CARRIAGE SERVICES INC
Form 10-Q
November 07, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2012

OR

¨ **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	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
3040 Post Oak Boulevard, Suite 300, Houston, TX	**77056**
(Address of principal executive offices)	**(Zip Code)**

(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 ¨

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 ¨

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

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

The number of shares of the registrant s Common Stock, $.01 par value per share, outstanding as of November 1, 2012 was 18,110,801.

Table of Contents

CARRIAGE SERVICES, INC.

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CARRIAGE SERVICES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31, 2011	September 30, 2012 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,137	$ 549
Accounts receivable, net of allowance for bad debts of $918 in 2011 and $1,002 in 2012	16,356	16,989
Assets held for sale	2,276	600
Inventories and other current assets	13,415	12,500
Total current assets	33,184	30,638
Preneed cemetery trust investments	65,682	75,783
Preneed funeral trust investments	75,812	80,968
Preneed receivables, net of allowance for bad debts of $1,728 in 2011 and $2,019 in 2012	22,614	23,688
Receivables from preneed funeral trusts	22,487	22,250
Property, plant and equipment, net of accumulated depreciation of $77,718 in 2011 and $82,884 in 2012	136,015	145,743
Cemetery property	71,515	75,227
Goodwill	193,877	205,976
Deferred charges and other non-current assets	10,106	7,872
Cemetery perpetual care trust investments	41,485	47,760
Total assets	$ 672,777	$ 715,905
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of senior long-term debt and capital lease obligations	$ 628	$ 669
Accounts payable and other liabilities	13,856	12,259
Accrued liabilities	17,827	13,041
Liabilities associated with assets held for sale	1,920	58
Total current liabilities	34,231	26,027
Long-term debt, net of current portion	131,900	131,755
Line of credit	3,100	28,000
Convertible junior subordinated debentures due in 2029 to an affiliate	89,770	89,770
Obligations under capital leases, net of current portion	4,155	4,047
Deferred preneed cemetery revenue	58,809	60,311
Deferred preneed funeral revenue	40,961	40,878
Deferred preneed cemetery receipts held in trust	65,682	75,783
Deferred preneed funeral receipts held in trust	75,812	80,968
Care trusts corpus	41,379	47,304

Total liabilities	545,799	584,843
Commitments and contingencies		
Redeemable preferred stock	200	200
Stockholders equity:		
Common stock, $.01 par value; 80,000,000 shares authorized; 21,663,000 and 22,020,000 shares issued at December 31, 2011 and September 30, 2012, respectively	217	220
Additional paid-in capital	201,284	202,176
Accumulated deficit	(63,987)	(56,267)
Treasury stock, at cost; 3,236,000 and 3,922,000 shares at December 31, 2011 and September 30, 2012, respectively	(10,736)	(15,267)
Total stockholders equity	126,778	130,862
Total liabilities and stockholders equity	$ 672,777	$ 715,905

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

Table of Contents

CARRIAGE SERVICES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share data)

	For the three months ended September 30, 2011	For the three months ended September 30, 2012	For the nine months ended September 30, 2011	For the nine months ended September 30, 2012
Revenues:				
Funeral	$ 33,234	$ 36,821	$ 107,018	$ 114,451
Cemetery	10,134	12,668	33,786	36,622
	43,368	49,489	140,804	151,073
Field costs and expenses:				
Funeral	21,151	22,877	67,107	69,544
Cemetery	7,138	7,861	21,542	22,687
Depreciation and amortization	2,013	2,302	6,427	6,836
Regional and unallocated funeral and cemetery costs	2,501	2,559	6,604	6,972
	32,803	35,599	101,680	106,039
Gross profit	10,565	13,890	39,124	45,034
Corporate costs and expenses:				
General and administrative costs and expenses	4,779	5,240	14,304	15,333
Home office depreciation and amortization	255	212	751	719
	5,034	5,452	15,055	16,052
Operating income	5,531	8,438	24,069	28,982
Interest expense, net of other income	(4,551)	(4,550)	(13,592)	(13,627)
Gain on repurchase of junior subordinated debentures	481		846	
Loss on early extinguishment of debt and other costs	(201)	(3,031)	(201)	(3,031)
Total interest and other, net	(4,271)	(7,581)	(12,947)	(16,658)
Income from continuing operations before income taxes	1,260	857	11,122	12,324
Provision for income taxes	(510)	(346)	(4,505)	(4,983)
Net income from continuing operations	750	511	6,617	7,341
Income from discontinued operations, net of tax	42	95	62	389
Net income	792	606	6,679	7,730
Preferred stock dividend	5	3	12	10
Net income available to common stockholders	$ 787	$ 603	$ 6,667	$ 7,720
Basic earnings per common share:				
Continuing operations	$ 0.04	$ 0.03	$ 0.36	$ 0.41
Discontinued operations				0.02

