CARRIAGE SERVICES INC
Form 10-Q
July 28, 2017
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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 June 30, 2017
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 July 24, 2017 was 16,720,045.

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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, 2016	(unaudited) June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,286	$ 435
Accounts receivable, net of allowance for bad debts of $1,071 in 2016 and $1,104 in 2017	18,860	17,015
Inventories	6,147	6,327
Prepaid expenses	2,640	1,096
Other current assets	2,034	594
Total current assets	32,967	25,467
Preneed cemetery trust investments	69,696	70,176
Preneed funeral trust investments	89,240	88,503
Preneed receivables, net of allowance for bad debts of $2,166 in 2016 and $2,215 in 2017	30,383	31,584
Receivables from preneed trusts	14,218	15,077
Property, plant and equipment, net of accumulated depreciation of $110,509 in 2016 and $110,782 in 2017	235,113	235,468
Cemetery property, net of accumulated amortization of $34,194 in 2016 and $35,764 in 2017	76,119	76,995
Goodwill	275,487	275,487
Intangible and other non-current assets	14,957	14,745
Cemetery perpetual care trust investments	46,889	47,539
Total assets	$ 885,069	$ 881,041
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 13,267	$ 15,237
Accounts payable	10,198	6,446
Other liabilities	717	775
Accrued liabilities	20,091	14,312
Total current liabilities	44,273	36,770
Long-term debt, net of current portion	137,862	129,627
Revolving credit facility	66,542	61,081
Convertible subordinated notes due 2021	119,596	121,955
Obligations under capital leases, net of current portion	2,630	2,560
Deferred preneed cemetery revenue	54,631	55,093
Deferred preneed funeral revenue	33,198	34,756
Deferred tax liability	42,810	43,216
Other long-term liabilities	2,567	2,430
Deferred preneed cemetery receipts held in trust	69,696	70,176
Deferred preneed funeral receipts held in trust	89,240	88,503
Care trusts’ corpus	46,290	47,015
Total liabilities	709,335	693,182
Commitments and contingencies:		
Stockholders’ equity:		

Common stock, $.01 par value; 80,000,000 shares authorized and 22,490,855 and 22,569,361 shares issued at December 31, 2016 and June 30, 2017, respectively	225	226
Additional paid-in capital	215,064	215,694
Retained earnings	20,711	32,205
Treasury stock, at cost; 5,849,316 shares at December 31, 2016 and June 30, 2017	(60,266)	(60,266)
Total stockholders' equity	175,734	187,859
Total liabilities and stockholders' equity	$ 885,069	$ 881,041

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 June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Revenues:				
Funeral	$46,467	$48,739	$95,769	$102,950
Cemetery	15,398	15,113	29,427	29,059
	61,865	63,852	125,196	132,009
Field costs and expenses:				
Funeral	27,783	29,422	55,564	59,851
Cemetery	8,989	9,162	16,851	17,373
Depreciation and amortization	3,571	3,647	6,907	7,118
Regional and unallocated funeral and cemetery costs	2,715	2,954	5,764	5,908
	43,058	45,185	85,086	90,250
Gross profit	18,807	18,667	40,110	41,759
Corporate costs and expenses:				
General, administrative and other	5,831	6,568	15,078	13,415
Home office depreciation and amortization	386	378	784	754
	6,217	6,946	15,862	14,169
Operating income	12,590	11,721	24,248	27,590
Interest expense	(2,968)	(3,206)	(5,819)	(6,235)
Accretion of discount on convertible subordinated notes	(954)	(1,066)	(1,881)	(2,103)
Loss on early extinguishment of debt	—	—	(567)	—
Other, net	—	—	305	3
Income before income taxes	8,668	7,449	16,286	19,255
Provision for income taxes	(3,468)	(2,980)	(6,515)	(7,702)
Tax adjustment related to certain discrete items	—	(59)	—	(59)
Total provision for income taxes	$(3,468)	$(3,039)	$(6,515)	$(7,761)
Net income	$5,200	$4,410	$9,771	$11,494
Basic earnings per common share:	$0.31	$0.26	$0.59	$0.69
Diluted earnings per common share:	$0.30	$0.24	$0.57	$0.63
Dividends declared per common share	$0.025	$0.050	$0.050	$0.100
Weighted average number of common and common equivalent shares outstanding:				
Basic	16,516	16,652	16,488	16,625
Diluted	17,075	18,093	16,862	18,083

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 Six Months Ended June 30, 2016	2017
Cash flows from operating activities:		
Net income	$ 9,771	$ 11,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,691	7,872
Provision for losses on accounts receivable	1,052	1,112
Stock-based compensation expense	2,303	1,609
Deferred income tax expense	1,116	406
Amortization of deferred financing costs	420	408
Accretion of discount on convertible subordinated notes	1,881	2,103
Loss on early extinguishment of debt	567	—
Net (gain) loss on sale and disposal of other assets	(67)	311
Changes in operating assets and liabilities that provided (required) cash:		
Accounts and preneed receivables	(2,271)	(468)
Inventories and other current assets	1,303	2,804
Intangible and other non-current assets	300	211
Preneed funeral and cemetery trust investments	4,941	(1,252)
Accounts payable	(1,148)	(3,750)
Accrued and other liabilities	1,735	(5,102)
Deferred preneed funeral and cemetery revenue	(669)	2,020
	(3,939)	468

Deferred preneed funeral and cemetery receipts held in trust				
Net cash provided by operating activities	24,986		20,246	
Cash flows from investing activities:				
Acquisitions and land for new construction	(9,406	)	(625	)
Purchase of land and buildings previously leased	(6,258	)	—	
Net proceeds from the sale of other assets	555		—	
Capital expenditures	(7,830	)	(8,790	)
Net cash used in investing activities	(22,939	)	(9,415	)
Cash flows from financing activities:				
Borrowings from the revolving credit facility	27,100		36,800	
Payments against the revolving credit facility	(59,700	)	(42,400	)
Borrowings from the term loan	39,063		—	
Payments against the term loan	(5,625	)	(5,625	)
Payments on other long-term debt and obligations under capital leases	(689	)	(723	)
Payments on contingent consideration recorded at acquisition date	—		(101	)
Proceeds from the exercise of stock options and employee stock purchase plan contributions	457		544	
Taxes paid on restricted stock vestings and exercise of non-qualified options	(528	)	(509	)
Dividends paid on common stock	(831	)	(1,668	)
Payment of loan origination costs related to the credit facility	(717	)	—	
	(229	)	—	

Excess tax deficiency of equity compensation		
Net cash used in financing activities	(1,699)	(13,682)
Net increase (decrease) in cash and cash equivalents	348	(2,851)
Cash and cash equivalents at beginning of period	535	3,286
Cash and cash equivalents at end of period	$ 883	$ 435

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 June 30, 2017, we operated 171 funeral homes in 28 states and 32 cemeteries in 11 states.

