CARRIAGE SERVICES INC
Form 10-Q
May 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Securities Exchange Act of 1934.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
The number of shares of the registrant’s Common Stock, $.01 par value per share, outstanding as of May 5, 2014 was 18,480,253.

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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, 2013	(unaudited) March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$1,377	$21,958
Accounts receivable, net of allowance for bad debts of $847 in 2013 and $917 in 2014	17,950	17,715
Assets held for sale	3,544	—
Inventories	5,300	5,348
Prepaid expenses	4,421	4,387
Other current assets	3,525	1,754
Total current assets	36,117	51,162
Preneed cemetery trust investments	68,341	69,475
Preneed funeral trust investments	97,144	100,204
Preneed receivables, net of allowance for bad debts of $1,825 in 2013 and $1,887 in 2014	24,521	24,282
Receivables from preneed trusts	11,166	11,738
Property, plant and equipment, net of accumulated depreciation of $88,627 in 2013 and $90,250 in 2014	160,690	161,829
Cemetery property	72,911	72,852
Goodwill	221,087	220,945
Deferred charges and other non-current assets	12,280	13,416
Cemetery perpetual care trust investments	42,342	43,529
Total assets	$746,599	$769,432
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of senior long-term debt and capital lease obligations	$13,424	$14,078
Accounts payable	7,046	5,231
Other liabilities	9,939	9,350
Accrued liabilities	12,854	12,558
Liabilities associated with assets held for sale	4,357	—
Total current liabilities	47,620	41,217
Long-term debt, net of current portion	105,642	101,783
Revolving credit facility	36,900	—
Convertible junior subordinated debentures due in 2029 to an affiliate	89,770	27,860
Convertible subordinated notes due 2021	—	112,261
Obligations under capital leases, net of current portion	3,786	1,343
Deferred preneed cemetery revenue	55,479	55,019
Deferred preneed funeral revenue	30,588	31,102
Deferred tax liability	11,915	18,290
Other long-term liabilities	1,548	1,612
Deferred preneed cemetery receipts held in trust	68,341	69,475
Deferred preneed funeral receipts held in trust	97,144	100,204

Care trusts' corpus	41,893	43,566
Total liabilities	590,626	603,732
Commitments and contingencies:		
Stockholders' equity:		
Common stock, $.01 par value; 80,000,000 shares authorized; 22,183,000 and 22,408,000 shares issued at December 31, 2013 and March 31, 2014, respectively	222	224
Additional paid-in capital	204,324	211,831
Accumulated deficit	(33,306)	(31,088)
Treasury stock, at cost; 3,922,000 shares at December 31, 2013 and March 31, 2014	(15,267)	(15,267)
Total stockholders' equity	155,973	165,700
Total liabilities and stockholders' equity	$746,599	$769,432

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

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

	For the Three Months Ended March 31,			
	2013		2014	
Revenues:				
Funeral	$45,051		$44,159	
Cemetery	12,264		11,688	
	57,315		55,847	
Field costs and expenses:				
Funeral	26,352		26,039	
Cemetery	6,815		6,960	
Depreciation and amortization	2,476		2,422	
Regional and unallocated funeral and cemetery costs	2,759		2,379	
	38,402		37,800	
Gross profit	18,913		18,047	
Corporate costs and expenses:				
General and administrative costs and expenses	6,282		9,335	
Home office depreciation and amortization	347		342	
	6,629		9,677	
Operating income	12,284		8,370	
Interest expense	(2,595	)	(2,845	)
Accretion of discount on convertible subordinated notes	—		(171	)
Loss on redemption of convertible junior subordinated debentures	—		(3,778	)
Other income	—		1,130	
Income from continuing operations before income taxes	9,689		2,706	
Provision for income taxes	(4,280	)	(1,055	)
Net income from continuing operations	5,409		1,651	
Income (loss) from discontinued operations, net of tax	(151	)	567	
Net income	5,258		2,218	
Preferred stock dividend	(4	)	—	
Net income available to common stockholders	$5,254		$2,218	
Basic earnings (loss) per common share:				
Continuing operations	$0.30		$0.09	
Discontinued operations	(0.01	)	0.03	
Basic earnings per common share	$0.29		$0.12	
Diluted earnings (loss) per common share:				
Continuing operations	$0.26		$0.09	
Discontinued operations	(0.01	)	0.03	
Diluted earnings per common share	$0.25		$0.12	
Dividends declared per common share	$0.025		$0.025	
Weighted average number of common and common equivalent shares outstanding:				
Basic	17,657		17,984	
Diluted	22,246		18,143	

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

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

	For the Three Months Ended March 31, 2013	2014
Cash flows from operating activities:		
Net income	$5,258	$2,218
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss (gain) on sale / purchase of businesses and other assets	389	(2,039)
Impairment of goodwill	100	—
Depreciation and amortization	2,848	2,764
Amortization of deferred financing costs	(638)	232
Accretion of debt discount on convertible subordinated notes	—	171
Provision for losses on accounts receivable	456	700
Stock-based compensation expense	646	1,491
Deferred income taxes	1,354	(4,780)
Loss on redemption of convertible junior subordinated debentures	—	2,932
Other	(34)	(3)
Changes in operating assets and liabilities that provided (required) cash:		
Accounts and preneed receivables	(1,904)	(245)
Inventories and other current assets	478	299
Deferred charges and other	21	(318)
Preneed funeral and cemetery trust investments	1,410	(5,258)
Accounts payable	(874)	(2,566)
Accrued and other liabilities	(280)	(2,387)
Deferred preneed funeral and cemetery revenue	2,617	(37)
Deferred preneed funeral and cemetery receipts held in trust	(1,934)	5,208
Net cash provided by (used in) operating activities	9,913	(1,618)
Cash flows from investing activities:		
Acquisitions and new construction	(6,051)	—
Net proceeds from the sale of businesses and other assets	2,011	200
Capital expenditures	(2,602)	(5,048)
Net cash used in investing activities	(6,642)	(4,848)
Cash flows from financing activities:		
Net payments on the revolving credit facility	(1,700)	(36,900)
Payments on term loan	(2,500)	(3,000)
Proceeds from the issuance of convertible subordinated notes	—	143,750
Payment of debt issuance costs related to the convertible subordinated notes	—	(4,355)
Payments on other long-term debt and obligations under capital leases	(168)	(185)
Redemption of convertible junior subordinated debentures	—	(61,905)
Payments for performance-based stock awards	—	(16,150)
Proceeds from the exercise of stock options and employee stock purchase plan contributions	318	652
Dividends on common stock	(452)	(456)
Dividend on redeemable preferred stock	(4)	—
Payment of loan origination costs	(98)	—

Excess tax benefit of equity compensation	925	5,596
Net cash provided by (used in) financing activities	(3,679)	27,047
Net increase (decrease) in cash and cash equivalents	(408)	20,581
Cash and cash equivalents at beginning of period	1,698	1,377
Cash and cash equivalents at end of period	$1,290	$21,958

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

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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, 2014, we operated 161 funeral homes in 26 states and 31 cemeteries in 10 states.

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

Principles of Consolidation

The accompanying Consolidated Financial Statements include us and our subsidiaries. All significant intercompany balances and transactions have been eliminated.

Interim Condensed Disclosures

The information for the three month periods ended March 31, 2013 and 2014 is unaudited, but in the opinion of management, reflects all adjustments which are normal, recurring and necessary for a fair presentation of our financial position and results of operations as of and for the interim periods presented. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. The accompanying Consolidated Financial Statements have been prepared consistent with the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2013 and should be read in conjunction therewith.

Cash and Cash Equivalents

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

Use of Estimates

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

Funeral and Cemetery Operations

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

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

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

Accounts receivable included approximately $8.4 million of funeral receivables at December 31, 2013 and March 31, 2014 and $8.3 million and $9.1 million of cemetery receivables at December 31, 2013 and March 31, 2014, respectively. Non-current preneed receivables represent the payments expected to be received beyond one year from the balance sheet date. Non-current preneed receivables consisted of approximately $8.1 million of funeral receivables at December 31, 2013 and March 31, 2014 and $16.5 million and $16.2 million of cemetery receivables at December 31, 2013 and March 31, 2014, respectively. Accounts receivable also include minor amounts of other receivables. Bad debt expense totaled $0.5 million and $0.7 million for the three months ended March 31, 2013 and 2014, 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 betterments are capitalized. Depreciation of property, plant and equipment (including equipment under capital leases) is computed based on the straight-line method.