Basic earnings per common share	$	0.04	$	0.03	$	0.36	$	0.43
Diluted earnings per common share:								
Continuing operations	$	0.04	$	0.03	$	0.36	$	0.40
Discontinued operations								0.02
Diluted earnings per common share	$	0.04	$	0.03	$	0.36	$	0.42
Dividends declared per share	$	0.025	$	0.025	$	0.05	$	0.075
Weighted average number of common and common equivalent shares outstanding:								
Basic		18,414		18,051		18,339		18,129
Diluted		18,461		18,170		18,381		18,212

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

Table of Contents

CARRIAGE SERVICES, INC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	For the nine months ended September 30, 2011	2012
Cash flows from operating activities:		
Net income	$ 6,679	$ 7,730
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Income from discontinued operations	(62)	(389)
Depreciation and amortization	7,178	7,555
Amortization of deferred financing costs	534	520
Gain on repurchase of convertible junior subordinated debentures	(846)	
Provision for losses on accounts receivable	2,346	1,422
Loss on early extinguishment of debt	201	1,324
Stock-based compensation expense	1,558	1,621
Deferred income taxes	(3,684)	2,390
Other	(36)	252
Changes in operating assets and liabilities that provided (required) cash:		
Accounts and preneed receivables	266	(3,100)
Inventories and other current assets	(776)	595
Deferred charges and other	(33)	(38)
Preneed funeral and cemetery trust investments	3,465	5,982
Accounts payable and accrued liabilities	3,455	(5,404)
Deferred preneed funeral and cemetery revenue	8,616	824
Deferred preneed funeral and cemetery receipts held in trust	(3,816)	(6,095)
Net cash provided by continuing operating activities	25,045	15,189
Net cash provided by discontinued operating activities	225	91
Net cash provided by operating activities	25,270	15,280
Cash flows from investing activities:		
Acquisitions	(10,300)	(22,399)
Capital expenditures	(7,745)	(10,274)
Net cash used in continuing investing activities	(18,045)	(32,673)
Net cash provided by (used in) discontinued investing activities	(29)	603
Net cash used in investing activities	(18,074)	(32,070)
Cash flows from financing activities:		
Net borrowings from (payments against) the bank credit facility	(600)	26,607
Payment of call premium associated with the senior notes redemption		(1,707)
Payments on senior long-term debt and obligations under capital leases	(436)	(480)
Proceeds from the exercise of stock options and employee stock purchase plan	318	627
Stock option benefit	7	53
Dividends on common stock	(920)	(1,353)
Dividend on redeemable preferred stock	(12)	(10)
Repurchase of convertible junior subordinated debentures	(2,241)	
Payment of loan origination costs	(333)	(3,004)
Purchase of treasury stock		(4,531)

Other financing costs	6	
Net cash (used in) provided by financing activities	(4,211)	16,202
Net increase (decrease) in cash and cash equivalents	2,985	(588)
Cash and cash equivalents at beginning of period	1,279	1,137
Cash and cash equivalents at end of period	$ 4,264	$ 549

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

Table of Contents

CARRIAGE SERVICES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Carriage Services, Inc. (Carriage , the Company , we , us or our) is a leading provider of deathcare services and merchandise in the United Sta As of September 30, 2012, we owned and operated 163 funeral homes in 26 states and 33 cemeteries in 12 states.