Our operations are reported in two business segments: Funeral Home Operations and Cemetery Operations. 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 both on an at-need and preneed 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, 2016 unless otherwise disclosed herein, and should be read in conjunction therewith.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation with no effect on our previously reported results of operations, consolidated financial position, or cash flows.

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. Cemetery interment rights are recorded as revenue in accordance with the accounting provisions for real estate sales. This method provides for the recognition of revenue in the period in which the customer’s cumulative payments exceed 10% of the interment right contract price. 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 amortization expense for cemetery property of approximately $1.1 million and $0.8 million for the three months ended June 30, 2016 and 2017, respectively, and $2.1 million and $1.6 million for the six months ended June 30, 2016 and 2017,

respectively. 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. We also monitor changes in delinquency rates 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

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is no longer subject to refund, which is typically one year after the policy is issued. Preneed selling costs consist of sales commissions that we pay our sales counselors and other direct related costs of originating preneed sales contracts. These costs are expensed when incurred.

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 June 30, 2017, 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.

Accounts receivable was comprised of the following at December 31, 2016 and June 30, 2017 (in thousands):

	December 31, 2016	June 30, 2017
Funeral receivables, net of allowance for bad debt of $514 and $523, respectively	$ 8,664	$ 6,798
Cemetery receivables, net of allowance for bad debt of $557 and $581, respectively	9,862	9,991
Other receivables	334	226
Accounts receivable, net	$ 18,860	$ 17,015

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, 2016 and June 30, 2017 (in thousands):

	December 31, 2016	June 30, 2017
Funeral receivables, net of allowance for bad debt of $862 and $909, respectively	$ 7,761	$ 8,178
Cemetery receivables, net of allowance for bad debt of $1,304 and $1,306, respectively	22,622	23,406
Preneed receivable, net	$ 30,383	$ 31,584

Bad debt expense totaled approximately $0.5 million and $0.7 million for the three months ended June 30, 2016 and 2017, respectively, and $1.0 million and $1.1 million for the six months ended June 30, 2016 and 2017, respectively.

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, 2016 and June 30, 2017 (in thousands):

	December 31, 2016	June 30, 2017
Land	$ 73,744	$ 73,889
Buildings and improvements	195,214	198,825
Furniture, equipment and automobiles	76,664	73,536
Property, plant and equipment, at cost	345,622	346,250
Less: accumulated depreciation	(110,509)	(110,782)
Property, plant and equipment, net	$ 235,113	$ 235,468

We recorded depreciation expense of approximately $2.8 million and $3.2 million for the three months ended June 30, 2016 and 2017, respectively and $5.5 million and $6.3 million for the six months ended June 30, 2016 and 2017, respectively. During the six months ended June 30, 2017, we acquired real estate for $0.6 million for a funeral home parking lot expansion project. During the six months ended June 30, 2016, we acquired real estate for $2.7 million for various funeral home expansion projects and we purchased land and buildings at four funeral homes that were previously leased for approximately $6.3 million.

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. The funeral segment reporting units consist of our East, Central and West regions in the United States.

Goodwill is tested annually for impairment by assessing the fair value of each of our reporting units, using information as of August 31st each year. Our intent is to perform the quantitative impairment test at least once every three years unless certain indicators or events suggest otherwise. We conducted

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qualitative assessments in 2014 and 2015; however, for our 2016 annual impairment test, we performed the two-step goodwill quantitative impairment test.

Effective January 1, 2017, we adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU"), Intangibles (Topic 350): Goodwill and Other. The guidance simplifies subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test, which should reduce the cost and complexity of evaluating goodwill for impairment. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, impairment is defined as the amount by which the carrying value of the reporting unit exceeds its fair value, up to the total amount of goodwill.

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 six months ended June 30, 2016 and 2017.

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 ("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.

Effective January 1, 2017, we adopted the FASB's ASU, Compensation: (Topic 718): Stock Compensation. The guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.

The guidance requires that previously unrecognized excess tax benefits should be recognized on a modified retrospective basis. Entities are required to record a deferred tax asset for previously unrecognized excess tax benefits outstanding as of the beginning of the annual period of adoption, with a cumulative-effect adjustment to retained earnings. At January 1, 2017, we performed an analysis for unrecognized excess tax benefits and deficiencies and determined that there were no adjustments to retained earnings, as there are no unrecognized excess tax benefits.

The guidance also requires that all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the income statement on a prospective basis. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. For the three and six months ended June 30, 2017, the excess tax deficiency related to share-based payments was approximately $59,000, recorded within Tax adjustment related to certain discrete items on our Consolidated Statements of Operations. In addition, excess tax benefits or deficiencies related to share-based payments are now included in operating cash flows rather than financing cash flows.

The guidance also allows for a one-time accounting policy election to either account for forfeitures as they occur or continue to estimate forfeitures as required by current guidance. The Company has elected to continue estimating forfeitures under the current guidance.

The guidance also requires that the presentation of employee taxes paid when an employer withholds shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows and applied retrospectively. This resulted in $0.5 million of employee taxes paid from withheld shares being presented as financing activities on our Consolidated Statement of Cash Flows for both the six months ended June 30, 2016 and 2017. Prior to January 1, 2017, these amounts were presented as operating activities on our Consolidated Statement of

Cash Flows.