Property, plant and equipment was comprised of the following at December 31, 2013 and March 31, 2014:

	December 31, 2013	March 31, 2014
	(in thousands)	
Land	$55,639	$56,890
Buildings and improvements	132,172	133,196
Furniture, equipment and automobiles	61,506	61,993
Property, plant and equipment, at cost	249,317	252,079
Less: accumulated depreciation	(88,627)	(90,250)
Property, plant and equipment, net	$160,690	$161,829

During the three months ended March 31, 2014, we purchased two buildings which we had previously leased. We recognized a gain of approximately $1.1 million on the purchase of one of these buildings that we had originally acquired under a capital lease. We recorded approximately $2.2 million of depreciation expense against operating income for the three months ended March 31, 2013 and 2014.

Discontinued Operations

In accordance with our Strategic Acquisition Model, non-strategic businesses are reviewed to determine whether such businesses should be sold and the proceeds redeployed elsewhere. When we receive a letter of intent and financing commitment from a buyer and the sale is expected to occur within one year, the location is no longer reported within our continuing operations. The assets and liabilities associated with the location are reclassified as held-for-sale on our Consolidated Balance Sheets, and the operating results are presented on a comparative basis in the discontinued operations section of our Consolidated Statements of Operations. During the first quarter of 2014, we sold a cemetery in Florida which was reported as held-for-sale at December 31, 2013. As of March 31, 2014, we had no businesses classified as held-for-sale. See Note 4 and Note 22 to the Consolidated Financial Statements herein for more information.

Business Combinations

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

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 businesses. Goodwill is tested for impairment by assessing the fair value of each of our reporting units. The funeral segment reporting units consist of

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our East, Central and West regions in the United States, and we perform our annual impairment test of goodwill using information as of August 31 of each year. In addition, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant adverse changes in the business climate which may be indicated by a decline in our market capitalization or decline in operating results.

Our methodology for goodwill impairment testing is described in more detail in Notes 1 and 4 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013 and further discussion of current period activity in Note 5 to the Consolidated Financial Statements herein.

Intangible Assets

Our intangible assets include tradenames primarily resulting from acquisitions. Our tradenames are included in Deferred charges and other non-current assets on our Consolidated Balance Sheets. Our tradenames are considered to have an indefinite life and are not subject to amortization. We test for impairment of intangible assets annually at year end in accordance with the Intangibles Topic of the Accounting Standards Codification (“ASC”) 350.

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

Stock Plans and Stock-Based Compensation

We have stock-based employee and director compensation plans under which we may grant restricted stock, stock options, performance awards and stock from our employee stock purchase plan, which are described in more detail in Note 17 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013. We recognize compensation expense in an amount equal to the fair value of the share-based awards expected to vest over the requisite service period. Fair value is determined on the date of the grant. The fair value of options or awards containing options is determined using the Black-Scholes valuation model. The fair value of the performance awards is determined using a Monte-Carlo simulation pricing model. See Note 17 to the Consolidated Financial Statements herein for additional information on our stock-based compensation plans.

Computation of Earnings Per Common Share

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

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

The fully diluted weighted average shares outstanding for the three months ended March 31, 2013, and the corresponding calculation of fully diluted earnings per share, include approximately 4.4 million shares that would be issued upon conversion of our convertible junior subordinated debentures as a result of the application of the if-converted method prescribed by the Financial Accounting Standards Board (“FASB”) ASC 260-10-45. For the three months ended March 31, 2014, shares from the conversion of our convertible junior subordinated debentures and our convertible subordinated notes are excluded from the fully diluted earnings per share calculation because the inclusion of such converted shares would result in an antidilutive impact.

Preneed Funeral and Cemetery Trust Funds

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

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

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

Trust management fees are earned by us for investment management and advisory services that are provided by our wholly-owned registered investment advisor ("CSV RIA"). As of March 31, 2014, CSV RIA provided these services to two institutions, which have custody of 76% of our trust assets, for a fee based on the market value of trust assets. Under state trust laws, we are allowed to charge the trust a fee for advising on the investment of the trust assets and these fees are recognized as income in the period in which services are provided.

Fair Value Measurements

We define fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We disclose the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date. Additional required disclosures are provided in Notes 6, 10 and 11 to the Consolidated Financial Statements herein. We currently do not have any assets that have fair values determined by Level 3 inputs and no liabilities measured at fair value. We have not elected to measure any additional financial instruments and certain other items at fair value that are not currently required to be measured at fair value.

To determine the fair value of assets and liabilities in an environment where the volume and level of activity for the asset or liability have significantly decreased, the exit price is used as the fair value measurement. For the three months ended March 31, 2014, we did not incur significant decreases in the volume or level of activity of any asset or liability. We consider an impairment of debt and equity securities other-than-temporary unless (a) the investor has the ability and intent to hold an investment and (b) evidence indicating the cost of the investment is recoverable before we are more likely than not required to sell the investment. If impairment is indicated, then an adjustment is made to reduce the carrying amount to fair value. As of March 31, 2014, no impairments have been identified.

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

Our convertible junior subordinated debentures, payable to Carriage Services Capital Trust (the "Trust"), pay interest at a fixed rate of 7% and are carried on our Consolidated Balance Sheets at a cost of approximately $27.9 million. The fair value of these securities is estimated to be approximately $28.0 million at March 31, 2014, based on Bloomberg Finance L.P.'s quotes for the corresponding preferred securities issued by the Trust. Our convertible subordinated notes due 2021, issued in March 2014, pay interest at a fixed rate of 2.75% and are carried on our Consolidated Balance Sheet at a carrying value of approximately $112.3 million. The fair value of these securities is estimated to be approximately $151.7 million based on the last traded or broker quoted price.

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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 11 states in which we operate. We record deferred taxes for temporary differences between the tax basis and financial reporting basis of assets and liabilities. We record a valuation allowance to reflect the estimated amount of deferred tax assets for which realization is uncertain. Management reviews the valuation allowance at the end of each quarter and makes adjustments if it is determined that it is more likely than not that the tax benefits will be realized.

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

We do not anticipate a significant increase or decrease in unrecognized tax benefits during the next twelve months.

In September 2013, the U.S. Department of the Treasury and the Internal Revenue Service released final regulations relating to guidance on applying tax rules to amounts paid to acquire, produce or improve tangible personal property as well as rules for materials and supplies. The new guidance is required to be applied no later than our tax year beginning January 1, 2014. These regulations are not expected to have a material impact on our financial statements.

Subsequent Events

Management evaluated events and transactions during the period subsequent to March 31, 2014 through the date the financial statements were issued for potential recognition or disclosure in the accompanying financial statements covered by this report. For more information regarding subsequent events, see Note 22 to the Consolidated Financial Statements herein.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Discontinued Operations and Disclosure of Disposals of Components of an Entity

In April 2014, the FASB modified the requirements for reporting a discontinued operation. The amended definition of “discontinued operations” includes only disposals or held-for-sale classifications for components or groups of components of an entity that represent a strategic shift that either has or will have a major effect on the entity’s operations or financial results. Examples of a strategic shift that has or will have a major effect on an entity’s operations and financial results include a disposal of a major geographical area, line of business, equity method of investment or other parts of an entity. The new definition of discontinued operations will significantly reduce the volume of transactions requiring discontinued operations presentation and disclosure. However, the new guidance also expands the disclosures required when an entity reports a discontinued operation or when it disposes of or classifies as held-for-sale an individually significant component that does not meet the definition of a discontinued operation. The new guidance is effective for all disposals or classifications as held-for-sale that occur in annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity cannot apply the amended guidance to a component or to a business that is classified as held-for-sale before the effective date, even if the component or business is disposed of after the effective date. Early adoption is permitted, but only for disposals or classifications as held-for-sale that have not been reported in previously issued financial statements. We are currently evaluating the impact the adoption of this new guidance will have on our Consolidated Financial Statements.

