UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

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 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $.01 per share	CSV	New York Stock Exchange

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 ☒ 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

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

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

The number of shares of the registrant's Common Stock, $.01 par value per share, outstanding as of July 29, 2022 was 14,697,650.

CARRIAGE SERVICES, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CARRIAGE SERVICES, INC.
CONSOLIDATED BALANCE SHEET
(unaudited and in thousands, except share data)

	December 31, 2021	June 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,148	$ 1,058
Accounts receivable, net	25,314	24,308
Inventories	7,346	7,645
Prepaid and other current assets	6,404	3,951
Total current assets	40,212	36,962
Preneed cemetery trust investments	100,903	91,352
Preneed funeral trust investments	113,658	102,843
Preneed cemetery receivables, net	23,150	25,699
Receivables from preneed funeral trusts, net	19,009	19,689
Property, plant and equipment, net	269,367	271,532
Cemetery property, net	100,701	101,348
Goodwill	391,972	391,071
Intangible and other non-current assets, net	29,378	29,653
Operating lease right-of-use assets	17,881	17,571
Cemetery perpetual care trust investments	72,400	63,703
Total assets	$ 1,178,631	$ 1,151,423
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and lease obligations	$ 2,809	$ 3,023
Accounts payable	14,205	9,064
Accrued and other liabilities	43,773	30,744
Total current liabilities	60,787	42,831
Acquisition debt, net of current portion	3,979	3,891
Credit facility	153,857	173,501
Senior notes	394,610	394,923
Obligations under finance leases, net of current portion	5,157	4,945
Obligations under operating leases, net of current portion	18,520	18,005
Deferred preneed cemetery revenue	50,202	52,494
Deferred preneed funeral revenue	30,584	31,466
Deferred tax liability	45,784	47,495
Other long-term liabilities	1,419	1,829
Deferred preneed cemetery receipts held in trust	100,903	91,352
Deferred preneed funeral receipts held in trust	113,658	102,843
Care trusts' corpus	71,156	63,004
Total liabilities	1,050,616	1,028,579
Commitments and contingencies:		
Stockholders' equity:		
Common stock, $0.01 par value; 80,000,000 shares authorized and 26,264,245 and 26,325,468 shares issued, respectively and 15,331,923 and 14,697,650 shares outstanding, respectively	263	263
Additional paid-in capital	236,809	238,571
Retained earnings	135,462	162,763
Treasury stock, at cost; 10,932,322 and 11,627,818 shares, respectively	(244,519)	(278,753)
Total stockholders' equity	128,015	122,844
Total liabilities and stockholders' equity	$ 1,178,631	$ 1,151,423

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

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

	Three months ended June 30, 2021	Three months ended June 30, 2022	Six months ended June 30, 2021	Six months ended June 30, 2022
Revenue:				
Service revenue	$ 40,119	$ 42,550	$ 87,876	$ 92,287
Property and merchandise revenue	41,606	41,276	83,502	82,888
Other revenue	6,552	6,774	13,536	13,586
	88,277	90,600	184,914	188,761
Field costs and expenses:				
Cost of service	19,583	21,389	40,550	43,488
Cost of merchandise	27,520	29,306	56,040	58,636
Cemetery property amortization	2,175	1,704	3,692	3,036
Field depreciation expense	3,142	3,253	6,278	6,550
Regional and unallocated funeral and cemetery costs	5,770	5,966	11,843	12,313
Other expenses	1,160	1,270	2,523	2,548
	59,350	62,888	120,926	126,571
Gross profit	28,927	27,712	63,988	62,190
Corporate costs and expenses:				
General, administrative and other	7,176	9,180	16,299	17,740
Net (gain) loss on divestitures, disposals and impairments charges	827	(1,193)	519	(426)
Operating income	20,924	19,725	47,170	44,876
Interest expense	(7,478)	(5,988)	(15,062)	(11,530)
Accretion of discount on convertible subordinated notes	—	—	(20)	—
Loss on extinguishment of debt	(23,807)	—	(23,807)	—
Gain on insurance reimbursements	—	1,376	—	3,275
Other, net	2	7	(66)	(17)
Income (loss) before income taxes	(10,359)	15,120	8,215	36,604
Benefit (expense) for income taxes	3,417	(4,234)	(2,341)	(9,938)
Tax adjustment related to discrete items	775	13	892	635
Total benefit (expense) for income taxes	4,192	(4,221)	(1,449)	(9,303)
Net income (loss)	$ (6,167)	$ 10,899	$ 6,766	$ 27,301
Basic earnings (loss) per common share:	$ (0.34)	$ 0.74	$ 0.38	$ 1.82
Diluted earnings (loss) per common share:	$ (0.33)	$ 0.69	$ 0.37	$ 1.70
Dividends declared per common share:	$ 0.100	$ 0.1125	$ 0.200	$ 0.225
Weighted average number of common and common equivalent shares outstanding:				
Basic	17,967	14,798	17,966	15,020
Diluted	18,511	15,712	18,364	16,033