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 and nine month periods ended September 30, 2011 and September 30, 2012 is unaudited, but in the opinion of management, reflects all adjustments which are normal, recurring and necessary for a fair presentation of 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, 2011 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 the Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going 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. 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 the margins, operating income and net earnings as a percentage of revenues will be consistent from year to year.

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. A marketing plan is then developed for those locations which are identified as held for sale. 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 the balance sheet and the operating results, as well as impairments, if any, are presented on a comparative basis in the discontinued operations section of the consolidated statements of operations, along with the income tax effect. There were no discontinued operations during 2011. We ended a management contract with a cemetery in Ohio in January 2012. Two funeral homes in Kentucky were sold during August 2012. We currently have a letter of intent outstanding on funeral homes in Texas; as such, these businesses are no longer reported within our continuing operations. The assets and liabilities associated with the locations are reclassified as held for sale on the balance sheet and the operating results are presented on a comparative basis in the discontinued operations section of the consolidated statements of operations. See Note 5 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.

During the third quarter of 2011, we completed two acquisitions consisting of four funeral homes. During the third quarter of 2012, we completed one funeral home acquisition. For the nine months ended September 30, 2011, we completed four acquisitions consisting of eight funeral homes. For the nine months ended September 30, 2012, we completed four acquisitions consisting of five funeral homes and one cemetery. See Note 3 to the Consolidated Financial Statements herein for additional information on the third quarter 2012 acquisition.

Stock Plans and Stock-Based Compensation

We have stock-based employee and director compensation plans in the form of restricted stock, stock options, performance awards and employee stock purchase plans, which are described in more detail in Note 16 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011. 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 14 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.

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 to include outstanding unvested restricted stock awards in both the basic and diluted weighted average shares outstanding calculation. See Exhibit 11.1 to this Quarterly Report on Form 10-Q (this Form 10-Q) for the computations of per share earnings for the three and nine month periods ended September 30, 2011 and 2012.

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* in 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 for 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 its position as the primary beneficiary in certain 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 September 30, 2012, CSV RIA provides these services to one institution, which has custody of 65% 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 herein in Note 11 to the Consolidated Financial Statements. The fair value disclosures to disclose transfers in and out of Levels 1 and 2 and the gross presentation of purchases, sales, issuances and settlements in the Level 3 reconciliation of the three-tier fair value hierarchy are also presented herein in Note 11 to the Consolidated Financial Statements. 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 and nine month periods ended September 30, 2012, 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 September 30, 2012, 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 appropriate 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 the fixed rate of 7% and are carried on our Consolidated Balance Sheets at a cost of approximately $89.8 million. The fair value of these securities is estimated to be approximately $78.5 million at September 30, 2012, based on available broker quotes of the corresponding preferred securities issued by the Trust.

Income Taxes

We and our subsidiaries file a consolidated U.S. Federal income tax return, separate income tax returns in 14 states and combined or unitary income tax returns in 12 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 our unrecognized tax benefits during the next twelve months.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Fair Value Measurements

In May 2011, additional guidance was issued regarding how fair value measurements and disclosures should be applied where already required or permitted under International Financial Reporting Standards or U.S. Generally Accepted Accounting Principles. This new guidance clarifies and aligns the existing application of fair value measurement guidance and revises certain language. This guidance is effective for the first interim or annual period beginning after December 15, 2011, thus effective for us for the period beginning January 1, 2012. The adoption of this accounting standard update did not have a material impact on our Consolidated Financial Statements.

Table of Contents

3. ACQUISITIONS

Our growth strategy includes the execution of our Strategic Acquisition Model. The goal of this model is to build concentrated groups of businesses in ten to fifteen strategic markets. We assess acquisition candidates using six strategic ranking criteria and to differentiate the price we are willing to pay. Those criteria are:

- Size of business;
- Size of market;
- Competitive standing;
- Demographics;
- Strength of brand; and
- Barriers to entry.