Income Taxes

In July 2013, the FASB amended the Income Tax Topic of the ASC to eliminate the diversity in practice in the presentation of unrecognized tax benefits. The guidance requires an entity to net its liability for unrecognized tax benefits against the deferred tax assets for all same jurisdiction net operating losses or similar tax loss carryforwards or tax credit carryforwards. A gross presentation will be required only if such carryforwards are not available to settle any additional income taxes resulting from disallowance of the uncertain tax position or the entity does not intend to use these carryforwards for this purpose. This guidance is effective for the first annual or interim period beginning after December 15, 2013, thus effective for us beginning January 1, 2014. Our adoption of this new guidance effective January 1, 2014 did not have a material impact on our financial position or results of operations.

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3. ACQUISITIONS

Our growth strategy includes the execution of our Strategic Acquisition Model. We assess acquisition candidates using six strategic ranking criteria to differentiate the price we are willing to pay under a discounted cash flow methodology. Those criteria are:

- size of business;
- size of market;
- competitive standing;
- local market demographics;
- strength of brand; and
- barriers to entry.

There were no business acquisitions during the first quarter of 2014. We acquired land for approximately $6.0 million during the first quarter of 2013 for funeral home expansion projects.

On March 3, 2014, certain of our subsidiaries entered into an Asset Sale Agreement with certain subsidiaries of Service Corporation International (“SCI”) to acquire four funeral businesses and one cemetery business in the New Orleans, Louisiana region and two funeral businesses in the Northern Virginia region for an aggregate purchase price of approximately $54.9 million (the “SCI Acquisition”). Under the Asset Sale Agreement, we will acquire the properties, leasehold interests, assets and rights and assume certain liabilities of the businesses being acquired. The closing of the SCI Acquisition is subject to certain customary closing conditions, including, but not limited to, approval by the Federal Trade Commission. We currently anticipate that the SCI Acquisition will close in the second quarter of 2014.

4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

We continually review locations to optimize the sustainable earning power and return on our invested capital. Our strategy, the Strategic Portfolio Optimization Model, also uses strategic ranking criteria to assess potential disposition candidates. The execution of this strategy entails selling generally non-strategic businesses.

During the first quarter of 2014, we sold a cemetery in Florida which was reported as held-for-sale at December 31, 2013 for approximately $0.2 million in cash.

As of March 31, 2014, we had no assets classified as held-for-sale. Assets and liabilities associated with the businesses held-for-sale on our Consolidated Balance Sheets at December 31, 2013 consisted of the following (in thousands):

	December 31, 2013
Assets:	
Current assets	$30
Preneed cemetery trust investments	2,477
Preneed receivables	31
Property, plant and equipment, net	311
Cemetery perpetual care trust investments	695
Total	$3,544
Liabilities:	
Current liabilities	$10
Deferred preneed cemetery revenue	1,185
Deferred preneed cemetery receipts held in trust	2,477
Care trusts corpus	685
Total	$4,357

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The operating results of the discontinued businesses for the three months ended March 31, 2013 and 2014, as well as the gain or loss on the disposal, is presented in the discontinued operations section of the Consolidated Statements of Operations, along with the income tax effect, as follows (in thousands):

	For the Three Months Ended March 31,	
	2013	2014
Revenues	$1,432	$51
Operating income	$338	$20
Gain (loss) on disposition	(583)	909
Income tax benefit (provision)	94	(362)
Income (loss) from discontinued operations	$(151)	$567

5. GOODWILL

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

The following table presents the changes in goodwill on our Consolidated Balance Sheets (in thousands):

Goodwill as of December 31, 2013	$221,087
Adjustments	(142)
Reclassification of assets held-for-sale	—
Goodwill as of March 31, 2014	$220,945

The adjustment to goodwill in the three months ended March 31, 2014 represents a purchase price allocation adjustment related to a funeral home business acquisition completed in November 2013. Our purchase price allocation for this acquisition is dependent upon certain valuations, which have not progressed to a stage where there is sufficient information to make a definitive measure and allocation of goodwill and other intangible assets. Material revisions to the ongoing current estimates may be necessary when the valuation process is completed, within a year after the closing date of the acquisition.

6. PRENEED TRUST INVESTMENT

Preneed Cemetery Trust Investments

Preneed cemetery trust investments represent trust fund assets that we are generally permitted to withdraw when the merchandise or services are provided. The components of Preneed cemetery trust investments on our Consolidated Balance Sheets at December 31, 2013 and March 31, 2014 are as follows (in thousands):

	December 31, 2013	March 31, 2014
Preneed cemetery trust investments, at fair value	$70,386	$71,510
Less: allowance for contract cancellation	(2,045)	(2,035)
Preneed cemetery trust investments, net	$68,341	$69,475

Upon cancellation of a preneed cemetery contract, a customer is generally entitled to receive a refund of the corpus, and in some cases, some or all of the earnings held in trust. In certain jurisdictions, we are obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust, including some or all investment income. As a result, when realized or unrealized losses of a trust result in the trust being under-funded, we assess whether we are responsible for replenishing the corpus of the trust, in which case a loss provision is recorded.

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

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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 foreign debt, corporate debt, preferred stocks and mortgage backed securities, all of which are classified within Level 2 of the valuation hierarchy. We review and update our fair value hierarchy classifications quarterly. There were no transfers between Levels 1 and 2 for the three months ended March 31, 2014. There are no Level 3 investments in the preneed cemetery trust investment portfolio. See Note 11 for further information of the fair value measurement and the three-level valuation hierarchy.

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

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$910	$—	$—	$910
Fixed income securities:					
Foreign debt	2	3,938	247	(5)	4,180
Corporate debt	2	30,699	524	(1,385)	29,838
Preferred stock	2	18,475	612	(142)	18,945
Mortgage backed securities	2	1	—	—	1
Common stock	1	13,810	3,378	(585)	16,603
Trust securities		$67,833	$4,761	$(2,117)	$70,477
Accrued investment income		$1,033			$1,033
Preneed cemetery trust investments					$71,510
Fair market value as a percentage of cost					103.9 %

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	6,364
Due in five to ten years	9,873
Thereafter	36,727
Total	$52,964

The cost and fair market values associated with preneed cemetery trust investments at December 31, 2013 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$1,541	$—	$—	$1,541
Fixed income securities:					
Foreign debt	2	3,460	146	(3)	3,603
Corporate debt	2	32,958	386	(1,150)	32,194
Preferred stock	2	17,754	178	(273)	17,659
Mortgage backed securities	2	1	—	—	1
Common stock	1	12,431	2,362	(267)	14,526
Trust securities		$68,145	$3,072	$(1,693)	$69,524
Accrued investment income		$862			$862
Preneed cemetery trust investments					$70,386
Market value as a percentage of cost					102.0 %

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

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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. There will be no impact on earnings unless and until such time as the investment is withdrawn from the trust in accordance with state regulations at an amount that is less than its original basis.

