placing the funds collected, less amounts that we may retain under state regulations, in trust for the benefit of the customer, the proceeds of which will pay for such services at the time of need. This method is intended to fund preneed contracts, cover the original contract price and generally include an element of growth (earnings) designed to offset future inflationary cost increases. The amounts deposited in trusts that we control are included in the non-current asset section of our Consolidated Balance Sheets. The earnings from preneed cemetery contracts placed in trust are recorded as Preneed trust earnings - cemetery, as noted in our table of disaggregated revenues in Note 3 to the Consolidated Financial Statements.

Balances due from customers on delivered preneed cemetery contracts are included in Accounts receivable and Preneed receivables on our Consolidated Balance Sheet. Beginning January 1, 2018, balances due on undelivered preneed cemetery contracts have been reclassified to reduce Deferred preneed cemetery revenue on our Consolidated Balance Sheet, as noted in our table of Deferred Revenue in Note 3 to the Consolidated Financial Statements. See Note 2 to the Consolidated Financial Statements included herein for additional information related to our adoption of the new revenue recognition standard on January 1, 2018.

Interment right costs, which include real property and other costs related to cemetery development, are expensed using the specific identification method in the period in which the sale of the interment right is recognized as revenue. We recorded

Table of Contents

amortization expense for cemetery interment rights of approximately $0.8 million and $0.9 million for the three months ended March 31, 2017 and 2018, respectively.

See Note 3 to the Consolidated Financial Statements included herein for additional information on our revenues.

Arrangements with Multiple Performance Obligations

Some of our contracts with customers include multiple performance obligations. For these contracts, we allocate transaction price to each performance obligation based on its relative standalone selling price, which is based on prices charged to customers per our general price list. Packages for service and ancillary items are offered to help the customer make decisions during emotional/stressful times. Package discounts are reflected net in Services Revenue. We recognize revenue when the merchandise is transferred or the service is performed, in satisfaction of the corresponding performance obligation. Sales taxes collected are recognized on a net basis in our Consolidated Financial Statements.

Allowances for bad debts and customer cancellations

Our funeral receivables primarily consist of amounts due for funeral services already performed which were $8.5 million and $7.8 million at December 31, 2017 and March 31, 2018, respectively. We estimate an allowance for doubtful accounts on these receivables based on our historical experience, which amounted to 2.5% and 2.4% of funeral receivables at December 31, 2017 and March 31, 2018, respectively. In addition, our other funeral receivables not related to funeral services performed were $0.8 million and $0.5 million at December 31, 2017 and March 31, 2018, respectively.

Our cemetery financed receivables totaled $40.5 million and $41.3 million at December 31, 2017 and March 31, 2018, respectively. The unearned finance charges associated with these receivables were $5.7 million at both December 31, 2017 and March 31, 2018. If a preneed contract is canceled prior to delivery, state law determines the amount of the refund owed to the customer. Allowances for bad debts and customer cancellations on cemetery financed receivables are provided at the date that the sale is recognized as revenue and are based on our historical experience. We also monitor changes in delinquency rates and provide additional bad debt and cancellation reserves when warranted. We have a collections policy where past due notifications are sent to the customer beginning at 15 days past due and periodically thereafter until the contract is cancelled or payment is received. We reserve 100% of the receivables on contracts in which the revenue has been recognized and payments are 90 days past due or more, which was approximately 4.9% and 4.7% of the total receivables at December 31, 2017 and March 31, 2018. See Note 5 to the Consolidated Financial Statements included herein for additional information on cemetery financed receivables.

Accounts receivable was comprised of the following at December 31, 2017 and March 31, 2018 (in thousands):

	December 31, 2017	March 31, 2018
Funeral receivables, net of allowance for bad debt of $213 and $184, respectively	$ 9,061	$ 8,099
Cemetery receivables, net of allowance for bad debt of $622 and $630, respectively	10,331	9,395
Other receivables	263	323
Accounts receivable, net	$ 19,655	$ 17,817

Non-current preneed receivables represent payments expected to be received beyond one year from the balance sheet date. Preneed receivables were comprised of the following at December 31, 2017 and March 31, 2018 (in thousands):

	December 31, 2017	March 31, 2018
Funeral receivables, net of allowance for bad debt of $882	$ 7,934	$ —
Cemetery receivables, net of allowance for bad debt of $1,396 and $1,391, respectively	23,710	20,982
Preneed receivable, net	$ 31,644	$ 20,982

Bad debt expense totaled approximately $0.4 million and $0.5 million for the three months ended March 31, 2017 and 2018, respectively.

Capitalized Commissions on Preneed Contracts

Effective January 1, 2018, we adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU"), Revenue from Contracts with Customers (Topic 606), which impacted our accounting for incremental selling costs, primarily commission costs, related to preneed cemetery merchandise and services and preneed funeral trust contracts.

Upon adoption of Topic 606, we capitalize sales commissions and other direct selling costs related to preneed cemetery merchandise and services and preneed funeral trust contracts as these costs are incremental and recoverable costs of obtaining a contract with a customer. We recorded a cumulative adjustment of approximately $2.8 million to our opening Retained earnings and Intangible and other non-current assets on our Consolidated Balance Sheets on January 1, 2018. Our capitalized commissions

Table of Contents

on preneed contracts are amortized on a straight-line basis over the average maturity period for our preneed cemetery merchandise and services contracts and preneed funeral trust contracts, of eight and ten years, respectively. Amortization expense totaled approximately $149,000 for the three months ended March 31, 2018. There were no impairment losses recognized during this period.

The selling costs related to the sales of cemetery interment rights, which include real property and other costs related to cemetery development activities, continue to be expensed using the specific identification method in the period in which the sale of the cemetery interment right is recognized as revenue. The selling costs related to preneed funeral insurance contracts continue to be expensed in the period incurred as these contracts are not included on our Consolidated Balance Sheet.