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We adopted all of the provisions of this amendment in accordance with the transition requirements and it did not have a material effect on our Consolidated Financial Statements.

See Note 11 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 15 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.

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 the finalization of tax returns, tax audit settlements, and increases or decreases in valuation allowances on deferred tax assets.

Income tax expense was $3.5 million for the three months ended June 30, 2016 compared to $3.0 million for the three months ended June 30, 2017. We recorded income taxes at the estimated effective rate, before discrete items, of 40.0% for both the three and six months ended June 30, 2016 and 2017. Income tax expense was $6.5 million for the six months ended June 30, 2016 compared to $7.8 million for the six months ended June 30, 2017.

Correction of Immaterial Error

During the three and six months ended June 30, 2017, we corrected an immaterial error related to 2013. The adjustment related to the correction of the deferred tax liability for the difference in book and tax basis of certain assets. The error had the impact of understating the deferred tax liability and overstating net income in 2013. Management evaluated the effect of the adjustment on previously issued interim and annual consolidated financial statements in accordance with the SEC's Staff Accounting Bulletin ("SAB") No. 99 and SAB 108 and concluded that it was immaterial to the interim and annual periods. As a result, in accordance with SAB No. 108, we corrected our Consolidated Balance Sheets as of January 1, 2015.

The effect of this adjustment on our Consolidated Balance Sheets as of December 31, 2016 is as follows (dollars in thousands):

		% Change
Increase in Deferred tax liability	$2,255	5.6 %
Increase in Total liabilities	$2,255	0.3 %
Decrease in Retained earnings	$2,255	9.8 %
Decrease in Total stockholders' equity	$2,255	1.3 %

The amounts related to balances in the prior year that are affected by these adjustments have been revised in this Quarterly Report on Form 10-Q in the Company's Consolidated Balance Sheets from those amounts previously reported. This adjustment had no impact on our Consolidated Statements of Operations or Consolidated Statement of Cash Flows for any periods presented.

Subsequent Events

Management evaluated events and transactions during the period subsequent to June 30, 2017 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

Stock-Based Compensation

In May 2017, the FASB issued ASU, 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

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is modified. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with earlier application permitted for all entities. The amendments should be applied prospectively to an award modified on or after the adoption date. Our adoption of this ASU for our fiscal year beginning January 1, 2018 is not expected to have a material effect on our Consolidated Financial Statements.

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 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. On July 9, 2015, the FASB deferred the effective date by one year to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We plan to adopt the provisions of this ASU for our fiscal year beginning January 1, 2018.

We expect the adoption of this new accounting standard to affect our accounting for the selling costs related to preneed merchandise and services. These costs will be capitalized and amortized over the typical financing term of five years. The selling costs related to the sales of interment rights, which include real property and other costs related to cemetery development activities, will continue to be charged to operations using the specific identification method in the period in which the sale of the interment right is recognized as revenue.

Currently, our 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. Upon further review, we do not expect the new accounting standard to significantly impact our current accounting for the cemetery interment rights. We do not expect the adoption of this accounting standard to materially affect our accounting for other revenue streams.

We are currently modifying our financial systems to provide accounting under the new method in addition to our current method and do not anticipate any business disruption related to adopting this guidance. We are continually evaluating the impact on our Consolidated Financial Statements with more recent financial information.

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.

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3. PRENEED TRUST INVESTMENTS

Preneed Cemetery Trust Investments

Preneed cemetery trust investments represent trust fund assets that we are permitted to withdraw as services and merchandise 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, 2016 and June 30, 2017 were as follows (in thousands):

	December 31, 2016	June 30, 2017
Preneed cemetery trust investments, at market value	$ 71,834	$ 72,336
Less: allowance for contract cancellation	(2,138)	(2,160)
Preneed cemetery trust investments, net	$ 69,696	$ 70,176

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 June 30, 2017, 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 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, 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 and six months ended June 30, 2017. There are no Level 3 investments in the preneed cemetery trust investment portfolio. See Note 7 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 June 30, 2017 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$5,565	$ —	$ —	$ 5,565
Fixed income securities:					
Foreign debt	2	4,826	212	(252)	4,786
Corporate debt	2	19,323	969	(637)	19,655
Preferred stock	2	16,304	185	(496)	15,993
Mortgage-backed securities	2	1,151	264	(22)	1,393
Common stock	1	23,621	2,425	(2,975)	23,071
Mutual funds:					
Fixed Income	2	1,198	66	(1)	1,263
Trust securities		$71,988	$ 4,121	$ (4,383)	$ 71,726
Accrued investment income		$610			$ 610
Preneed cemetery trust investments					$ 72,336
Market value as a percentage of cost					99.6 %

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

Due in one year or less	$15
Due in one to five years	2,922
Due in five to ten years	5,519
Thereafter	33,371
Total	$41,827

The cost and fair market values associated with preneed cemetery trust investments at December 31, 2016 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$10,852	$ —	$ —	$ 10,852
Fixed income securities:					
Municipal bonds	2	496	18	(4)	510
Foreign debt	2	7,574	160	(656)	7,078
Corporate debt	2	20,621	1,569	(1,123)	21,067
Preferred stock	2	16,287	8	(947)	15,348
Mortgage-backed securities	2	949	372	(4)	1,317
Common stock	1	13,250	2,191	(1,838)	13,603
Mutual funds:					
Fixed income		1,223	107	—	1,330
Trust securities		$71,252	$ 4,425	$ (4,572)	$ 71,105
Accrued investment income		$729			$ 729
Preneed cemetery trust investments					$ 71,834
Market value as a percentage of cost					99.8 %

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. We did not record any impairments in the three months ended June 30, 2016 and 2017 for other-than-temporary declines in the fair value related to unrealized losses on certain investments. In the six months ended June 30, 2016, we recorded a $0.7 million impairment and no impairments have been recorded in the six months ended June 30, 2017. 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.