We have determined that the unrealized losses in our preneed cemetery trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. At March 31, 2014, we had corporate debt and equity 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 cemetery merchandise and service trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of March 31, 2014 and December 31, 2013, are shown in the following tables (in thousands):

	March 31, 2014					
	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	$433	$(5)	$—	$—	$433	$(5)
Corporate debt	5,994	(598)	2,860	(787)	8,854	(1,385)
Preferred stock	4,959	(142)	—	—	4,959	(142)
Common stock	2,850	(570)	98	(15)	2,948	(585)
Total temporary impaired securities	$14,236	$(1,315)	$2,958	$(802)	$17,194	$(2,117)

	December 31, 2013					
	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	$802	$(3)	$—	$—	$802	$(3)
Corporate debt	11,561	(553)	769	(597)	12,330	(1,150)
Preferred stock	9,601	(273)	—	—	9,601	(273)
Common stock	1,077	(171)	705	(96)	1,782	(267)
Total temporary impaired securities	$23,041	$(1,000)	$1,474	$(693)	$24,515	$(1,693)

Preneed cemetery trust investment security transactions recorded in Interest expense in our Consolidated Statements of Operations for the three months ended March 31, 2013 and 2014 were as follows (in thousands):

	For the Three Months Ended March 31,	
	2013	2014
Investment income	$693	$543
Realized gains	38	539
Realized losses	(430)	(188)
Expenses and taxes	(381)	(558)

Increase (decrease) in deferred preneed cemetery receipts held in trust	80	(336)
	$—	$—

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Purchases and sales of investments in the preneed cemetery trusts were as follows (in thousands):

	For the Three Months Ended March 31,	
	2013	2014
Purchases	$(4,161)	$(8,160)
Sales	5,009	8,537

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 funds paid by the customer to us. Preneed funeral trust investments are reduced by the trust earnings we have been allowed to withdraw prior to our performance and amounts received from customers that are not required to be deposited into trust, pursuant to various state laws. The components of Preneed funeral trust investments on our Consolidated Balance Sheets at December 31, 2013 and March 31, 2014 were as follows (in thousands):

	December 31, 2013	March 31, 2014
Preneed funeral trust investments, at market value	$100,005	$103,104
Less: allowance for contract cancellation	(2,861)	(2,900)
Preneed funeral trust investments, net	$97,144	$100,204

Upon cancellation of a preneed funeral contract, a customer is generally entitled to receive a refund of the corpus and some or all of the earnings held in trust. In certain jurisdictions, we are obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust, including some or all investment income. As a result, when realized or unrealized losses of a trust result in the trust being under-funded, we assess whether we are responsible for replenishing the corpus of the trust, in which case a loss provision is recorded.

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

Where quoted prices are available in an active market, investments held by the trusts are classified as Level 1 investments pursuant to the three-level valuation hierarchy. Our Level 1 investments include cash, U. S. treasury debt, common stock and equity mutual funds. 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 U.S. agency obligations, 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. During the three months ended March 31, 2014, we reclassified $0.4 million of U.S. Agency obligations from Level 1 investments to Level 2 investments due to reduced trading activity of these securities which caused the fair market price to be determined by other inputs other than quoted prices. There are no Level 3 investments in the preneed funeral trust investment portfolio. See Note 11 for further information of the fair value measurement and the three-level valuation hierarchy.

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

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$14,531	$—	$—	$14,531
Fixed income securities:					
U.S. treasury debt	1	2,210	41	(41)	2,210
U.S. agency obligations	2	388	9	(5)	392
Foreign debt	2	3,146	198	(4)	3,340
Corporate debt	2	26,183	597	(1,120)	25,660
Preferred stock	2	16,712	678	(113)	17,277
Mortgage backed securities	2	1	—	—	1
Common stock	1	11,997	3,015	(543)	14,469
Mutual funds:					
Equity	1	11,710	2,902	(5)	14,607
Fixed income	2	5,399	144	(113)	5,430
Other investments	2	4,379	—	(26)	4,353
Trust securities		$96,656	$7,584	$(1,970)	$102,270
Accrued investment income		$834			$834
Preneed funeral trust investments					$103,104
Fair market value as a percentage of cost					105.8 %

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

Due in one year or less	$676
Due in one to five years	6,153
Due in five to ten years	9,021
Thereafter	33,030
Total	$48,880

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The cost and fair market values associated with preneed funeral trust investments at December 31, 2013 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$14,631	$—	$—	$14,631
Fixed income securities:					
U.S. treasury debt	1	2,212	47	(54)	2,205
U.S. agency obligations	1	401	8	(7)	402
Foreign debt	2	2,726	115	(2)	2,839
Corporate debt	2	27,993	375	(957)	27,411
Preferred stock	2	15,949	292	(282)	15,959
Mortgage back securities	2	1	—	—	1
Common stock	1	10,681	2,092	(237)	12,536
Mutual funds:					
Equity	1	11,632	2,708	(22)	14,318
Fixed income	2	5,455	88	(179)	5,364
Other investments	2	3,686	—	(26)	3,660
Trust securities		$95,367	$5,725	$(1,766)	$99,326
Accrued investment income		$679			$679
Preneed funeral trust investments					$100,005
Market value as a percentage of cost					104.2 %

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. There will be no impact on earnings unless and until such time as the investment is withdrawn from the trust in accordance with state regulations at an amount that is less than its original basis.

We have determined that the unrealized losses in our preneed funeral trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. At March 31, 2014, we had corporate debt and equity 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.

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Our preneed funeral trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of March 31, 2014 and December 31, 2013, are shown in the following tables (in thousands):

	March 31, 2014					
	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. debt	$—	$—	$828	$(41)	$828	$(41)
U.S. agency obligations	—	—	152	(5)	152	(5)
Foreign debt	346	(4)	—	—	346	(4)
Corporate debt	4,845	(484)	2,312	(636)	7,157	(1,120)
Preferred stock	3,961	(113)	—	—	3,961	(113)
Mutual funds:						
Equity	2,645	(528)	91	(14)	2,736	(542)
Equity and other	74	(2)	62	(4)	136	(6)
Fixed income	474	(17)	1,593	(96)	2,067	(113)
Other investments	—	—	44	(26)	44	(26)
Total temporary impaired securities	$12,345	$(1,148)	$5,082	$(822)	$17,427	$(1,970)

	December 31, 2013					
	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. debt	$—	$—	$816	$(54)	$816	$(54)
U.S. agency obligations	—	—	211	(7)	211	(7)
Foreign debt	632	(2)	—	—	632	(2)
Corporate debt	9,620	(460)	640	(497)	10,260	(957)
Preferred stock	9,918	(282)	—	—	9,918	(282)
Mutual funds:						
Equity	954	(152)	626	(85)	1,580	(237)
Equity and other	314	(13)	195	(9)	509	(22)
Fixed income	865	(43)	1,420	(136)	2,285	(179)
Other investments	—	—	44	(26)	44	(26)
Total temporary impaired securities	$22,303	$(952)	$3,952	$(814)	$26,255	$(1,766)

Preneed funeral trust investment security transactions recorded in Interest expense in the Consolidated Statements of Operations for the three months ended March 31, 2013 and 2014 were as follows (in thousands):

	For the Three Months Ended March 31,	
	2013	2014
Investment income	$606	$645
Realized gains	5,127	494
Realized losses	(5,332)	(198)
Expenses and taxes	(248)	(405)
Decrease in deferred preneed funeral receipts held in trust	(153)	(536)
	$—	$—

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Purchases and sales of investments in the preneed funeral trusts were as follows (in thousands):

	For the Three Months Ended March 31,	
	2013	2014
Purchases	$(3,186)	$(6,990)
Sales	3,915	7,537

7. 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 March 31, 2014, the balances of preneed receivables for cemetery interment rights and for merchandise and services were $20.8 million and $8.3 million, respectively, of which $9.5 million is presented in Accounts receivable and $19.6 million is presented in Preneed receivables. The unearned finance charges associated with these receivables were $3.8 million and $3.9 million at December 31, 2013 and March 31, 2014, 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 5.0% of the total receivables on recognized sales at March 31, 2014. 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, 2014, the change in the allowance for contract cancellations was as follows (in thousands):

	March 31, 2014
Beginning balance	$1,347
Write-offs and cancellations	(365)
Provision	442
Ending balance	$1,424

The aging of past due financing receivables as of March 31, 2014 is 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	$626	$265	$192	$841	$1,924	$18,675	$20,599
Deferred revenue	255	104	110	344	813	7,736	8,549
Total contracts	$881	$369	$302	$1,185	$2,737	$26,411	$29,148

The aging of past due financing receivables as of December 31, 2013 is 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	$895	$372	$266	$683	$2,216	$18,628	$ 20,844
Deferred revenue	355	191	85	271	902	7,890	8,792
Total contracts	$1,250	$563	$351	$954	$3,118	$26,518	$ 29,636

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8. 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, 2013 and March 31, 2014, receivables from preneed trusts were as follows (in thousands):

	December 31, 2013	March 31, 2014
Preneed trust funds, at cost	$11,511	$12,101
Less: allowance for contract cancellation	(345)	(363)
Receivables from preneed trusts, net	$11,166	$11,738

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, 2014 and December 31, 2013. 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.