See Note 2 to the Consolidated Financial Statements included herein for additional information related to our adoption of the new revenue recognition standard on January 1, 2018.

See Note 9 to the Consolidated Financial Statements included herein for additional information regarding our capitalized commissions on preneed contracts.

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 major replacements that extend the useful economic life of the asset 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, 2017 and March 31, 2018 (in thousands):

	December 31, 2017	March 31, 2018
Land	$74,981	$74,981
Buildings and improvements	211,934	212,186
Furniture, equipment and automobiles	76,155	77,319
Property, plant and equipment, at cost	363,070	364,486
Less: accumulated depreciation	(115,776)	(118,864)
Property, plant and equipment, net	$247,294	$245,622

We recorded depreciation expense of approximately $3.1 million and $3.3 million for the three months ended March 31, 2017 and 2018, respectively.

Goodwill

The excess of the purchase price over the fair value of identifiable net assets of funeral home businesses acquired is recorded as goodwill. Goodwill has primarily been recorded in connection with the acquisition of funeral home businesses. Goodwill has an indefinite life and is not subject to amortization. As such, we test goodwill for impairment on an annual basis, using information as of August 31st each year. Our intent is to perform a quantitative impairment test at least once every three years unless certain indicators or events suggest otherwise and perform a qualitative assessment during the remaining two years.

We conducted qualitative assessments in 2017. For our 2016 annual impairment test, however, we performed a quantitative goodwill impairment test. See Part II, Item 7, Overview of Critical Accounting Policies and Estimates and Item 8. Financial Statements and Supplementary Data, Note 1, to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017, for a discussion of the methodology used for the goodwill impairment test.

In addition to our annual review, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value of a reporting unit 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. No such events or changes occurred between our testing date and reporting period to trigger a subsequent impairment review. No impairments were recorded to our goodwill during the three months ended March 31, 2017 and 2018.

Intangible Assets

Our intangible assets include tradenames resulting from acquisitions and are included in Intangible 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. As such, we test our intangible assets for impairment on an annual basis, using information as of August 31st each year. Our intent is to perform a quantitative impairment test at least once every three years unless certain indicators or events suggest otherwise and perform a qualitative assessment during the remaining two years.

Table of Contents

We conducted qualitative assessments in 2017. For our 2016 annual impairment test, however, we performed a quantitative impairment test using the relief from royalty method. See Part II, Item 7, Overview of Critical Accounting Policies and Estimates and Item 8. Financial Statements and Supplementary Data, Note 1, to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017, for a discussion of the methodology used for the intangibles impairment test.

In addition to our annual review, we assess the impairment of intangible assets whenever certain events or changes in circumstances indicate that the carrying value of the intangible asset 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 or projected future operating results and significant negative industry or economic trends. No impairments were recorded to our intangible assets during the three months ended March 31, 2017 and 2018.

Stock Plans and Stock-Based Compensation

We have stock-based employee and director compensation plans under which we grant restricted stock, stock options and performance awards. We also have an employee stock purchase plan (the "ESPP"). We recognize compensation expense in an amount equal to the fair value of the stock-based awards expected to vest or to be purchased over the requisite service period.

Fair value is determined on the date of the grant. The fair value of restricted stock is determined using the stock price on the grant date. The fair value of options or awards containing options is determined using the Black-Scholes valuation model. The fair value of the performance awards related to market performance is determined using a Monte-Carlo simulation pricing model. The fair value of the performance awards related to internal performance metrics is determined using the stock price on the grant date. The fair value of the ESPP is determined based on the discount element offered to employees and the embedded option element, which is determined using an option calculation model.

See Note 12 to the Consolidated Financial Statements included herein for additional information on our stock-based compensation plans.

Income Taxes

We and our subsidiaries file a consolidated U.S. federal income tax return, separate income tax returns in 16 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 the 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.

Income tax expense during interim periods is based on our estimated annual effective income tax rate plus any discrete items, which are recorded in the period in which they occur. Discrete items include, but are not limited to, such events as changes in estimates due to finalization of income tax returns, tax audit settlements, tax effects of exercised or vested stock-based awards and increases or decreases in valuation allowances on deferred tax assets.

Income tax expense was $4.7 million for the three months ended March 31, 2017 compared to $2.9 million for the three months ended March 31, 2018. We recorded income taxes at the estimated effective rate, before discrete items, of 40.0% for the three months ended March 31, 2017 and approximately 27.5% for the three months ended March 31, 2018. The discrete items include an income tax benefit related to stock compensation and refunds received from the completion of state income tax audits, and income tax expense related to state tax rate changes and other non-material discrete state items. The decrease in the estimated effective tax rate, before discrete items, is primarily attributable to the reduction of the U.S. federal statutory income tax rate from 35% to 21% resulting from enactment of the Tax Cuts and Jobs Act of 2017 (the "TCJA").

Regulatory changes from the TCJA negatively impacted the effective tax rate for the first quarter of 2018 by 0.2% due to the repeal of the domestic production activities deduction and by 0.3% due to the exclusion of performance based compensation from the overall executive compensation deduction limitation. Additionally, regulatory changes to the deductibility of meals and entertainment along with the state conformity to the federal bonus depreciation rules both had a non-material negative rate impact on the effective tax rate.

Table of Contents

Subsequent Events

Management evaluated events and transactions during the period subsequent to March 31, 2018 through the date the financial statements were issued for potential recognition or disclosure in the accompanying financial statements covered by this report.

See Note 16 to the Consolidated Financial Statements included herein for additional information on our subsequent events.