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At June 30, 2017, 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 June 30, 2017 are shown in the following table (in thousands):

	June 30, 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	$504	$(32)	$1,600	$(220)	$2,104	$(252)
Corporate debt	5,580	(469)	571	(168)	6,151	(637)
Preferred stock	405	(1)	8,399	(495)	8,804	(496)
Mortgage-backed securities	221	(22)	—	—	221	(22)
Common stock	7,961	(1,874)	2,922	(1,101)	10,883	(2,975)
Mutual Funds:						
Fixed Income	340	(1)	—	—	340	(1)
Total temporary impaired securities	$15,011	$(2,399)	$13,492	$(1,984)	$28,503	$(4,383)

Our preneed cemetery trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of December 31, 2016 are shown in the following table (in thousands):

	December 31, 2016					
	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:						
Municipal bonds	$228	$(4)	$—	$—	$228	$(4)
Foreign debt	2,523	(180)	2,868	(475)	5,391	(655)
Corporate debt	6,939	(233)	2,168	(890)	9,107	(1,123)
Preferred stock	3,217	(121)	11,635	(826)	14,852	(947)
Mortgage-backed securities	51	(5)	—	—	51	(5)
Common stock	2,608	(202)	3,385	(1,636)	5,993	(1,838)
Total temporary impaired securities	$15,566	$(745)	$20,056	$(3,827)	$35,622	$(4,572)

Preneed cemetery trust investment security transactions recorded in Other, net on our Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2017 were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Investment income	$677	$692	$968	$1,281
Realized gains	181	1,395	289	2,215
Realized losses	(928)	(929)	(3,408)	(1,312)
Expenses and taxes	(350)	(332)	(693)	(877)

Decrease (increase) in deferred preneed cemetery receipts held in trust	420	(826)	2,844	(1,307)
	$—	$—	$—	$—

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Purchases and sales of investments in the preneed cemetery trusts for the three and six months ended June 30, 2016 and 2017 were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Purchases	$(7,215)	$(10,831)	$(18,106)	$(18,440)
Sales	$4,676	$7,208	$12,030	$13,189

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, 2016 and June 30, 2017 were as follows (in thousands):

	December 31, 2016	June 30, 2017
Preneed funeral trust investments, at market value	$ 91,980	$91,225
Less: allowance for contract cancellation	(2,740)	(2,722)
Preneed funeral trust investments, net	$ 89,240	$88,503

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 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 June 30, 2017, 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 municipal bonds, 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 and six months ended June 30, 2017. There are no Level 3 investments in the preneed funeral trust investment portfolio. See Note 7 to the Consolidated Financial Statements included herein for further information on the fair value measurement and the three-level hierarchy.

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The cost and fair market values associated with preneed funeral trust investments at June 30, 2017 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$16,550	$ —	$ —	$16,550
Fixed income securities:					
U.S treasury debt	1	1,491	16	(5)	1,502
Foreign debt	2	4,910	219	(252)	4,877
Corporate debt	2	20,373	1,007	(654)	20,726
Preferred stock	2	16,934	261	(501)	16,694
Mortgage-backed securities	2	1,360	282	(24)	1,618
Common stock	1	23,659	2,460	(2,986)	23,133
Mutual funds:					
Fixed income	2	2,030	72	(45)	2,057
Other investments	2	3,430	—	—	3,430
Trust securities		$90,737	$ 4,317	$ (4,467)	$90,587
Accrued investment income		$638			$638
Preneed funeral trust investments					$91,225
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	$16
Due in one to five years	4,562
Due in five to ten years	5,881
Thereafter	34,958
Total	$45,417

The cost and fair market values associated with preneed funeral trust investments at December 31, 2016 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$22,787	$ —	$ —	$22,787
Fixed income securities:					
U.S. treasury debt	1	1,491	21	(10)	1,502
Municipal bonds	2	447	17	(4)	460
Foreign debt	2	7,692	170	(677)	7,185
Corporate debt	2	21,454	1,566	(1,134)	21,886
Preferred stock	2	17,037	64	(970)	16,131
Mortgage-backed securities	2	1,165	400	(5)	1,560
Common stock	1	13,675	2,256	(1,850)	14,081
Mutual funds:					
Fixed income	2	2,124	115	(66)	2,173
Other investments	2	3,463	—	—	3,463
Trust securities		$91,335	$ 4,609	$ (4,716)	$91,228
Accrued investment income		$752			$752
Preneed funeral trust investments					$91,980
Market value as a percentage of cost					99.9 %

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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. We did not record any impairments in the three months ended June 30, 2016 and 2017 for other-than-temporary declines in the fair value related to unrealized losses on certain investments. In the six months ended June 30, 2016, we recorded a $0.8 million impairment and no impairments have been recorded in the six months ended June 30, 2017. 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 June 30, 2017, 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.

Our preneed funeral trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of June 30, 2017 are shown in the following table (in thousands):

	June 30, 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	$838	$ (5)	$—	$ —	$838	$ (5)
Foreign debt	536	(34)	1,593	(218)	2,129	(252)
Corporate debt	5,727	(485)	592	(169)	6,319	(654)
Preferred stock	431	(1)	8,451	(500)	8,882	(501)
Mortgage-backed securities	259	(23)	9	(1)	268	(24)
Common stock	7,966	(1,872)	2,872	(1,114)	10,838	(2,986)
Mutual Funds:						
Fixed income	448	(3)	619	(42)	1,067	(45)
Total temporary impaired securities	$16,205	$ (2,423)	$14,136	$ (2,044)	$30,341	$ (4,467)

Our preneed funeral trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of December 31, 2016 are shown in the following table (in thousands):

	December 31, 2016					
	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	$834	$ (10)	$—	$ —	$834	$ (10)
Municipal bonds	244	(5)	—	—	244	(5)
Foreign debt	2,654	(186)	2,905	(490)	5,559	(676)
Corporate debt	6,977	(215)	2,234	(919)	9,211	(1,134)
Preferred stock	3,420	(128)	11,750	(842)	15,170	(970)