	Historical Cost Basis (in thousands)	Fair Value
As of March 31, 2014		
Cash and cash equivalents	$2,839	$2,839
Fixed income investments	6,752	6,764
Mutual funds and common stocks	2,495	2,576
Annuities	15	15
Total	$12,101	$12,194

	Historical Cost Basis (in thousands)	Fair Value
As of December 31, 2013		
Cash and cash equivalents	$2,657	$2,657
Fixed income investments	6,344	6,355
Mutual funds and common stocks	2,484	2,561
Annuities	26	26
Total	$11,511	$11,599

9. CONTRACTS SECURED BY INSURANCE

Certain preneed funeral contracts are secured by life insurance contracts. Generally, the proceeds of the life insurance policies have been assigned to us and will be paid upon the death of the insured. The proceeds will be used to satisfy the beneficiary's obligations under the preneed contract for services and merchandise. Preneed funeral contracts secured by insurance totaled $289.9 million and $294.7 million at December 31, 2013 and March 31, 2014, respectively, and are not included on our Consolidated Balance Sheets.

10. CEMETERY PERPETUAL CARE TRUST INVESTMENTS

Care trusts' corpus on our Consolidated Balance Sheets represent the corpus of those trusts plus undistributed income. The components of Care trusts' corpus as of December 31, 2013 and March 31, 2014 were as follows (in thousands):

	December 31, 2013	March 31, 2014
Trust assets, at fair value	$42,342	$43,529
Obligations due to (from) trust	(449)	37
Care trusts' corpus	$41,893	$43,566

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The income from these perpetual care trusts provides funds necessary to maintain cemetery property and memorials in perpetuity. This trust fund income is recognized, as earned, in Cemetery revenues. Trust management fees charged by our wholly-owned registered investment advisor are included in revenue in the period in which they are earned.
Where quoted prices are available in an active market, investments held by the trusts are classified as Level 1 investments pursuant to the three-level valuation hierarchy. Our Level 1 investments include cash and common stock. Where quoted market prices are not available for the specific security, 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 foreign debt, corporate debt, preferred stocks and mortgage backed securities, all of which are classified within Level 2 of the valuation hierarchy. We review and update our fair value hierarchy classifications quarterly. There were no transfers between Levels 1 and 2 for the three months ended March 31, 2014. There are no Level 3 investments in the cemetery perpetual care trust investment portfolio. See Note 11 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, 2014 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses		Fair Market Value	
Cash and money market accounts	1	$602	$—	$—		$602	
Fixed income securities:							
Foreign debt	2	2,378	149	(3	)	2,524	
Corporate debt	2	18,641	323	(839	)	18,125	
Preferred stock	2	11,244	376	(86	)	11,534	
Mortgage back securities	2	1	—	—		1	
Common stock	1	8,478	2,052	(414	)	10,116	
Trust securities		$41,344	$2,900	$(1,342	)	$42,902	
Accrued investment income		$627				$627	
Cemetery perpetual care trust investments						$43,529	
Fair market value as a percentage of cost						103.8	%

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	3,871
Due in five to ten years	5,969
Thereafter	22,344
	$32,184

The following table reflects the cost and fair market values associated with the trust investments held in perpetual care trust funds at December 31, 2013 (in thousands):

	Fair Value Hierarchy Level	Cost		Unrealized Gains	Unrealized Losses		Fair Market Value
Cash and money market accounts	1	$973		$—	$—		$973
Fixed income securities:							
Foreign debt	2	2,062		87	(2	)	2,147
Corporate debt	2	19,773		236	(691	)	19,318
Preferred stock	2	10,668		110	(165	)	10,613
Common stock	1	7,539		1,417	(178	)	8,778
Trust securities		$41,015	41,015,000	$1,850	$(1,036	)	$41,829
Accrued investment income		$513					$513
							$42,342

Cemetery perpetual care investments		
Market value as a percentage of cost	102.0	%

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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. 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.

We have determined that the unrealized losses in our perpetual care trust investments are considered temporary in nature, as the unrealized losses were due to temporary fluctuations in interest rates and equity prices. The investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We believe that none of the securities are other-than-temporarily impaired based on our analysis of the investments. At March 31, 2014, we had corporate debt and equity 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, 2014 and December 31, 2013, respectively, are shown in the following tables (in thousands):

	March 31, 2014					
	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	$261	$(3)	$—	$—	$261	$(3)
Corporate debt	3,630	(362)	1,732	(477)	5,362	(839)
Preferred stock	2,995	(86)	—	—	2,995	(86)
Common stock	2,019	(403)	69	(11)	2,088	(414)
Total temporary impaired securities	$8,905	$(854)	$1,801	$(488)	$10,706	$(1,342)

	December 31, 2013					
	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	$478	$(2)	$—	$—	$478	$(2)
Corporate debt	6,948	(332)	462	(359)	7,410	(691)
Preferred stock	5,811	(165)	—	—	5,811	(165)
Common stock	716	(114)	470	(64)	1,186	(178)
Total temporary impaired securities	$13,953	$(613)	$932	$(423)	$14,885	$(1,036)

Perpetual care trust investment security transactions recorded in Interest expense in our Consolidated Statements of Operations for the three months ended March 31, 2013 and 2014 were as follows (in thousands):

	For the Three Months Ended March 31,	
	2013	2014
Undistributable realized gains	$24	$417
Undistributable realized losses	(295)	(149)
Increase (decrease) in Care trusts' corpus	271	(268)
Total	$—	$—

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Perpetual care trust investment security transactions recorded in Cemetery revenues for the three months ended March 31, 2013 and 2014 were as follows (in thousands):

	For the Three Months Ended March 31,	
	2013	2014
Investment income	$1,411	$1,281
Realized gains (losses), net	398	(242)
Total	$1,809	$1,039

Purchases and sales of investments in the perpetual care trusts were as follows (in thousands):

	For the Three Months Ended March 31,	
	2013	2014
Purchases	$(2,587)	$(4,935)
Sales	3,121	5,181

11. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date applicable for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. We disclose the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date.

We evaluated our financial assets and liabilities for those financial assets and liabilities that met 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 13)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, issued in March 2014, is approximately $151.7 million based on the last traded or broker quoted price. The fair value of the convertible junior subordinated debentures outstanding at March 31, 2014 was approximately $28.0 million, based on Bloomberg Finance L.P.'s quotes for the corresponding preferred securities issued by the Trust. 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 such criteria. See Notes 6 and 10 to our Consolidated Financial Statements herein for the fair value hierarchy levels of our trust investments.

The following three-level valuation hierarchy based upon the transparency of inputs is utilized in the measurement and
valuation of financial assets or liabilities as of the measurement date:

- Level 1 – Fair value of securities based on unadjusted quoted prices for identical assets or liabilities in active markets. Our investments classified as Level 1 securities include cash, common stock, U.S. treasury debt and equity mutual funds.
- Level 2 – Fair value of securities estimated based on quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable or that can be corroborated by observable market data by correlation. These inputs include interest rates, yield curves, credit risk, prepayment speeds, rating and tax-exempt status. Our investments classified as Level 2 securities include U.S agency obligations, corporate debt, preferred stocks, foreign debt, mortgage backed securities, certain fixed income securities and fixed income mutual funds.
-

Level 3 – Unobservable inputs based upon the reporting entity's internally developed assumptions, which market participants would use in pricing the asset or liability. As of March 31, 2014, 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 standards of financial accounting and reporting for investments in equity instruments that have readily determinable fair values and for all investments in debt securities.