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

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

	Six months ended June 30, 2021	Six months ended June 30, 2022
Cash flows from operating activities:		
Net income	$ 6,766	$ 27,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,536	9,895
Provision for credit losses	849	1,657
Stock-based compensation expense	2,537	3,085
Deferred income tax expense (benefit)	(4,461)	1,711
Amortization of intangibles	645	634
Amortization of debt issuance costs	345	253
Amortization and accretion of debt	201	243
Loss on extinguishment of debt	23,807	—
Net (gain) loss on divestitures, disposals and impairment charges	519	(426)
Gain on insurance reimbursements	—	(3,275)
Other	181	(6)
Changes in operating assets and liabilities that provided (used) cash:		
Accounts and preneed receivables	(702)	(3,200)
Inventories, prepaid and other current assets	(894)	2,967
Intangible and other non-current assets	(592)	(747)
Preneed funeral and cemetery trust investments	(18,473)	(11,100)
Accounts payable	(471)	(2,712)
Accrued and other liabilities	1,382	(10,242)
Deferred preneed funeral and cemetery revenue	1,977	2,633
Deferred preneed funeral and cemetery receipts held in trust	17,289	11,506
Net cash provided by operating activities	41,441	30,177
Cash flows from investing activities:		
Acquisitions of real estate	(2,935)	(2,601)
Proceeds from divestitures and sale of other assets	3,622	3,720
Proceeds from insurance reimbursements	120	2,167
Capital expenditures	(8,751)	(13,468)
Net cash used in investing activities	(7,944)	(10,182)
Cash flows from financing activities:		
Borrowings from the credit facility	100,868	97,900
Payments against the credit facility	(87,568)	(78,100)
Payment to redeem the original senior notes	(400,000)	—
Payment of call premium for the redemption of the original senior notes	(19,876)	—
Proceeds from the issuance of the senior notes	395,500	—
Payment of debt issuance costs for the credit facility and senior notes	(1,930)	(339)
Conversions and maturity of the convertible notes	(3,980)	—
Payments on acquisition debt and obligations under finance leases	(452)	(202)
Payments on contingent consideration recorded at acquisition date	(461)	—
Proceeds from the exercise of stock options and employee stock purchase plan contributions	1,495	1,060
Taxes paid on restricted stock vestings and exercises of stock options	(1,323)	(286)
Dividends paid on common stock	(3,607)	(3,455)
Purchase of treasury stock	(11,559)	(36,663)
Net cash used in financing activities	(32,893)	(20,085)
Net increase (decrease) in cash and cash equivalents	604	(90)
Cash and cash equivalents at beginning of period	889	1,148
Cash and cash equivalents at end of period	$ 1,493	$ 1,058

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

CARRIAGE SERVICES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited and in thousands)