Mortgage-backed securities	55	(5)	11	(1)	66	(6)
Common stock	2,795	(216)	3,390	(1,634)	6,185	(1,850)
Mutual funds:						
Fixed income	97	(7)	644	(58)	741	(65)
Total temporary impaired securities	$17,076	$ (772)	$20,934	$ (3,944)	$38,010	$ (4,716)

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Preneed funeral trust investment security transactions recorded in Other, net on the Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2017 were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Investment income	$703	$686	$1,043	$1,277
Realized gains	250	1,472	394	2,296
Realized losses	(978)	(933)	(3,374)	(1,312)
Expenses and taxes	(446)	(377)	(693)	(716)
Decrease (increase) in deferred preneed funeral receipts held in trust	471	(848)	2,630	(1,545)
	$—	$—	$—	$—

Purchases and sales of investments in the preneed funeral trusts for the three and six months ended June 30, 2016 and 2017 were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Purchases	$(7,024)	$(10,974)	$(18,431)	$(18,582)
Sales	$5,211	$7,242	$12,669	$13,243

4. 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. At June 30, 2017, our total financed preneed receivables were $40.0 million, of which $29.4 million and $10.6 million were for cemetery interment rights and for merchandise and services, respectively. These amounts are presented on our consolidated balance sheet as $11.6 million within Accounts receivable and $28.4 million within Preneed receivables and exclude unearned finance charges and allowance for contract cancellations. The unearned finance charges associated with these receivables were $5.7 million and $5.8 million at December 31, 2016 and June 30, 2017, respectively.

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 4.5% of the total receivables on recognized sales at June 30, 2017. 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 six months ended June 30, 2017, the change in the allowance for contract cancellations was as follows (in thousands):

	June 30, 2017
Beginning balance	$1,861
Write-offs and cancellations	(696)
Provision	722
Ending balance	$1,887

The aging of past due financing receivables as of June 30, 2017 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	$ 528	$ 346	$ 162	$ 1,165	$ 2,201	$27,112	$ 29,313
Deferred revenue	219	161	81	350	811	9,846	10,657
Total contracts	$ 747	$ 507	$ 243	$ 1,515	$ 3,012	$36,958	$ 39,970

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5. 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, 2016 and June 30, 2017, receivables from preneed trusts were as follows (in thousands):

	December 31, 2016	June 30, 2017
Preneed trust funds, at cost	$ 14,658	$15,543
Less: allowance for contract cancellation	(440)	(466)
Receivables from preneed trusts, net	$ 14,218	$15,077

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 June 30, 2017 and December 31, 2016. 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 June 30, 2017 was as follows (in thousands):

	Historical Cost Basis	Fair Value
As of June 30, 2017		
Cash and cash equivalents	$ 3,859	$ 3,860
Fixed income investments	9,080	9,080
Mutual funds and common stocks	2,588	2,607
Annuities	16	16
Total	$ 15,543	$ 15,563

The composition of the preneed trust funds at December 31, 2016 was as follows (in thousands):

	Historical Cost Basis	Fair Value
As of December 31, 2016		
Cash and cash equivalents	$ 3,378	$ 3,378
Fixed income investments	8,809	8,809
Mutual funds and common stocks	2,455	2,463
Annuities	16	16
Total	$ 14,658	$ 14,666

6.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, 2016 and June 30, 2017 were as follows (in thousands):

	December 31, 2016	June 30, 2017
Trust assets, at market value	$ 46,889	$47,539
Obligations due from trust	(599)	(524)
Care trusts' corpus	$ 46,290	$47,015

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 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 June 30, 2017, 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 municipal bonds, 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

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classifications quarterly. There were no transfers between Levels 1 and 2 in the three and six months ended June 30, 2017. There are no Level 3 investments in the cemetery perpetual care trust investment portfolio. See Note 7 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 June 30, 2017 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$3,106	$ —	$ —	$3,106
Fixed income securities:					
Foreign debt	2	3,546	164	(176)	3,534
Corporate debt	2	13,121	639	(424)	13,336
Preferred stock	2	11,396	126	(348)	11,174
Mortgage-backed securities	2	695	159	(13)	841
Common stock	1	14,609	1,450	(1,883)	14,176
Mutual funds:					
Fixed Income	2	904	52	(1)	955
Trust securities		$47,377	$ 2,590	$ (2,845)	$47,122
Accrued investment income		$417			$417
Cemetery perpetual care investments					$47,539
Market value as a percentage of cost					99.5 %

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

Due in one year or less	$9
Due in one to five years	1,876
Due in five to ten years	3,843
Thereafter	23,157
	$28,885

The following table reflects the cost and fair market values associated with the trust investments held in perpetual care trust funds at December 31, 2016 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$6,522	$ —	$ —	$6,522
Fixed income securities:					
Municipal bonds	2	365	13	(3)	375
Foreign debt	2	5,100	99	(435)	4,764
Corporate debt	2	13,715	966	(821)	13,860
Preferred stock	2	11,323	5	(664)	10,664
Mortgage-backed securities	2	569	223	(3)	789
Common stock	1	8,259	1,382	(1,146)	8,495
Mutual funds:					
Fixed income	2	855	76	—	931
Trust securities		$46,708	$ 2,764	$ (3,072)	$46,400
Accrued investment income		$489			$489
Cemetery perpetual care investments					$46,889
Market value as a percentage of cost					99.3 %

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-

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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. We did not record any impairments in the three months ended June 30, 2016 and 2017 for other-than-temporary declines in the fair value related to unrealized losses on certain investments. In the six months ended June 30, 2016, we recorded a $0.4 million impairment and no impairments have been recorded in the six months ended June 30, 2017. 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 June 30, 2017, 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 June 30, 2017 are shown in the following table (in thousands):

	June 30, 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	$304	$ (19)	$1,090	$ (157)	$1,394	$ (176)
Corporate debt	3,695	(320)	350	(104)	4,045	(424)
Preferred stock	244	(1)	6,139	(347)	6,383	(348)
Mortgage-backed securities	133	(13)	—	—	133	(13)
Common stock	4,883	(1,215)	1,723	(668)	6,606	(1,883)
Mutual Funds:						
Fixed Income	339	(1)	—	—	339	(1)
Total temporary impaired securities	$9,598	$ (1,569)	$9,302	$ (1,276)	$18,900	$ (2,845)