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12. DEFERRED CHARGES AND OTHER NON-CURRENT ASSETS

Deferred charges and other non-current assets at December 31, 2013 and March 31, 2014 were as follows (in thousands):

	December 31, 2013	March 31, 2014
Prepaid agreements not to compete, net of accumulated amortization of $4,807 and $4,947, respectively	$1,299	$1,354
Deferred loan costs, net of accumulated amortization of $1,252 and $1,423, respectively	2,602	2,431
Convertible junior subordinated debenture origination costs, net of accumulated amortization of $1,095	2,949	—
Convertible subordinated notes issuance costs, net of accumulated amortization of $44	—	3,940
Tradenames	5,430	5,411
Other	—	280
Deferred charges and other non-current assets	$12,280	$13,416

Agreements not to compete are amortized over the term of the respective agreements, ranging generally from one to ten years. Amortization expense was $19,800 and $140,000 for the three months ended March 31, 2013 and 2014, respectively. Deferred loan costs are being amortized over the term of the related debt using the effective interest method. In connection with the redemption of our convertible junior subordinated debentures, we wrote-off the related unamortized origination costs of approximately $2.9 million in March 2014. The debt issuance costs related to our convertible subordinated notes issued in March 2014 are being amortized using the effective interest method over the seven year term of the notes. Our tradenames have indefinite lives and therefore are not amortized.

13. LONG-TERM DEBT

Our senior long-term debt consisted of the following at December 31, 2013 and March 31, 2014 (in thousands):

	December 31, 2013	March 31, 2014
Revolving credit facility, secured, floating rate	$36,900	$—
Term loan, secured, floating rate	117,000	114,000
Acquisition debt	1,866	1,695
Less: current portion	(13,224)	(13,912)
Total long-term debt	$142,542	$101,783

As of March 31, 2014, we had a $255 million secured bank credit facility (the “Credit Facility”) with Bank of America, N.A. as Administrative Agent comprised of a $125 million revolving credit facility and a $130 million term loan. The Credit Facility also contains an accordion provision to borrow up to an additional $40 million in revolving loans, subject to certain conditions. The Credit Facility matures on September 30, 2017 and is collateralized by all personal property and funeral home real property in certain states. As of March 31, 2014, we had no outstanding borrowings under the revolving credit facility and $114.0 million was outstanding on the term loan. No letters of credit were issued and outstanding under the Credit Facility at March 31, 2014. Under the Credit Facility, outstanding borrowings bear interest at either a prime rate or a LIBOR rate, plus an applicable margin based upon the Company's leverage ratio. At March 31, 2014, the prime rate margin was equivalent to 1.50% and the LIBOR margin was 2.50%. The weighted average interest rate on the Credit Facility for the three months ended March 31, 2014 was 2.7%.

On February 27, 2014, we entered into a fourth amendment to the Credit Facility which (a) allows us to issue senior unsecured debt in an amount not to exceed $150 million when aggregated with any subordinated debt or convertible subordinated debt issued by us and (b) allows us to refinance our existing convertible junior subordinated debentures with the proceeds of certain of senior unsecured debt, subordinated debt or convertible subordinated debt.

Refer to Note 22 for additional information concerning our Credit Facility.

We have no material assets or operations independent of our subsidiaries. All assets and operations are held and conducted by subsidiaries, each of which (except for the Trust, which is a single purpose entity that holds our 7%

debentures issued in connection with the issuance of the Trust's term income deferrable equity securities (TIDES) 7% convertible preferred securities) have fully and unconditionally guaranteed our obligations under the Credit Facility. Additionally, we do not currently have any significant restrictions on our ability to receive dividends or loans from any subsidiary guarantor under the Credit Facility.

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We were in compliance with the covenants contained in the Credit Facility as of March 31, 2014. The Credit Facility calls for key ratios that we must comply with including a requirement to maintain a leverage ratio of no more than 3.75 to 1.00 through June 29, 2014 and no more than 3.50 to 1.00 thereafter, and a covenant to maintain a fixed charge coverage ratio of no less than 1.20 to 1.00. As of March 31, 2014, the leverage ratio was 2.18 to 1.00 and the fixed charge coverage ratio was 1.83 to 1.00.

Acquisition debt consists of deferred purchase price and promissory notes payable to sellers. A majority of the notes bear interest ranging from 7.0% to 11.0%. A few notes bear interest at 0% and are discounted at imputed interest rates ranging from 9.5% to 10.0%. Original maturities range from five to twenty years.

14. CONVERTIBLE SUBORDINATED NOTES

On March 19, 2014, we issued $143.75 million aggregate principal amount of 2.75% Convertible Subordinated Notes due 2021 (the “Notes”). The Notes have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), and were offered only to “qualified institutional buyers” in compliance with Rule 144A under the Securities Act. The Notes are governed by an indenture dated as of March 19, 2014 between Wilmington Trust, National Association, as Trustee, and us (the “Indenture”). The Notes bear interest at 2.75%. Interest on the Notes accrue from March 19, 2014 and is payable semi-annually in arrears on March 15 and September 15 of each year, beginning September 15, 2014. The Notes are general unsecured obligations and will be subordinated in the right of payment to all of our existing and future senior indebtedness and equal in right of payment with our other existing and future subordinated indebtedness. The initial conversion rate of the Notes is 44.3169 shares of our common stock per $1,000 principal amount of the Notes, equivalent to an initial conversion price of approximately $22.56 per share of common stock. The conversion rate is subject to adjustment upon the occurrence of certain events as described in the Indenture.

The Notes mature on March 15, 2021, unless earlier converted or purchased by us. Holders of the Notes may convert their Notes at their option at any time prior to December 15, 2020, if certain conditions are met. We may not redeem the Notes prior to maturity. However, in the event of a fundamental change (as defined in the Indenture), subject to certain conditions, a holder of the Notes will have the option to require us to purchase all or a portion of its Notes for cash. The fundamental change purchase price will equal 100% of the principal amount of the Notes to be purchased, plus any accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date.

The conversion option of the Notes is not an embedded derivative. In order to be a derivative, the conversion feature would need to be able to be settled in cash, or an instrument readily convertible to cash. We do not intend to issue a registration statement for the resale of the common stock issuable upon conversion. Thus, the shares that the holder will receive upon conversion are not readily convertible to cash.

We have recorded the issuance of the Notes per the guidance provided under ASC 470, Topic 20, Debt with Conversion and Other Options, which requires that we separate the Notes into a liability component and an equity component. The carrying amount of the liability is calculated by measuring the fair value of a similar liability (including any embedded features other than the conversion option) that does not have an associated equity component. The carrying amount of the liability component was determined based on a bond discount rate of 6.75%. The carrying amount of the equity component representing the embedded conversion option was determined by deducting the fair value of the liability component from the initial proceeds of the Notes and is recorded in Additional Paid in Capital (“APIC”) on our Consolidated Balance Sheet. The excess of the principal amount of the liability over its carrying amount is amortized to interest expense using the effective interest method. The expected life of the liability component will not be reassessed in subsequent periods unless the terms are modified.

Subsequent to the issuance of the Notes, we accrued for additional transaction costs of $0.8 million. Total transaction costs of $5.1 million were allocated to the liability and equity components in proportion to the allocation of the initial proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. Debt issuance costs are included in Deferred charges and other non-current assets on our Consolidated Balance Sheets and are being amortized using the effective interest method over the seven year term of the Notes. Equity issuance costs are included in APIC on our Consolidated Balance Sheets and are not amortized. Additionally, the recognition of the Notes as two separate components results in a basis difference associated with the liability component which represents a temporary difference. As a result, we recognized a deferred tax liability of $12.7 million related to this temporary difference which was recorded as a reduction to APIC and an increase to our deferred tax liability. The deferred tax liability is being amortized over the seven year term of the Notes.

The carrying values of the liability and equity components of the Notes at March 31, 2014 are reflected in our consolidated balance sheets as follows (in thousands):

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	March 31, 2014
Long-term liabilities:	
Principal amount	$ 143,750
Unamortized discount of liability component	(31,489)
Carrying value of the liability component	$ 112,261
Equity component carrying value	$ 31,660

The fair value of the Notes, which are Level 2 measurements, was $151.7 million at March 31, 2014.

Interest expense for the three months ended March 31, 2014 included contractual coupon interest expense of $0.1 million and amortization of debt issuance costs of $44,000. Accretion of the discount on the convertible subordinated notes was $0.2 million for the three months ended March 31, 2014.

The unamortized discount is being amortized over the remaining term of seven years. The effective interest rate on the liability component for the three months ended March 31, 2014 was 6.75%.