	Three months ended June 30, 2021					
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance – March 31, 2021	18,048	$ 261	$ 238,056	$ 115,236	$ (102,050)	$ 251,503
Net loss	—	—	—	(6,167)	—	(6,167)
Issuance of common stock from employee stock purchase plan	14	—	361	—	—	361
Issuance of common stock to directors and board advisor	5	—	160	—	—	160
Exercise of stock options	85	1	52	—	—	53
Cancellation and surrender of restricted common stock	(1)	—	—	—	—	—
Stock-based compensation expense	—	—	1,070	—	—	1,070
Dividends on common stock	—	—	(1,808)	—	—	(1,808)
Treasury stock acquired	(325)	—	—	—	(12,301)	(12,301)
Balance – June 30, 2021	17,826	$ 262	$ 237,891	$ 109,069	$ (114,351)	$ 232,871

	Three months ended June 30, 2022					
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance – March 31, 2022	14,889	$ 263	$ 238,423	$ 151,864	$ (270,529)	$ 120,021
Net income	—	—	—	10,899	—	10,899
Issuance of common stock from employee stock purchase plan	12	—	398	—	—	398
Issuance of common stock to directors and board advisor	2	—	99	—	—	99
Cancellation and surrender of restricted common stock	—	—	2	—	—	2
Stock-based compensation expense	—	—	1,379	—	—	1,379
Dividends on common stock	—	—	(1,730)	—	—	(1,730)
Treasury stock acquired	(205)	—	—	—	(8,224)	(8,224)
Balance – June 30, 2022	14,698	$ 263	$ 238,571	$ 162,763	$ (278,753)	$ 122,844

CARRIAGE SERVICES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited and in thousands)

	Six months ended June 30, 2021										
	Shares Outstanding		Common Stock		Additional Paid-in Capital		Retained Earnings		Treasury Stock		Total
Balance – December 31, 2020	17,995	$	260	$	239,989	$	102,303	$	(102,050)	$	240,502
Net income	—		—		—		6,766		—		6,766
Issuance of common stock from employee stock purchase plan	32		1		839		—		—		840
Issuance of common stock to directors and board advisor	10		—		337		—		—		337
Issuance of restricted common stock	9		—		—		—		—		—
Exercise of stock options	115		1		(96)		—		—		(95)
Cancellation and surrender of restricted common stock	(10)		—		(347)		—		—		(347)
Stock-based compensation expense	—		—		2,200		—		—		2,200
Dividends on common stock	—		—		(3,607)		—		—		(3,607)
Convertible notes conversions	—		—		(1,424)		—		—		(1,424)
Treasury stock acquired	(325)		—		—		—		(12,301)		(12,301)
Balance – June 30, 2021	17,826	$	262	$	237,891	$	109,069	$	(114,351)	$	232,871

	Six months ended June 30, 2022										
	Shares Outstanding		Common Stock		Additional Paid-in Capital		Retained Earnings		Treasury Stock		Total
Balance – December 31, 2021	15,332	$	263	$	236,809	$	135,462	$	(244,519)	$	128,015
Net income	—		—		—		27,301		—		27,301
Issuance of common stock from employee stock purchase plan	25		—		1,001		—		—		1,001
Issuance of common stock to directors and board advisor	5		—		246		—		—		246
Exercise of stock options	9		—		(22)		—		—		(22)
Cancellation and surrender of restricted common stock	(5)		—		(205)		—		—		(205)
Stock-based compensation expense	—		—		2,839		—		—		2,839
Dividends on common stock	—		—		(3,455)		—		—		(3,455)
Treasury stock acquired	(695)		—		—		—		(34,234)		(34,234)
Other	27		—		1,358		—		—		1,358
Balance – June 30, 2022	14,698	$	263	$	238,571	$	162,763	$	(278,753)	$	122,844

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

CARRIAGE SERVICES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Carriage Services, Inc. ("Carriage," the "Company," "we," "us," or "our") is a leading provider of funeral and cemetery services and merchandise in the United States. Our operations are reported in two business segments: Funeral Home Operations, which currently account for approximately 70% of our revenue and Cemetery Operations, which currently account for approximately 30% of our revenue. At June 30, 2022, we operated 167 funeral homes in 26 states and 31 cemeteries in 11 states.

Our funeral home operations are principally service businesses that generate revenue from sales of burial and cremation services and related merchandise, such as caskets and urns. Funeral services include consultation, the removal and preparation of remains, the use of funeral home facilities for visitation and memorial services and transportation services. We provide funeral services and products on both an "atneed" (time of death) and "preneed" (planned prior to death) basis.