Our perpetual care trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses for the periods ended December 31, 2016 are shown in the following table (in thousands):

	December 31, 2016					
	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:						
Municipal bonds	$137	$ (3)	$—	$ —	$137	$ (3)
Foreign debt	1,619	(120)	1,961	(315)	3,580	(435)
Corporate debt	4,679	(152)	1,439	(669)	6,118	(821)
Preferred stock	2,038	(77)	8,329	(587)	10,367	(664)
Mortgage-backed securities	31	(3)	—	—	31	(3)
Common stock	1,563	(121)	2,004	(1,025)	3,567	(1,146)
Total temporary impaired securities	$10,067	$ (476)	$13,733	$ (2,596)	$23,800	$ (3,072)

Perpetual care trust investment security transactions recorded in Other, net on our Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2017 were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Realized gains	$65	$644	$112	$925
Realized losses	(433)	(481)	(1,682)	(630)
Decrease (increase) in care trusts' corpus	368	(163)	1,570	(295)
Total	$—	$—	$—	$—

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Perpetual care trust investment security transactions recorded in Revenues: Cemetery for the three and six months ended June 30, 2016 and 2017 were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Investment income	$1,504	$1,586	$2,980	$3,292
Realized gain, net	(195)	(108)	(458)	(608)
Total	$1,309	$1,478	$2,522	$2,684

Purchases and sales of investments in the perpetual care trusts for the three and six months ended June 30, 2016 and 2017 were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Purchases	$(5,194)	$(6,861)	$(11,952)	$(11,874)
Sales	$3,122	$4,503	$7,870	$8,390

7. FAIR VALUE MEASUREMENTS

We evaluate our financial assets and liabilities for those financial assets and liabilities that meet the criteria of the disclosure requirements and fair value framework. The carrying values of cash and cash equivalents, trade receivables and trade payables approximate the fair values of those instruments due to the short-term nature of the instruments. The fair values of receivables on preneed funeral and cemetery contracts are impracticable to estimate because of the lack of a trading market and the diverse number of individual contracts with varying terms. Our long-term debt and Credit Facility (as defined in Note 9) are classified within Level 2 of the Fair Value Measurement hierarchy. The fair values of our long-term debt and Credit Facility approximate the carrying values of these instruments based on the index yields of similar securities compared to U.S. Treasury yield curves. The fair value of the convertible subordinated notes due 2021 was approximately $187.6 million at June 30, 2017 based on the last traded or broker quoted price. We identified investments in fixed income securities, common stock and mutual funds presented within the preneed and perpetual care trust investment categories on our Consolidated Balance Sheets as having met the criteria for fair value measurement. As of June 30, 2017, we did not have any assets that had fair values determined by Level 3 inputs and no liabilities measured at fair value.

We account for our investments as available-for-sale and measure them at fair value under the standards of financial accounting and reporting for investments in equity instruments that have readily determinable fair values and for all investments in debt securities. See Notes 3 and 6 to our Consolidated Financial Statements included herein for the fair value hierarchy levels of our trust investments.

8. INTANGIBLE AND OTHER NON-CURRENT ASSETS

Intangibles and other non-current assets at December 31, 2016 and June 30, 2017 were as follows (in thousands):

	December 31, 2016	June 30, 2017
Prepaid agreements not-to-compete, net of accumulated amortization of $5,501 and $5,773, respectively	$ 3,244	$3,051
Tradenames	11,663	11,663
Other	50	31
Intangible and other non-current assets	$ 14,957	$14,745

Prepaid agreements not-to-compete are amortized over the term of the respective agreements, ranging generally from one to ten years. Amortization expense was approximately $99,000 and $136,000 for the three months ended June 30, 2016 and 2017, respectively, and $202,000 and $272,000 for the six months ended June 30, 2016 and 2017, respectively. Our tradenames have indefinite lives and therefore are not amortized.

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9.LONG-TERM DEBT

Our long-term debt consisted of the following at December 31, 2016 and June 30, 2017 (in thousands):

	December 31, 2016	June 30, 2017
Revolving credit facility, secured, floating rate	$67,700	$62,100
Term loan, secured, floating rate	138,750	133,125
Acquisition debt	12,245	11,641
Debt issuance costs, net of accumulated amortization of $4,138 and $4,290, respectively	(1,270)	(1,118)
Less: current portion	(13,021)	(15,040)
Total long-term debt	$204,404	$190,708

As of June 30, 2017, we had a $300 million secured bank credit facility with Bank of America, N.A., as Administrative Agent (the "Credit Agreement"), comprised of a $150 million revolving credit facility and a $150 million term loan (collectively, the "Credit Facility"). The Credit Facility also contains an accordion provision to borrow up to an additional $75 million in revolving loans, subject to certain conditions. The Credit Facility is collateralized by all personal property and funeral home real property in certain states.

As of June 30, 2017, we had outstanding borrowings under the revolving credit facility of $62.1 million and approximately $133.1 million was outstanding on the term loan. We have one letter of credit issued on November 30, 2016 and outstanding under the Credit Facility for approximately $2.0 million, bears interest at 2.125% and will expire on November 27, 2017. The letter of credit automatically renews annually and secures our obligations under our various self-insured policies. Outstanding borrowings under the Credit Facility bear interest at either a prime rate or a LIBOR rate, plus an applicable margin based upon our leverage ratio. As of June 30, 2017, the prime rate margin was equivalent to 1.125% and the LIBOR margin was 2.125%. The weighted average interest rate on the Credit Facility for the three and six months ended June 30, 2017 was 3.1% and 3.0%, respectively.

We were in compliance with the covenants contained in the Credit Agreement as of June 30, 2017. The Credit Agreement contains key ratios that we must comply with, including a requirement to maintain a leverage ratio of no more than 3.5 to 1.00 and a covenant to maintain a fixed charge coverage ratio of no less than 1.20 to 1.00. As of June 30, 2017, the leverage ratio was 2.75 to 1.00 and the fixed charge coverage ratio was 2.01 to 1.00.