We received proceeds of approximately $143.75 million and paid transactions costs of approximately $4.3 million. We used a portion of the proceeds to repay our outstanding balance on our revolving credit facility and to redeem our existing convertible junior subordinated debentures. For further discussion of the redemption of the convertible junior subordinated debentures, refer to Note 15 herein.

15. CONVERTIBLE JUNIOR SUBORDINATED DEBENTURES PAYABLE TO AFFILIATE AND COMPANY OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF CARRIAGE SERVICES CAPITAL TRUST

Carriage's wholly-owned subsidiary, Carriage Services Capital Trust, issued 1,875,000 units of 7% convertible preferred securities (TIDES) in June 1999, resulting in approximately $90.0 million in net proceeds, and the Company issued a 7% convertible junior subordinated debenture to the Trust in the amount of $93.75 million. The convertible preferred securities have a liquidation amount of $50 per unit and are convertible into Carriage's common stock at the equivalent conversion price of $20.4375 per share of common stock. The convertible junior subordinated debentures and the TIDES mature in 2029, and the TIDES are guaranteed on a subordinated basis by the Company. Both the convertible junior subordinated debentures and the TIDES contain a provision for the deferral of distributions for up to 20 consecutive quarters. During the period in which distribution payments are deferred, distributions will continue to accumulate at the 7% annual rate. Also, the deferred distributions will themselves accumulate distributions at the annual rate of 7%. During the period in which distributions are deferred, Carriage is prohibited from paying dividends on its common stock or repurchasing its common stock, with limited exceptions. There are no deferred distributions at March 31, 2014.

On March 17, 2014, we called for the redemption of all our outstanding convertible junior subordinated debentures due 2029 held by Carriage Services Capital Trust and the corresponding TIDES at a price $50 per $50 principal amount of the convertible junior subordinated debentures being redeemed, plus accrued and unpaid interest to the redemption dated. Redemption period for the TIDES ended April 16, 2014. In March 2014, we used a portion of the net proceeds from the issuance of the Notes to redeem the convertible junior subordinated debentures for approximately $61.9 million in principal amount of our existing convertible junior subordinated debentures and approximately $0.9 million associated with the call premium. At December 31, 2013 and March 31, 2014, amounts outstanding under the convertible junior subordinated debentures totaled $89.8 million and $27.9 million, respectively.

16. COMMITMENTS AND CONTINGENCIES

Litigation

We are a party to various litigation matters and proceedings. For each of our outstanding legal matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies, and the likelihood of an unfavorable outcome. We intend to defend ourselves in the lawsuits described herein. If we determine that an unfavorable outcome is probable and can be reasonably estimated, we establish the necessary accruals. We hold certain insurance policies that may reduce cash outflows with respect to an adverse outcome of certain of these litigation matters.

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Leathermon, et al. v. Grandview Memorial Gardens, Inc., et al., United States District Court, Southern District of Indiana, Case No. 4:07-cv-137. On August 17, 2007, five plaintiffs filed a putative class action against the current and past owners of Grandview Cemetery in Madison, Indiana, including our subsidiaries that owned the cemetery from January 1997 until February 2001, on behalf of all individuals who purchased cemetery and burial goods and services at Grandview Cemetery. Plaintiffs are seeking monetary damages and claim that the cemetery owners performed burials negligently, breached Plaintiffs' contracts and made misrepresentations regarding the cemetery. The Plaintiffs also allege that the claims occurred prior, during and after we owned the cemetery. On October 15, 2007, the case was removed from Jefferson County Circuit Court, Indiana to the Southern District of Indiana. On April 24, 2009, shortly before the Defendants had been scheduled to file their briefs in opposition to Plaintiffs' motion for class certification, Plaintiffs moved to amend their complaint to add new class representatives and claims, while also seeking to abandon other claims. We, as well as several other Defendants, opposed Plaintiffs' motion to amend their complaint and add parties. In April 2009, two Defendants moved to disqualify Plaintiffs' counsel from further representing Plaintiffs in this action. On June 30, 2010, the Court granted Defendants' motion to disqualify Plaintiffs' counsel. On May 6, 2010, Plaintiffs filed a petition for writ of mandamus with the Seventh Circuit Court of Appeals seeking relief from the trial court's order of disqualification of counsel. On May 19, 2010, the Defendants responded to the petition of mandamus. On July 8, 2010, the Seventh Circuit denied Plaintiffs' petition for writ of mandamus. Thus, pursuant to the trial court's order, Plaintiffs were given 60 days from July 8, 2010 in which to retain new counsel to prosecute this action on their behalf. Plaintiffs retained new counsel and Plaintiffs' counsel moved for leave to amend both the class representatives and the allegations stated within the complaint. Defendants filed oppositions to such amendments. The Court issued an order permitting the Plaintiffs to proceed with amending the class representatives and a portion of their claims; however, certain of Plaintiffs' claims have been dismissed. The parties have now reached a proposed class settlement and the Court has granted its preliminary approval of such settlement by order dated March 19, 2014. As such, notice of the class settlement shall be provided pursuant to the Preliminary Order Approving Class Action Settlement. The final approval hearing is scheduled to take place on June 23, 2014. Except for those actions necessary to carry out the parties' contemplated settlement, the lawsuit has been stayed pending determination of the final approval of the settlement.

17. STOCKHOLDERS' EQUITY

Stock Options

As of March 31, 2014, there were 1,414,421 stock options outstanding and 1,243,521 stock options which remain unvested. On February 25, 2014, we granted 457,700 options to certain employees at a grant price of $20.26. On March 3, 2014, we granted 300,000 options to three executives at a grant price of $20.49. These options will vest in 33.33% increments over a three year period and have a five year term. The value of these stock options is approximately $3.9 million.

The fair value of the option grants are estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions, as indicated by grant date:

	February 25, 2014		March 3, 2014	
Dividend yield	0.494	%	0.488	%
Expected volatility	33.37	%	33.28	%
Risk-free interest rate	0.995	%	0.949	%
Expected life (years)	3.71		3.73	
Black-Scholes value	$ 5.15		$ 5.20	

We recorded pre-tax stock-based compensation expense for stock options totaling $47,000 and $265,000 for the three months ended March 31, 2013 and 2014, respectively. The significant increase in expense for the three months ended March 31, 2014 was due to the large number of stock option grants in the first quarter of 2014 at a a significantly higher grant price compared to prior grants.

Employee Stock Purchase Plan

During the first quarter of 2014, employees purchased a total of 18,471 shares of common stock through the employee stock purchase plan ("ESPP") at a weighted average price of $15.50 per share. We recorded pre-tax stock-based compensation expense for the ESPP totaling approximately $99,000 and $116,000 for the three months ended March 31, 2013 and 2014, respectively.

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The fair value of the right (option) to purchase shares under the ESPP is estimated on the date of grant (January 1, 2014) associated with the four quarterly purchase dates using the following assumptions:

	2014	
Dividend yield	0.6	%
Expected volatility	33.37	%
Risk-free interest rate	0.07%, 0.09%, 0.11%, 0.13%	
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).

Restricted Stock Grants

From time to time, we issue shares of restricted common stock to certain officers, directors and key employees of the Company from our stock benefit plans. The restricted stock shares issued to officers and key employees vest in either 25% or 33.33% increments over four or three year terms, respectively. During the first quarter of 2014, we awarded a grant of 200,000 shares of restricted stock to three officers. These shares vest in 25% increments over a four year period and have an aggregate grant date market value of $4.1 million.

Related to the vesting of restricted stock awards awarded to our officers, employees and directors, we recorded $313,000 and $349,000 of pre-tax compensation expense, which is included in general, administrative and other expenses for the three months ended March 31, 2013 and 2014, respectively.

As of March 31, 2014, we had $6.0 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 2.8 years.