2.RECENTLY ISSUED ACCOUNTING STANDARDS

Revenue Recognition

In May 2014, the FASB issued ASU, Revenue from Contracts with Customers (Topic 606). FASB Accounting Standards Codification ("ASC") Topic 606 supersedes the revenue recognition requirements under 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 recognizes 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 Topic 606, 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. Additionally, the guidance requires improved disclosures as to the nature, amount, timing and uncertainty of revenue that is recognized.

We adopted the provisions of this ASU on January 1, 2018 using the modified retrospective approach. As such, the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Topic 606 did not materially affect the accounting for our revenue streams. Revenue from sales of preneed cemetery interment rights was previously recognized in the period in which the customer's cumulative payments exceeded 10% of the contract price related to the interment right. Under Topic 606, we recognize revenue at the time the contract is signed. Customers select a specific location and space for their interment right, thus, restricting us from other use or transfer of the contracted cemetery property. The interment right is deeded to the customer when the contract is paid in full. Because we generally receive an initial down payment at the time the contract is signed, there is no significant difference in the timing of revenue recognition under Topic 606, as compared to previous guidance. Revenue from preneed sales of funeral and cemetery merchandise and services continues to be deferred and recognized when the merchandise is delivered or the service is performed.

Topic 606 impacted our accounting for incremental selling costs, primarily commission costs, related to preneed cemetery merchandise and services and preneed funeral trust contracts. Under Topic 606, these costs are capitalized and amortized over the average maturity period for our preneed cemetery contracts and preneed funeral trust contracts. Previously, these costs were expensed in the period incurred. Our capitalized commissions on preneed contracts are included in Intangible and other non-current assets on our Consolidated Balance Sheets. See Note 9 to the Consolidated Financial Statements included herein for additional information.

The selling costs related to the sales of cemetery interment rights, which include real property and other costs related to cemetery development activities, continue to be expensed using the specific identification method in the period in which the sale of the cemetery interment right is recognized as revenue. The selling costs related to preneed funeral insurance contracts continue to be expensed in the period incurred as these contracts are not included on our Consolidated Balance Sheets.

Topic 606 also impacted our classification of amounts due from customers for undelivered performance obligations. Under Topic 606 amounts due on our preneed funeral trust contracts and preneed cemetery merchandise and services contracts have been reclassified to reduce Deferred preneed funeral revenue and Deferred preneed cemetery revenue, respectively, on our Consolidated Balance Sheets. These amounts were previously reported as Accounts receivable and Preneed receivables on our Consolidated Balance Sheets.

The adoption of the provisions of this ASU did not have a material impact on the effective tax rate for the reporting period.

- 11 -

Table of Contents

The following table presents the impact of the adoption of Topic 606 on our Consolidated Balance Sheet (in thousands):

	As of March 31, 2018		
	As Reported	Balances Without Adoption of Topic 606	Effect of Change
Assets			
Accounts receivable, net of allowance for bad debts	$17,817	$ 19,199	$(1,382)
Preneed receivables, net of allowance for bad debts	$20,982	$ 32,173	$(11,191)
Intangible and other non-current assets	$2,798	$ —	$2,798
Liabilities			
Deferred preneed cemetery revenue, net	$50,797	$ 55,292	$(4,495)
Deferred preneed funeral revenue, net	$27,251	$ 35,329	$(8,078)
Deferred tax liability	$31,366	$ 31,361	$5
Stockholders’ equity:			
Retained earnings	$70,038	$ 67,245	$2,793

The following table presents the impact of the adoption of Topic 606 on our Consolidated Statement of Operations (in thousands, except per share data):

	Three months ended March 31, 2018		
	As Reported	Balances Without Adoption of Topic 606	Effect of Change
Field costs and expenses:			
Funeral	$36,366	$ 36,406	$ (40)
Cemetery	$9,060	$ 9,041	$ 19
Income before income taxes	$12,234	$ 12,213	$ (21)
Net income	$9,356	$ 9,341	$ 15
Basic earnings per common share:	$0.58	$ 0.58	$ —
Diluted earnings per common share:	$0.52	$ 0.52	$ —
Dividends declared per common share	$0.075	$ 0.075	$ —

The following table presents the impact of the adoption of Topic 606 on our Consolidated Statement of Cash Flows (in thousands):

	Three months ended March 31, 2018		
	As Reported	Balances Without Adoption of Topic 606	Effect of Change
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of capitalized commissions on preneed contracts	$149	$ —	$ 149

Changes in operating assets and liabilities that provided (required) cash:			
Intangible and other non-current assets	$(169)	$ —	$(169)

Table of Contents

The cumulative effect of changes made to our opening Consolidated Balance Sheet on January 1, 2018 for the adoption of Topic 606 was as follows (in thousands):

	December 31, 2017	Effect of Adoption of Topic 606	January 1, 2018
Assets			
Accounts receivable, net of allowance for bad debts[(1)]	$ 19,655	$(1,399)	$18,256
Preneed receivables, net of allowance for bad debts[(2)(3)]	$ 31,644	$(11,129)	$20,515
Intangible and other non-current assets[(4)]	$ —	$2,778	$2,778
		$(9,750)	
Liabilities			
Deferred preneed cemetery revenue[(1)(2)]	$ 54,690	$(4,594)	$50,096
Deferred preneed funeral revenue[(3)]	$ 34,585	$(7,934)	$26,651
Stockholders' equity:			
Retained earnings[(4)]	$ 57,904	$2,778	$60,682
		$(9,750)	

(1) Under Topic 606, receivables represent an entity's unconditional right to consideration, billed or unbilled. Our balance of accounts receivable, net of allowance for bad debts, of $19.7 million at December 31, 2017, included the current portion of receivables for preneed cemetery merchandise and service contracts totaling $1.4 million. As these amounts represent

undelivered performance obligations, they have been reclassified to reduce deferred preneed cemetery revenue on January 1, 2018.