Amortization of debt issuance costs related to our Credit Facility was approximately $0.1 million for both the three months ended June 30, 2016 and 2017 and $0.2 million for both the six months ended June 30, 2016 and 2017. The unamortized debt issuance costs related to the Credit Facility are being amortized over the remaining term of the related debt using the effective interest method for our term loan and the straight line method for our revolving credit facility.

Acquisition debt consists of deferred purchase price and promissory notes payable to sellers.

10.CONVERTIBLE SUBORDINATED NOTES

On March 19, 2014, we issued $143.75 million aggregate principal amount of 2.75% convertible subordinated notes due March 15, 2021 (the "Convertible Notes"). The Convertible Notes bear interest at 2.75% per year. Interest on the Convertible Notes began to accrue on March 19, 2014 and is payable semi-annually in arrears on March 15 and September 15 of each year.

The carrying values of the liability and equity components of the Convertible Notes at December 31, 2016 and June 30, 2017 are reflected in our Consolidated Balance Sheets as follows (in thousands):

	December 31, 2016	June 30, 2017
Long-term liabilities:		
Principal amount	$143,750	$143,750
Unamortized discount of liability component	(21,887)	(19,784)
Convertible Notes issuance costs, net of accumulated amortization of $1,359 and $1,616, respectively	$(2,268)	$(2,011)
Carrying value of the liability component	$119,596	$121,955

Equity component carrying value	$17,973	$17,973

The fair value of the Convertible Notes, which are Level 2 measurements, was approximately $187.6 million at June 30, 2017.

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Interest expense on the Convertible Notes included contractual coupon interest expense of approximately $1.0 million for both the three months ended June 30, 2016 and 2017 and $2.0 million for both the six months ended June 30, 2016 and 2017. Accretion of the discount on the Convertible Notes was $1.0 million and $1.1 million for the three months ended June 30, 2016 and 2017, respectively, and $1.9 million and $2.1 million for the six months ended June 30, 2016 and 2017, respectively. Amortization of debt issuance costs related to our Convertible Notes was approximately $0.1 million for both the three months ended June 30, 2016 and 2017 and $0.2 million for both the six months ended June 30, 2016 and 2017.

The initial conversion rate of the Convertible Notes, as of March 19, 2014, was 44.3169 shares of our common stock per $1,000 principal amount of Convertible Notes, equivalent to an initial conversion price of approximately $22.56 per share of common stock. The adjusted conversion rate of the Convertible Notes, in effect at June 30, 2017, is 44.4938 shares of our common stock per $1,000 principal amount of Convertible Notes, equivalent to an adjusted conversion price of approximately $22.47 per share of common stock.

The unamortized discount and the unamortized debt issuance costs are being amortized using the effective interest method over the remaining term of the Convertible Notes. The effective interest rate on the unamortized discount and the debt issuance costs for both the three and six months ended June 30, 2016 and 2017 was 6.75% and 2.75%, respectively.

11.STOCKHOLDERS' EQUITY

Stock-Based Compensation Plans

During the six months ended June 30, 2017, we had two stock benefits plans in effect under which restricted stock, stock options and performance awards have been granted or remain outstanding: the Second Amended and Restated 2006 Long-Term Incentive Plan (the "Amended and Restated 2006 Plan") and the 2017 Omnibus Incentive Plan (the "2017 Plan"). The Amended and Restated 2006 Plan was terminated upon the approval of the 2017 Plan at the annual shareholders meeting on May 17, 2017. The termination of the Amended and Restated 2006 Plan does not affect the awards previously issued and outstanding.

All stock-based plans are administered by the Compensation Committee appointed by our Board of Directors (the "Board"). The 2017 Plan provides for grants of options as non-qualified options or incentive stock options, restricted stock and performance awards. The 2017 Plan expires on May 17, 2027.

The status of each of the plans at June 30, 2017 is as follows (shares in thousands):

	Shares Reserved [1]	Shares Available to Issue	Options Outstanding
Amended and Restated 2006 Plan	—	—	1,967
2017 Plan	1,559	1,529	16
Total	1,559	1,529	1,983

(1) Amount includes 6,200 shares granted from the Amended and Restated 2006 Plan that were returned to the Company due to cancellations.

Restricted Stock

During the second quarter of 2017, we issued 5,000 restricted stock grants to a new employee of the leadership team that vest over a five-year period with an aggregate grant date market value of approximately $0.1 million. During the first quarter of 2017, we issued a total of 22,250 restricted stock grants that vest over a three-year period with an aggregate grant date market value of approximately $0.6 million.

During the three months ended June 30, 2016 and 2017, we recorded approximately $0.3 million and $0.2 million, respectively, of pre-tax compensation expense related to the vesting of restricted stock awards, which is included in general, administrative and other expenses. During the six months ended June 30, 2016 and 2017, we recorded pre-tax compensation expense of approximately $0.6 million and $0.4 million, respectively.

As of June 30, 2017, we had approximately $1.4 million of total unrecognized compensation costs related to unvested restricted stock awards, which are expected to be recognized over a weighted average period of approximately 1.9 years.

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Stock Options

As of June 30, 2017, there were 1,983,016 stock options outstanding and 715,739 stock options which remain unvested. During the second quarter of 2017, we granted 16,250 options to a new employee of the leadership team at an exercise price of $26.89. These options will vest in one-fifth increments over a five-year period and have a ten-year term. The fair value of the options granted during the second quarter of 2017 was approximately $0.1 million. During the first quarter of 2017, we granted 445,450 options to our leadership team and key employees at a weighted average exercise price of $26.54. These options will vest in one-fifth increments over a five-year period and have a ten-year term. The fair value of the total options granted during the first quarter of 2017 was approximately $3.2 million. During the three months ended June 30, 2016 and 2017, we recorded approximately $0.6 million and $0.3 million, respectively, of pre-tax stock-based compensation expense for stock options. During the six months ended June 30, 2016 and 2017, we recorded approximately $1.1 million and $0.8 million, respectively, of pre-tax compensation expense for stock options.