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

Principles of Consolidation and Interim Condensed Disclosures

Our unaudited consolidated financial statements include the Company and its subsidiaries. All intercompany balances and transactions have been eliminated. Our interim consolidated financial statements are unaudited but include all adjustments, which consist of normal, recurring accruals, that are necessary for a fair presentation of our financial position and results of operations as of and for the interim periods presented. Our unaudited consolidated financial statements have been prepared in a manner consistent with the accounting principles described in our Annual Report on Form 10-K for the year ended December 31, 2021 unless otherwise disclosed herein, and should be read in conjunction therewith.

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, revenue and expenses. On an ongoing basis, we evaluate our critical estimates and judgments, which include those related to the impairment of goodwill and the fair value measurements used in business combinations. These policies are considered critical because they may result in fluctuations in our reported results from period to period due to the significant judgments, estimates and assumptions about complex and inherently uncertain matters and because the use of different judgments, assumptions or estimates could have a material impact on our financial condition or results of operations. 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 because there can be no assurance the margins, operating income and net earnings, as a percentage of revenue, will be consistent from period to period.

Cash and Cash Equivalents

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

Funeral and Cemetery Receivables

Our funeral receivables are recorded in *Accounts receivable, net* and primarily consist of amounts due for funeral services already performed.

Atneed cemetery receivables and preneed cemetery receivables with payments expected to be received within one year from the balance sheet date are also recorded in *Accounts receivable, net.* Preneed cemetery receivables with payments expected to be received beyond one year from the balance sheet date are recorded in *Preneed cemetery receivables, net.* Our cemetery receivables generally consist of preneed sales of cemetery interment rights and related products and services, which are typically financed through interest-bearing installment sales contracts, generally with terms of up to five years, with such interest income reflected as *Other revenue*. In substantially all cases, we receive an initial down payment at the time the contract is signed.

For our funeral and atneed cemetery receivables, we have a collections policy where statements are sent to the customer at 30 days past due. Past due notification letters are sent at 45 days and continue until payment is received or the contract is placed with a third-party collections agency. For our preneed cemetery receivables, we have a collections policy where past due notification letters are sent to the customer beginning at 15 days past due and periodically thereafter until payment is received or the contract is cancelled.

Our allowance for credit losses reflects our best estimate of expected credit losses over the term of both our funeral and cemetery receivables. Our policy is to write off receivables when we have determined they will no longer be collectible. Write-offs are applied as a reduction to the allowance for credit losses and any recoveries of previous write-offs are netted against bad debt expense in the period recovered.

We determine our allowance for credit losses by using a loss-rate methodology, in which we assess our historical write-off of receivables against our total receivables over several years. From this historical loss-rate approach, we also consider the current and forecasted economic conditions expected to be in place over the life of our receivables. These estimates are impacted by a number of factors, including changes in the economy, demographics and competition in our local communities. We monitor our ongoing credit exposure through an active review of our customers' receivables balance against contract terms and due dates. Our activities include timely performance of our accounts receivable reconciliations, assessment of our aging of receivables, dispute resolution and payment confirmation. We monitor any change in our historical write-off of receivables utilized in our loss-rate methodology and assess forecasted changes in market conditions within our credit reserve.

See Note 5 to the Consolidated Financial Statements herein for additional information related to our funeral and cemetery receivables.

Inventory

Inventory consists primarily of caskets, outer burial containers and cemetery monuments and markers and is recorded at the lower of its cost basis or net realizable value. Inventory is relieved using specific identification in fulfillment of performance obligations on our contracts.

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 recognize the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at the acquisition date, measured at the fair value as of that date. Acquisition related costs are recognized separately from the acquisition and are expensed as incurred. We customarily estimate related transaction costs known at closing. To the extent that information not available to us at the closing date subsequently becomes available during the allocation period, we may adjust goodwill, intangible assets, assets or liabilities associated with the acquisition.

We did not acquire any businesses during the six months ended June 30, 2021 and 2022.