(2) Under Topic 606, receivables represent an entity's unconditional right to consideration, billed or unbilled. Our balance of preneed receivables, net of allowance for bad debts, of $31.6 million at December 31, 2017, included the non-current portion of receivables for preneed cemetery merchandise and service contracts totaling $4.6 million. As these amounts represent undelivered performance obligations, they have been reclassified to reduce deferred

preneed cemetery revenue on January 1, 2018.

(3) Under Topic 606, receivables represent an entity's unconditional right to consideration, billed or unbilled. Our balance of preneed receivables, net of allowance for bad debts, $31.6 million at December 31, 2017, included the non-current portion of receivables for preneed funeral trust contracts totaling $7.9 million. As these amounts represent undelivered performance obligations, they have been reclassified to reduce deferred preneed funeral revenue on January 1, 2018.

(4) Under Topic 606, certain costs incurred to obtain or

fulfill a contract with a customer are capitalized. Beginning January 1, 2018, we capitalize selling costs related to undelivered preneed cemetery merchandise and services and preneed funeral trust contracts. Previously, these costs were expensed in the period incurred. We recorded a cumulative adjustment of approximately $2.8 million to our opening Retained earnings and Intangible and other non-current assets on our Consolidated Balance Sheets on January 1, 2018 to capitalize these costs.

The following accounting pronouncements were adopted on January 1, 2018 with no impact to our Consolidated Financial Statements:

Compensation (Topic 718): Stock Compensation – Scope of Modification Accounting

The amendments provide guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless the fair value, vesting conditions and classification of the modified award are the same as the original award immediately before the award is modified.

Business Combinations (Topic 805): Clarifying the Definition of a Business

This ASU applies to all entities that must determine whether they have acquired or sold a business. The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses.

Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments

This ASU applies to all entities that are required to present a statement of cash flows under Topic 230. The amendments provide guidance on eight specific cash flow issues and includes clarification on how these items should be classified in the statement of cash flows and is designed to help eliminate diversity in practice as to where items are classified in the cash flow statement. In November 2016, the FASB issued additional guidance on this topic that requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the statement of cash flows.

Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

Table of Contents

The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments and apply to all entities that hold financial assets or owe financial liabilities. The amendments in this ASU also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. That impairment assessment is similar to the qualitative assessment for long-lived assets, goodwill, and indefinite-lived intangible assets.

Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued ASU, Leases (Topic 842). This ASU addresses certain aspects of recognition, presentation, and disclosure of leases and applies to all entities that enter into a lease, with some specified scope exemptions. The amendments in this ASU aim to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with earlier application permitted for all entities. Both lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which recognizes the cumulative effect of initially applying the standard as an adjustment to retained earnings at the date of initial application. We plan to adopt the provisions of this ASU for our fiscal year beginning January 1, 2019 and are currently evaluating the impact the adoption of this new accounting standard will have on our Consolidated Financial Statements.

Financial Instruments

In June 2016, the FASB issued ASU, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU applies to all entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. This amendment replaces the incurred loss impairment methodology in the current standard with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with earlier application permitted for all entities. We plan to adopt the provisions of this ASU for our fiscal year beginning January 1, 2020 and are currently evaluating the impact the adoption of this new accounting standard will have on our Consolidated Financial Statements.

Table of Contents

3.REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenues

Our operations are reported in two business segments: Funeral Home Operations and Cemetery Operations. Revenues, disaggregated by major source for each of our reportable segments was as follows (in thousands):

Three months ended March 31, 2018

	Funeral	Cemetery	Total
Services	$36,300	$ 3,121	$39,421
Merchandise	19,982	1,957	21,939
Cemetery interment rights	—	7,509	7,509
Revenue from contracts with customers	$56,282	$ 12,587	$68,869
Preneed funeral commission income	$260	$ —	$260
Preneed trust earnings	1,914	1,549	3,463
Preneed trust management fees	138	210	348
Preneed cemetery finance charges	—	447	447
Financial revenues	$2,312	$ 2,206	$4,518
Total Revenues	$58,594	$ 14,793	$73,387

Three months ended March 31, 2017

	Funeral	Cemetery	Total
Services	$32,799	$ 3,000	$35,799
Merchandise	19,163	1,843	21,006
Cemetery interment rights	—	6,905	6,905
Revenue from contracts with customers	$51,962	$ 11,748	$63,710
Preneed funeral commission income	$303	$ —	$303
Preneed trust earnings	1,809	1,514	3,323
Preneed trust management fees	137	202	339
Preneed cemetery finance charges	—	482	482
Financial revenues	$2,249	$ 2,198	$4,447
Total Revenues	$54,211	$ 13,946	$68,157

Table of Contents

Deferred Revenue

Deferred revenue is presented net of amounts due on undelivered preneed contracts shown below as of January 1, 2018 and March 31, 2018 (in thousands):

	January 1, 2018[(1)]	March 31, 2018
Contract liabilities:		
Deferred preneed cemetery revenue	$54,690	$55,292
Less: Balances due on undelivered cemetery preneed contracts[(2)]	(4,594)	(4,495)
Deferred preneed cemetery revenue, net	$50,096	$50,797
Deferred preneed funeral revenue	$34,585	$35,329
Less: Balances due on undelivered funeral preneed contracts[(3)]	(7,934)	(8,078)
Deferred preneed funeral revenue, net	$26,651	$27,251

(1) January 1, 2018 balances have been adjusted to reflect the cumulative effect of changes for the adoption of ASC 606.