The fair value of the option grants during the second quarter of 2017, were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Dividend yield	0.74	%
Expected volatility	29.08	%
Risk-free interest rate	1.79	%
Expected life (years)	5.0	
Black-Scholes value	$7.11	

Performance Awards

During the second quarter of 2017, we granted 4,500 performance awards to a new employee of the leadership team, payable in shares. The fair value of these performance awards granted during the second quarter of 2017 was approximately $0.1 million. These awards will vest (if at all) on June 30, 2022, provided that certain criteria surrounding Adjusted Consolidated EBITDA (Adjusted Earnings Before Interest Tax Depreciation and Amortization) and Adjusted Consolidated EBITDA Margin performance is achieved and the individual has remained continuously employed by Carriage through such date. The Adjusted Consolidated EBITDA performance represents 50% of the award and the Adjusted Consolidated EBITDA Margin performance represents 50% of the award. During the first quarter of 2017, we granted 101,040 performance awards to our leadership team and key employees, payable in shares. The fair value of these performance awards granted during the first quarter of 2017 was approximately $2.7 million. We recorded pre-tax compensation expense for performance awards totaling $81,000 and $202,000 for the three months ended June 30, 2016 and 2017, respectively, and $108,000 and $257,000 for the six months ended June 30, 2016 and 2017, respectively.

Employee Stock Purchase Plan

During the second quarter of 2017, employees purchased a total of 9,425 shares of common stock through our employee stock purchase plan (“ESPP”) at a weighted average price of $22.92 per share. We recorded pre-tax stock-based compensation expense for the ESPP totaling approximately $67,000 and $48,000 for the three months ended June 30, 2016 and 2017, respectively, and $144,000 for both the six months ended June 30, 2016 and 2017.

The fair value of the option to purchase shares under the ESPP is estimated on the date of grant (January 1 of each year) associated with the four quarterly purchase dates using the following assumptions:

	2017	
Dividend yield	0.75	%
Expected volatility	18.82	%
Risk-free interest rate	0.53%, 0.65%, 0.77%, 0.89%	
Expected life (years)	0.25, 0.50, 0.75, 1.00	

Expected volatilities are based on the historical volatility during the previous twelve months of the underlying common stock. The risk-free rate for the quarterly purchase periods is based on the U.S. Treasury yields in effect at the time of the purchase. The expected life of the ESPP grants represents the calendar quarters from the beginning of the year to the purchase date (end of each quarter).

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Director Compensation

We recorded pre-tax compensation expense related to director compensation, which is included in general, administrative and other expenses, totaling $82,000 and $90,000 , for the three months ended June 30, 2016 and 2017, respectively, and $212,000 and $180,000 for the six months ended June 30, 2016 and 2017, respectively.

Share Repurchase

On February 25, 2016, our Board approved a share repurchase program authorizing us to purchase up to an aggregate of $25.0 million of our common stock in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). During the three and six months ended June 30, 2017, we did not repurchase any shares of common stock pursuant to this share repurchase program.

Cash Dividends

On April 27, 2017 our Board declared a dividend of $0.05 per share, totaling approximately $0.8 million, which was paid on June 1, 2017 to record holders of our common stock as of May 15, 2017. During the three months ended 2016, we paid a quarterly dividend of $0.025 per share, totaling approximately $0.4 million. For the six months ended June 30, 2016 and 2017, we paid total dividends of approximately $0.8 million and $1.7 million, respectively.

Accumulated other comprehensive income

Our components of accumulated other comprehensive income are as follows (in thousands):

	Accumulated Other Comprehensive Income
Balance at December 31, 2016	$ —
Decrease in net unrealized gains associated with available-for-sale securities of the trusts	(667)
Reclassification of net unrealized gain activity attributable to the Deferred preneed funeral and cemetery receipts held in trust and Care trusts' corpus	667
Balance at June 30, 2017	$ —

12.EARNINGS PER SHARE

The following table sets forth the computation of the basic and diluted earnings per share for the three and six months ended June 30, 2016 and 2017 (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2017	2016	2017
Numerator for basic and diluted earnings per share:				
Net income	$5,200	$4,410	$9,771	$11,494
Less: Earnings allocated to unvested restricted stock	(36)	(15)	(77)	(43)
Income attributable to common stockholders	$5,164	$4,395	$9,694	$11,451
Denominator:				
Denominator for basic earnings per common share - weighted average shares outstanding	16,516	16,652	16,488	16,625
Effect of dilutive securities:				
Stock options	259	377	224	381
Convertible subordinated notes	300	1,064	150	1,077
Denominator for diluted earnings per common share - weighted average shares outstanding	17,075	18,093	16,862	18,083
Basic earnings per common share:	$0.31	$0.26	$0.59	$0.69
Diluted earnings per common share:	$0.30	$0.24	$0.57	$0.63

The fully diluted weighted average shares outstanding for the three and six months ended June 30, 2017 and the corresponding calculation of fully diluted earnings per share, include approximately 1,064,000 and 1,077,000 shares that would have been issued

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upon the conversion of our convertible subordinated notes as a result of the application of the if-converted method prescribed by the FASB ASC 260, Earnings Per Share. There were 300,000 and 150,000 shares for the three and six months ended June 30, 2016 that would have been issued upon conversion under the if-converted method.

For the both the three and six months ended June 30, 2016 and 2017, no stock options were excluded from the computation of diluted earnings per share because the inclusion of such stock options would result in an antidilutive effect.

13.MAJOR SEGMENTS OF BUSINESS

We conduct funeral and cemetery operations only in the United States. The following table presents revenues from operations, income (loss) from operations before income taxes and total assets by segment (in thousands):

	Funeral	Cemetery	Corporate	Consolidated
Revenues from operations:				
Three months ended June 30, 2017	$48,739	$ 15,113	$ —	$ 63,852
Three months ended June 30, 2016	$46,467	$ 15,398	$ —	