During the third quarter of 2012, we completed one acquisition of a funeral home in Katy, Texas. We paid $6.0 million in cash as consideration for this acquisition. We acquired substantially all of the assets and assumed certain operating liabilities. The assets and liabilities were recorded at fair value and included goodwill of $5.2 million. The pro forma impact of the acquisition on the prior periods is not presented as the impact is not material to reported results. Thus, the results of the acquired businesses are included in our results from the date of acquisition.

The effect of the acquisition on our Consolidated Balance Sheets at September 30, 2012 is as follows (in thousands):

Current assets	$ 27
Property, plant & equipment	878
Goodwill	5,226
Accrued liabilities	(131)
Total consideration	$ 6,000

4. GOODWILL

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

We performed our 2012 annual impairment test of goodwill by conducting a qualitative assessment of each of our reporting units, East, Central and West regional divisions in the United States, using information as of August 31, 2012. See Part II, Item 7, Overview of Critical Accounting Policies and Estimates and Item 8, Financial Statements and Supplementary Data, Note 2, to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011, discussing the methodology used for the annual goodwill impairment test. Based on our 2012 impairment test, we concluded that there was no impairment of goodwill.

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

	September 30, 2012
Goodwill as of December 31, 2011	$ 193,877
Acquisitions	12,099
Goodwill as of September 30, 2012	$ 205,976

5. 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.

There were no discontinued operations during 2011. Four businesses are presented as held for sale on our Consolidated Balance Sheet at September 30, 2012. During the first quarter of 2012, we ended a management agreement with a cemetery in Ohio. During August 2012, we sold two funeral home businesses in Kentucky. We currently have a letter of intent outstanding on funeral homes in Texas; as such, these businesses are no longer reported within our continuing operations.

Table of Contents

Assets and liabilities associated with the cemetery and funeral home businesses held for sale in our Consolidated Balance Sheets at December 31, 2011 and September 30, 2012 consisted of the following (in thousands).

	December 31, 2011	September 30, 2012
Assets:		
Current assets	$ 364	$ 154
Property, plant and equipment, net	454	16
Preneed cemetery trust investments and receivables	923	
Cemetery property, net	105	
Goodwill	85	85
Other assets	345	345
Total	$ 2,276	$ 600
Liabilities:		
Current liabilities	$ 58	$ 58
Deferred preneed cemetery revenue	1,125	
Deferred preneed funeral receipts held in trust	737	
Total	$ 1,920	$ 58

The operating results of the discontinued businesses during the periods presented, as well as the gain on the disposal, are 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 September 30,		For the Nine Months Ended September 30,	
	2011	2012	2011	2012
Revenues	$ 710	$ 316	$ 2,038	$ 1,099
Operating income (loss)	$ 71	$ (18)	$ 105	$ 42
Gain on disposition		178		605
Provision for income taxes	(29)	(65)	(43)	(258)
Income from discontinued operations	$ 42	$ 95	$ 62	$ 389

6. PRENEED TRUST INVESTMENTS

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* in our Consolidated Balance Sheets at December 31, 2011 and September 30, 2012 are as follows (in thousands):

	December 31, 2011	September 30, 2012
Preneed cemetery trust investments, at fair value	$ 67,713	$ 78,005
Less: allowance for contract cancellation	(2,031)	(2,222)

Preneed cemetery trust investments	$	65,682	$	75,783

Upon cancellation of a preneed cemetery 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.

We determine whether or not the assets in the preneed cemetery 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 recorded in *Deferred preneed cemetery receipts held in trust*. There is no impact on earnings unless and until such time that the asset is withdrawn from the trust in accordance with state regulations at an amount that is less than its original basis.

Table of Contents

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.

The cost and fair market values associated with preneed cemetery trust investments at September 30, 2012 are detailed below (in thousands).

	Cost	Unrealized Gains	Unrealized