(2) In accordance with Topic 606, $1.4 million of cemetery accounts receivables have been reclassified to reduce deferred preneed cemetery revenue at both January 1, 2018 and March 31, 2018 and $3.2 million and $3.1 million of preneed cemetery

receivables have been reclassified to reduce deferred preneed cemetery revenue at January 1, 2018 and March 31, 2018, respectively.

(3) In accordance with Topic 606, $7.9 million and $8.1 million of preneed funeral receivables have been reclassified to reduce deferred preneed funeral revenue at January 1, 2018 and March 31, 2018, respectively.

Our merchandise and service performance obligations related to our preneed contracts are considered fulfilled at the point in time the merchandise is delivered or the burial, cremation or interment service is performed. The transaction price allocated to preneed merchandise and service performance obligations that were unfulfilled at March 31, 2018 was $4.5 million for preneed cemetery contracts and $8.1 million for preneed funeral contracts. As these performance obligations are to be completed after the date of death, we cannot quantify the recognition of revenue for any given period. However, we estimate an average maturity period of eight years for preneed cemetery contracts and ten years for preneed funeral contracts.

4. PRENEED TRUST INVESTMENTS

Preneed Cemetery Trust Investments

Preneed cemetery trust investments represent trust fund assets that we are permitted to withdraw as merchandise and services are provided to customers. Preneed cemetery contracts are secured by payments from customers, less retained amounts not required to be deposited into trust. Preneed cemetery trust investments can be reduced by the trust earnings we have been allowed to withdraw in certain states prior to our performance.

The components of Preneed cemetery trust investments on our Consolidated Balance Sheets at December 31, 2017 and March 31, 2018 were as follows (in thousands):

	December 31, 2017	March 31, 2018

Preneed cemetery trust investments, at market value	$ 75,992	$ 72,450
Less: allowance for contract cancellation	(2,139)	(2,154)
Preneed cemetery trust investments, net	$ 73,853	$ 70,296

Upon cancellation of a preneed cemetery contract, a customer is generally entitled to receive a refund of the corpus, and in some instances, a portion of 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 investment income. As a result, when realized or unrealized losses of a trust result in the trust being underfunded, we assess whether we are responsible for replenishing the corpus of the trust, in which case a loss provision is recorded. At March 31, 2018, none of our preneed cemetery trust investments were underfunded.

Earnings from our preneed cemetery trust investments are recognized as revenue when a service is performed or merchandise is delivered. Trust management fees charged by CSV RIA 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

Table of Contents

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 foreign debt, corporate debt, preferred stocks, mortgage-backed securities and fixed income mutual funds, 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, 2018. There are no Level 3 investments in the preneed cemetery trust investment portfolio. See Note 8 to the Consolidated Financial Statements included herein for further information on the fair value measurement and the three-level hierarchy.

The cost and fair market values associated with preneed cemetery trust investments at March 31, 2018 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$7,366	$ —	$ —	$7,366
Fixed income securities:					
Foreign debt	2	4,848	193	(244)	4,797
Corporate debt	2	15,665	733	(665)	15,733
Preferred stock	2	16,471	118	(751)	15,838
Mortgage-backed securities	2	1,015	281	(26)	1,270
Common stock	1	25,216	4,074	(3,783)	25,507
Mutual funds:					
Fixed Income	2	1,202	27	(43)	1,186
Trust securities		$71,783	$ 5,426	$ (5,512)	$71,697
Accrued investment income		$753			$753
Preneed cemetery trust investments					$72,450
Market value as a percentage of cost					99.9 %

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

Due in one year or less	$—
Due in one to five years	2,177
Due in five to ten years	2,561
Thereafter	32,900
Total	$37,638

Table of Contents

The cost and fair market values associated with preneed cemetery trust investments at December 31, 2017 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$3,132	$ —	$ —	$3,132
Fixed income securities:					
Foreign debt	2	4,834	292	(193)	4,933
Corporate debt	2	18,238	1,184	(273)	19,149
Preferred stock	2	16,421	510	(588)	16,343
Mortgage-backed securities	2	1,018	249	(24)	1,243
Common stock	1	26,465	5,250	(2,460)	29,255
Mutual funds:					
Fixed income	2	1,198	50	(11)	1,237
Trust securities		$71,306	$ 7,535	$ (3,549)	$75,292
Accrued investment income		$700			$700
Preneed cemetery trust investments					$75,992
Market value as a percentage of cost					105.6 %

We determine whether or not the assets in the preneed cemetery trust investments have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria, including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair market value. Any reduction in the cost basis of the investment due to an other-than-temporary impairment is likewise recorded as a reduction in Deferred preneed cemetery receipts held in trust on our Consolidated Balance Sheets. In the three months ended March 31, 2017 and 2018, we did not record any impairments for other-than-temporary declines in the fair value related to unrealized losses on certain investments. There is no impact on earnings until such time that the loss is realized in the trusts, allocated to preneed contracts and the services are performed or the merchandise is delivered, causing the contract to be withdrawn from the trust in accordance with state regulations.

At March 31, 2018, we had certain investments within our preneed cemetery trust investments that had tax lots in loss positions for more than one year. Based on our analyses of these securities, the companies' businesses and current market conditions, we determined that these investment losses were temporary in nature.