Performance-Based Stock Awards

During the third quarter of 2012, the Compensation Committee of our Board of Directors (our “Board”) granted performance-based awards (the “PBS Awards”) with both market and service vesting conditions to certain officers, employees and outside directors. No PBS Awards were granted during fiscal year 2013. To the extent vested, each PBS Award represented the right to receive a specified number of shares of our common stock, subject to the grantee’s payment, with respect to each share of common stock subject to such PBS Award, of an amount equal to the greater of (a) the then-current market price per share of our common stock on the date such PBS Award was granted plus $0.50 or (b) $9.00. Each PBS Award would have vested if on or before the fifth anniversary of the applicable grant date, the closing price of our common stock was greater than or equal to $21.50 on any three days, whether or not consecutive, within a period of 30 consecutive calendar days, subject to the applicable grantee’s continuous employment or service relationship with us through such date (the “Price Vesting Date”). However, if the Price Vesting Date occurred prior to the first anniversary of the grant date, then each PBS Award would not vest until the first anniversary of such grant date, subject to the applicable grantee's continued employment or service relationship with us through the first anniversary of the grant date.

On January 3, 2014, we offered all grantees who held outstanding PBS Awards an opportunity to surrender their PBS Awards to us in exchange for cash payments equal to the product of (i) the difference between (x) $19.00 and (y) the applicable purchase price under their respective PBS Awards and (ii) the number of shares of our common stock subject to their PBS Awards (the “Cash Out Payments”). All outstanding PBS Awards were surrendered to us and canceled in exchange for Cash Out Payments of approximately $16.1 million.

Director Compensation Policy

Our Director Compensation Policy provides for the following: (a) the chairman of our Audit Committee receives an annual cash retainer of $17,500, the chairman of our Compensation and our Corporate Governance Committees receives an annual cash retainer of $15,000 and the Lead Director of our Board receives an annual cash retainer of $115,000, payable in quarterly installments; (b) each independent director of our Board receives an annual cash retainer of $40,000 paid on a quarterly basis and an annual equity retainer of $75,000 in shares of our common stock issued at our annual meeting of stockholders. Additionally, each independent director receives $2,000 for each regular or special meeting of the full Board, our Audit Committee and our Executive Committee attended in person or by phone. Members of the other committees and their chairmen receive $1,600 for each committee meeting held in person or by phone that such director attends. Under our Director

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Compensation Policy, the annual cash retainers for each committee chairman and the annual equity retainer are paid on the date of our annual meeting of stockholders, which will be held on May 21, 2014.

We recorded $133,000 and $175,000 of pre-tax compensation expense, which is included in general, administrative and other expenses, for the three months ended March 31, 2013 and 2014, respectively, related to the director fees, annual retainers and deferred compensation amortization.

Cash Dividends

Our Board declared a quarterly dividend of $0.025 per share, totaling approximately $0.5 million, which was paid on March 3, 2014 to record holders of our common stock as of February 13, 2014. We have a dividend reinvestment program so that stockholders may elect to reinvest their dividends into additional shares of our common stock.

Accumulated other comprehensive income

Our components of Accumulated other comprehensive income are as follows:

	Accumulated Other Comprehensive Income
Balance at December 31, 2013	$—
Increase in net unrealized gains associated with available-for-sale securities of the trusts	9,816
Reclassification of net unrealized gain activity attributable to the Deferred preneed funeral and cemetery receipts held in trust and Care trusts' corpus'	(9,816)
Balance at March 31, 2014	$—

18. MAJOR SEGMENTS OF BUSINESS

We conduct funeral and cemetery operations only in the United States. The following table presents revenue, pre-tax income and total assets by segment (in thousands):

	Funeral	Cemetery	Corporate	Consolidated
Revenues from continuing operations:				
Three months ended March 31, 2014	$44,159	$11,688	$—	$55,847
Three months ended March 31, 2013	$45,051	$12,264	$—	$57,315
Income (loss) from continuing operations before income taxes:				
Three months ended March 31, 2014	$14,355	$3,303	$(14,952)	$2,706
Three months ended March 31, 2013	$14,694	$3,891	$(8,896)	$9,689
Total assets:				
March 31, 2014	$507,499	$226,282	$35,651	$769,432
December 31, 2013	$502,525	$227,520	$16,554	$746,599

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19. SUPPLEMENTAL DISCLOSURE OF STATEMENT OF OPERATIONS INFORMATION

The following information is supplemental disclosure for the Consolidated Statements of Operations (in thousands):

	For the Three Months Ended March 31,	
	2013	2014
Revenues		
Goods		
Funeral	$17,962	$17,418
Cemetery	7,149	7,115
Total goods	$25,111	$24,533
Services		
Funeral	$24,855	$24,242
Cemetery	2,611	2,652
Total services	$27,466	$26,894
Financial revenue		
Preneed funeral commission income	$508	$564
Preneed funeral trust earnings	1,726	1,935
Cemetery trust earnings	2,194	1,584
Cemetery finance charges	310	337
Total financial revenue	$4,738	$4,420
Total revenues	$57,315	$55,847
Cost of revenues		
Goods		
Funeral	$14,028	$13,866
Cemetery	5,124	5,213
Total goods	$19,152	$19,079
Services		
Funeral	$11,912	$11,919
Cemetery	1,643	1,724
Total services	$13,555	$13,643
Financial expenses		
Preneed funeral commissions	$397	$247
Trust administration fees	63	30
Total financial expenses	$460	$277
Total cost of revenues	$33,167	$32,999

The costs of revenues, for purposes of this supplemental disclosure, include only field costs and expenses that are directly allocable between the goods, services and financial categories in the funeral and cemetery segments. Depreciation and amortization and regional and unallocated funeral and cemetery costs are not included in this disclosure.

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20. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following information is supplemental disclosure for the Consolidated Statements of Cash Flows (in thousands):

	For the Three Months Ended March 31,	
	2013	2014
Cash paid for interest	$3,269	$2,801
Cash paid (refunded) for income taxes	(77)	296
Fair value of stock, stock options and performance awards issued to directors, officers and certain employees	—	8,002
Restricted common stock withheld for payroll taxes	1,020	1,079
Net (deposits) withdrawals from preneed funeral trusts	726	(3,060)
Net (deposits) withdrawals from preneed cemetery trusts	375	(1,134)
Net (deposits) withdrawals from perpetual care trusts	1,372	(493)
Net (increase) decrease in preneed receivables	(959)	271
Net deposits of receivables from preneed trusts	(1,063)	(571)
Net change in preneed funeral receivables increasing deferred revenue	2,049	513
Net change in preneed cemetery receivables increasing (decreasing) deferred revenue	568	(550)
Net deposits (withdrawals) into/from preneed funeral trust accounts increasing (decreasing) deferred preneed funeral receipts held in trust	(726)	3,060
Net deposits (withdrawals) into/from cemetery trust accounts increasing (decreasing) deferred cemetery receipts held in trust	(375)	1,134
Net deposits (withdrawals) from perpetual care trust accounts increasing (decreasing) perpetual care trusts' corpus	(833)	1,014

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21. EARNINGS PER SHARE

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

The following table sets forth the computation of the basic and diluted earnings per share for the three months ended March 31, 2013 and 2014:

	For the Three Months Ended March 31,	
	2013	2014
Numerator for basic earnings per share:		
Numerator from continuing operations		
Income from continuing operations	$5,409	$1,651
Less: Earnings allocated to unvested restricted stock	(139)	(37)
Income attributable to continuing operations	$5,270	$1,614
Numerator from discontinued operations		
Income (loss) from discontinued operations	$(151)	$567
Less: Earnings allocated to unvested restricted stock	3	(13)
Income (loss) attributable to discontinued operations	$(148)	$554
Numerator for diluted earnings per share:		
Adjustment for diluted earnings per share:		
Interest on convertible junior subordinated debentures, net of tax	485	—
	$485	$—
Income attributable to continuing operations	$5,756	$1,614
Income (loss) attributable to discontinued operations	$(148)	$554
Denominator		
Denominator for basic earnings per common share - weighted average shares outstanding	17,657	17,984
Effect of dilutive securities:		
Stock options	197	159
Convertible junior subordinated debentures	4,392	—
Denominator for diluted earnings per common share - weighted average shares outstanding	22,246	18,143
Basic earnings (loss) per common share:		
Continuing operations	$0.30	$0.09
Discontinued operations	$(0.01)	$0.03
Basic earnings per common share	$0.29	$0.12
Diluted earnings (loss) per common share:		
Continuing operations	$0.26	$0.09
Discontinued operations		