Our preneed cemetery trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of March 31, 2018 are shown in the following table (in thousands):

	March 31, 2018					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
Foreign debt	$519	$ (20)	$1,605	$ (224)	$2,124	$ (244)
Corporate debt	6,987	(464)	768	(201)	7,755	(665)
Preferred stock	4,731	(43)	8,295	(708)	13,026	(751)
Mortgage-backed securities	75	—	73	(26)	148	(26)
Common stock	12,001	(2,461)	1,666	(1,322)	13,667	(3,783)
Mutual Funds:						
Fixed Income	842	(43)	—	—	842	(43)
Total temporary impaired securities	$25,155	$ (3,031)	$12,407	$ (2,481)	$37,562	$ (5,512)

- 18 -

Table of Contents

Our preneed cemetery trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of December 31, 2017 are shown in the following table (in thousands):

	December 31, 2017					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
Foreign debt	$151	$(6)	$1,637	$(187)	$1,788	$(193)
Corporate debt	3,735	(72)	846	(201)	4,581	(273)
Preferred stock	48	—	8,109	(588)	8,157	(588)
Mortgage-backed securities	127	(15)	27	(9)	154	(24)
Common stock	8,249	(1,512)	1,742	(948)	9,991	(2,460)
Mutual Funds:						
Fixed Income	496	(11)	—	—	496	(11)
Total temporary impaired securities	$12,806	$(1,616)	$12,361	$(1,933)	$25,167	$(3,549)

Preneed cemetery trust investment security transactions recorded in Other, net on our Consolidated Statements of Operations for the three months ended March 31, 2017 and 2018 were as follows (in thousands):

	Three Months Ended March 31,	
	2017	2018
Investment income	$589	$425
Realized gains	820	853
Realized losses	(383)	(607)
Expenses and taxes	(545)	(51)
Increase in deferred preneed cemetery receipts held in trust	(481)	(620)
	$—	$—

Purchases and sales of investments in the preneed cemetery trusts for the three months ended March 31, 2017 and 2018 were as follows (in thousands):

	Three Months Ended March 31,	
	2017	2018
Purchases	$(7,609)	$(3,376)
Sales	$5,982	$7,559

Preneed Funeral Trust Investments

Preneed funeral trust investments represent trust fund assets that we are permitted to withdraw as services and merchandise are provided to customers. Preneed funeral contracts are secured by payments from customers, less retained amounts not required to be deposited into trust. Preneed funeral trust investments are reduced by the trust earnings we have been allowed to withdraw in certain states prior to our performance.

The components of Preneed funeral trust investments on our Consolidated Balance Sheets at December 31, 2017 and March 31, 2018 were as follows (in thousands):

	December 31, 2017	March 31, 2018
Preneed funeral trust investments, at market value	$ 93,341	$94,603
Less: allowance for contract cancellation	(2,659)	(2,821)

Preneed funeral trust investments, net	$ 90,682	$ 91,782

Upon cancellation of a preneed funeral contract, a customer is generally entitled to receive a refund of the corpus and in some instances, a portion of all 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 investment income. As a result, when realized or unrealized

Table of Contents

losses of a trust result in the trust being underfunded, we assess whether we are responsible for replenishing the corpus of the trust, in which case a loss provision is recorded. At March 31, 2018, none of our preneed funeral trust investments were underfunded.

Earnings from our preneed funeral trust investments are recognized as revenue when a service is performed or merchandise is delivered. Trust management fees charged by CSV RIA 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, U.S. treasury debt and common stock. Where quoted market prices are not available for the specific security, then 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 foreign debt, corporate debt, preferred stocks, mortgage-backed securities and fixed income mutual funds and other investments, 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 for the three months ended March 31, 2018. There are no Level 3 investments in the preneed funeral trust investment portfolio. See Note 8 to the Consolidated Financial Statements included herein for further information on the fair value measurement and the three-level hierarchy.

The cost and fair market values associated with preneed funeral trust investments at March 31, 2018 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$24,381	$ —	$ —	$ 24,381
Fixed income securities:					
U.S treasury debt	1	1,490	7	(25)	1,472
Foreign debt	2	4,833	195	(238)	4,790
Corporate debt	2	16,034	718	(676)	16,076
Preferred stock	2	16,211	110	(741)	15,580
Mortgage-backed securities	2	1,163	293	(29)	1,427
Common stock	1	24,674	4,033	(3,751)	24,956
Mutual funds:					
Fixed income	2	1,944	28	(106)	1,866
Other investments	2	3,301	—	—	3,301
Trust securities		$94,031	$ 5,384	$ (5,566)	$ 93,849
Accrued investment income		$754			$ 754
Preneed funeral trust investments					$ 94,603
Market value as a percentage of cost					99.8 %

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

Due in one year or less	$—
Due in one to five years	3,702
Due in five to ten years	2,746
Thereafter	32,897
Total	$39,345

Table of Contents

The cost and fair market values associated with preneed funeral trust investments at December 31, 2017 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 14,349	$ —	$ —	$ 14,349
Fixed income securities:					
U.S. treasury debt	1	1,490	10	(15)	1,485
Foreign debt	2	4,870	298	(189)	4,979
Corporate debt	2	18,963	1,197	(278)	19,882
Preferred stock	2	16,335	501	(585)	16,251
Mortgage-backed securities	2	1,187	263	(27)	1,423
Common stock	1	26,129	5,253	(2,468)	28,914
Mutual funds:					
Fixed income	2	1,974	52	(48)	1,978
Other investments	2	3,341	—	—	3,341
Trust securities		$ 88,638	$ 7,574	$ (3,610)	$ 92,602
Accrued investment income		$ 739			$ 739
Preneed funeral trust investments					$ 93,341
Market value as a percentage of cost					104.5 %

We determine whether or not the assets in the preneed funeral trust investments have other-than-temporary impairments on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair market value. Any reduction in the cost basis of the investment due to an other-than-temporary impairment is likewise recorded as a reduction to Deferred preneed funeral receipts held in trust on our Consolidated Balance Sheets. In the three months ended March 31, 2017 and 2018, we did not record any impairments for other-than-temporary declines in the fair value related to unrealized losses on certain investments. There is no impact on earnings until such time that the loss is realized in the trusts, allocated to preneed contracts and the services are performed or the merchandise is delivered, causing the contract to be withdrawn from the trust in accordance with state regulations.

At March 31, 2018, we had certain investments within our preneed funeral trust investments that had tax lots in loss positions for more than one year. Based on our analyses of these securities, the companies' businesses and current market conditions, we determined that these investment losses were temporary in nature.

Table of Contents

Our preneed funeral trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of March 31, 2018 are shown in the following table (in thousands):

	March 31, 2018					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
U.S. treasury debt	$1,313	$(25)	$—	$—	$1,313	$(25)
Foreign debt	542	(21)	1,560	(217)	2,102	(238)
Corporate debt	6,988	(475)	752	(201)	7,740	(676)
Preferred stock	4,645	(42)	8,294	(699)	12,939	(741)
Mortgage-backed securities	167	(1)	84	(28)	251	(29)
Common stock	11,560	(2,409)	1,682	(1,342)	13,242	(3,751)
Mutual Funds:						
Fixed income	928	(47)	571	(59)	1,499	(106)
Total temporary impaired securities	$26,143	$(3,020)	$12,943	$(2,546)	$39,086	$(5,566)

Our preneed funeral trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of December 31, 2017 are shown in the following table (in thousands):

	December 31, 2017					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
U.S. treasury debt	$1,325	$(15)	$—	$—	$1,325	$(15)
Foreign debt	159	(6)	1,608	(183)	1,767	(189)
Corporate debt	3,770	(74)	842	(203)	4,612	(277)
Preferred stock	50	—	8,184	(585)	8,234	(585)
Mortgage-backed securities	221	(17)	36	(10)	257	(27)
Common stock	8,001	(1,496)	1,728	(972)	9,729	(2,468)
Mutual funds:						
Fixed income	549	(12)	615	(37)	1,164	(49)
Total temporary impaired securities	$14,075	$(1,620)	$13,013	$(1,990)	$27,088	$(3,610)

Table of Contents

Preneed funeral trust investment security transactions recorded in Other, net on the Consolidated Statements of Operations for the three months ended March 31, 2017 and 2018 were as follows (in thousands):

	Three Months Ended March 31,	
	2017	2018
Investment income	$591	$412
Realized gains	824	2,896
Realized losses	(379)	(609)
Expenses and taxes	(339)	(144)
Increase in deferred preneed funeral receipts held in trust	(697)	(2,555)
	$—	$—

Purchases and sales of investments in the preneed funeral trusts for the three months ended March 31, 2017 and 2018 were as follows (in thousands):

	Three Months Ended March 31,	
	2017	2018
Purchases	$(7,609)	$(3,286)
Sales	$6,002	$7,595

5. PRENEED CEMETERY RECEIVABLES

Preneed sales of cemetery interment rights and related products and services are usually financed through interest-bearing installment sales contracts, generally with terms of up to five years, with such interest income reflected as Preneed cemetery finance charges. In substantially all cases, we receive an initial down payment at the time the contract is signed.

Our cemetery financed receivables at December 31, 2017 and March 31, 2018 are as follows (in thousands):

	December 31, 2017	March 31, 2018
Accounts receivable, including unearned finance charges and allowance for contract cancellations of $2,779 and $2,745, respectively	$ 11,843	$12,285 (1)
Preneed receivables, including unearned finance charges and allowance for contract cancellations of $4,922 and $4,903, respectively	28,631	28,979 (2)
Preneed cemetery financed receivables	$ 40,474	$41,264

(1) In accordance with Topic 606, $1.4 million of cemetery accounts receivable has been reclassified to reduce deferred preneed cemetery

revenue at March 31, 2018.

(2) In accordance with Topic 606, $3.1 million of preneed cemetery receivables has been reclassified to reduce deferred preneed cemetery revenue at March 31, 2018.

The unearned finance charges associated with these receivables were $5.7 million at both December 31, 2017 and March 31, 2018.

We determine an allowance for customer cancellations and refunds on contracts in which revenue has been recognized on sales of cemetery interment rights. We have a collections policy where past due notifications are sent to the customer beginning at 15 days past due and periodically thereafter until the contract is cancelled or payment is received. We reserve 100% of the receivables on contracts in which the revenue has been recognized and payments are 90 days past due or more, which was approximately 4.7% of the total receivables on recognized sales at March 31, 2018. An allowance is recorded at the date that the contract is executed and periodically adjusted thereafter based upon actual collection experience at the business level.

For the three months ended March 31, 2018, the change in the allowance for contract cancellations was as follows (in thousands):

	March 31, 2018
Beginning balance	$ 2,019
Write-offs and cancellations	(307)
Provision	309
Ending balance	$ 2,021

Table of Contents

The aging of preneed cemetery financed receivables as of March 31, 2018 was as follows (in thousands):

	31-60 Past Due	61-90 Past Due	91-120 Past Due	>120 Past Due	Total Past Due	Current	Total Financing Receivables
Recognized revenue	$ 892	$ 475	$ 154	$ 1,286	$ 2,807	$27,661	$ 30,468
Deferred revenue	288	153	50	368	860	9,936	10,796
Total contracts	$ 1,180	$ 628	$ 204	$ 1,654	$ 3,667	$37,597	$ 41,264

6. RECEIVABLES FROM PRENEED TRUSTS

The receivables from preneed trusts represent assets in trusts which are controlled and operated by third parties in which we do not have a controlling financial interest (less than 50%) in the trust assets. We account for these investments at cost. As of December 31, 2017 and March 31, 2018, receivables from preneed trusts were as follows (in thousands):

	December 31, 2017	March 31, 2018
Preneed trust funds, at cost	$ 15,759	$16,291
Less: allowance for contract cancellation	(472)	(489)
Receivables from preneed trusts, net	$ 15,287	$15,802

The following summary reflects the composition of the assets held in trust and controlled by third parties to satisfy our future obligations under preneed arrangements related to the preceding contracts at March 31, 2018 and December 31, 2017. The cost basis includes reinvested interest and dividends that have been earned on the trust assets. Fair value includes the unrealized gains and losses on trust assets.

The composition of the preneed trust funds at March 31, 2018 was as follows (in thousands):

	Historical Cost Basis	Fair Value
As of March 31, 2018		
Cash and cash equivalents	$ 3,953	$ 3,953
Fixed income investments	9,647	9,647
Mutual funds and common stocks	2,685	2,654
Annuities	6	6
Total	$ 16,291	$ 16,260

The composition of the preneed trust funds at December 31, 2017 was as follows (in thousands):

	Historical Cost Basis	Fair Value
As of December 31, 2017		
Cash and cash equivalents	$ 3,903	$ 3,903
Fixed income investments	9,306	9,306
Mutual funds and common stocks	2,544	2,567
Annuities	6	6
Total	$ 15,759	$ 15,782

7.CEMETERY PERPETUAL CARE TRUST INVESTMENTS

Care trusts' corpus on our Consolidated Balance Sheets represents the corpus of those trusts plus undistributed income. The components of Care trusts' corpus as of December 31, 2017 and March 31, 2018 were as follows (in thousands):

	December 31, 2017	March 31, 2018
Trust assets, at market value	$ 50,229	$48,285
Obligations due from trust	(373)	(724)
Care trusts' corpus	$ 49,856	$47,561

We are required by various state laws to pay a portion of the proceeds from the sale of cemetery property interment rights into perpetual care trust funds. The income earned from these perpetual care trusts offsets maintenance expenses for cemetery

Table of Contents

property and memorials. This trust fund income is recognized, as earned, in Revenues: Cemetery. Trust management fees charged by CSV RIA are included in revenue in the period in which they are earned. At March 31, 2018, none of our cemetery perpetual care trust investments were underfunded.

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, then 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 foreign debt, corporate debt, preferred stock, mortgage-backed securities and fixed income mutual funds, 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, 2018. There are no Level 3 investments in the cemetery perpetual care trust investment portfolio. See Note 8 to the Consolidated Financial Statements included herein for further information of the fair value measurement and the three-level valuation hierarchy.

The following table reflects the cost and fair market values associated with the trust investments held in perpetual care trust funds at March 31, 2018 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$5,067	$ —	$ —	$5,067
Fixed income securities:					
Foreign debt	2	3,602	144	(170)	3,576
Corporate debt	2	10,743	486	(429)	10,800
Preferred stock	2	11,618	91	(523)	11,186
Mortgage-backed securities	2	622	172	(16)	778
Common stock	1	15,449	2,414	(2,430)	15,433
Mutual funds:					
Fixed Income	2	919	25	(35)	909
Trust securities		$48,020	$ 3,332	$ (3,603)	$47,749
Accrued investment income		$536			$536
Cemetery perpetual care investments					$48,285
Market value as a percentage of cost					99.4 %

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

Due in one year or less	$—
Due in one to five years	1,443
Due in five to ten years	1,765
Thereafter	23,132
	$26,340

Table of Contents

The following table reflects the cost and fair market values associated with the trust investments held in perpetual care trust funds at December 31, 2017 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$1,906	$ —	$ —	$1,906
Fixed income securities:					
Foreign debt	2	3,580	227	(134)	3,673
Corporate debt	2	12,557	805	(187)	13,175
Preferred stock	2	11,545	364	(411)	11,498
Mortgage-backed securities	2	621	152	(15)	758
Common stock	1	16,326	3,116	(1,595)	17,847
Mutual funds:					
Fixed income	2	913	42	(10)	945
Trust securities		$47,448	$ 4,706	$ (2,352)	$49,802
Accrued investment income		$427			$427
Cemetery perpetual care investments					$50,229
Market value as a percentage of cost					105.0 %

We determine whether or not the assets in the cemetery perpetual care trusts have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair market value. Any reduction in the cost basis due to an other-than-temporary impairment is also recorded as a reduction to Care trusts' corpus. In the three months ended March 31, 2017 and 2018, we did not record any impairments for other-than-temporary declines in the fair value related to unrealized losses on certain investments. There is no impact on earnings until such time that the loss is realized in the trusts, allocated to preneed contracts and the services are performed or the merchandise is delivered, causing the contract to be withdrawn from the trust in accordance with state regulations.

At March 31, 2018, we had certain investments within our perpetual care trust investments that had tax lots in loss positions for more than one year. Based on our analyses of these securities, the companies' businesses and current market conditions, we determined that these investment losses were temporary in nature.

Our perpetual care trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses for the periods ended March 31, 2018 are shown in the following table (in thousands):

	March 31, 2018					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
Foreign debt	$318	$ (11)	$1,110	$ (157)	$1,428	$ (168)
Corporate debt	4,637	(289)	576	(141)	5,213	(430)
Preferred stock	3,423	(32)	5,622	(492)	9,045	(524)
Mortgage-backed securities	45	—	45	(16)	90	(16)
Common stock	7,291	(1,534)	1,079	(894)	8,370	(2,428)
Mutual Funds:						
Fixed Income	641	(35)	—	—	641	(35)
Total temporary impaired securities	$16,355	$ (1,901)	$8,432	$ (1,700)	$24,787	$ (3,601)

Table of Contents

Our perpetual care trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses for the periods ended December 31, 2017 are shown in the following table (in thousands):

	December 31, 2017					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						