Divested Operations

Prior to divesting a funeral home or cemetery, we first determine whether the sale of the net assets and activities (together referred to as a "set") qualifies as a business. First, we perform a screen test to determine if the set is not a business. The principle of the screen is that if substantially all of the fair value of the gross assets sold resides in a single asset or group of similar assets, the set is not a business. If the screen is not met, we perform an assessment to determine if the set is a business by evaluating whether the set has both inputs and a substantive process that together significantly contribute to the ability to create outputs. When both inputs and a substantive process are present then the set is determined to be a business and we consider the accounting treatment of goodwill for that set (see discussion of Goodwill below). Goodwill is only allocated to the sale if the set is considered to be a business.

See Notes 3 and 4 to the Consolidated Financial Statements herein for additional information related to our divestitures.

Goodwill

The excess of the purchase price over the fair value of identifiable net assets of funeral home businesses and cemeteries acquired is recorded as goodwill. Goodwill has an indefinite life and is not subject to amortization. As such, we test goodwill for impairment on an annual basis as of August 31st each year. Under current guidance, we are permitted to first assess qualitative factors to determine whether it is more-likely-than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test.

Our intent is to perform a quantitative impairment test at least once every three years and perform a qualitative assessment during the remaining two years. In addition to our annual test, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value of a reporting unit may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant negative industry or economic trends and significant adverse changes in the business climate, which may be indicated by a decline in our market capitalization or decline in operating results.

When we divest a portion of a reporting unit that constitutes a business in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), we allocate goodwill associated with that business to be included in the gain or loss on divestiture. The goodwill allocated is based on the relative fair value of the business being divested and the portion of the reporting unit that will be retained. Additionally, after each divestiture, we will test the goodwill remaining in the portion of the reporting unit to be retained for impairment using a qualitative assessment unless we deem a quantitative assessment to be appropriate to ensure the fair value of our reporting units is greater than their carrying value.

See Note 3 to the Consolidated Financial Statements included herein for additional information related to our goodwill.

Intangible Assets

Our intangible assets include tradenames resulting from acquisitions and are included in *Intangible and other non-current assets, net* on our Consolidated Balance Sheet. Our tradenames are considered to have an indefinite life and are not subject to amortization. As such, we test our intangible assets for impairment on an annual basis as of August 31st each year. Under current guidance, we are permitted to first assess qualitative factors to determine whether it is more-likely-than not that the fair value of the tradename is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test.

Our intent is to perform a quantitative impairment test at least once every three years and perform a qualitative assessment during the remaining two years. In addition to our intangible assets annual test, we assess the impairment of intangible assets whenever certain events or changes in circumstances indicate that the carrying value of the intangible asset may be greater than the fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant under-performance relative to historical or projected future operating results and significant negative industry or economic trends.

See Note 9 to the Consolidated Financial Statements included herein for additional information related to our intangible assets.

Preneed and Perpetual Care Trust Funds

Preneed sales generally require deposits to a trust or purchase of a third-party insurance product. We have established a variety of trusts in connection with funeral home and cemetery operations as required under applicable state laws. Such trusts include (i) preneed funeral trusts; (ii) preneed cemetery merchandise and service trusts; and (iii) cemetery perpetual care trusts.

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.

Our trust fund assets are reflected in our financial statements as *Preneed cemetery trust investments, Preneed funeral trust investments* and *Cemetery perpetual care trust investments*. 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 fair value of our trust fund assets are accounted for as Collateralized Financing Entities ("CFEs") in ASC Topic 810. The accounting guidance for CFEs allows companies to elect to measure both the financial assets and financial liabilities using the more observable of the fair value of the financial assets or fair value of the financial liabilities. Pursuant to this guidance, we have determined the fair value of the financial assets of the trusts are more observable and we first measure those financial assets at fair value. Our fair value of the financial liabilities mirror the fair value of the financial assets, in accordance with the ASC. Any changes in fair value are recognized in earnings.

In accordance with respective state laws, we are required to deposit a specified amount into perpetual and memorial care trust funds for each interment right and certain memorials sold. Income from the trust funds is distributed to us and used to provide for the care and maintenance of the cemeteries and mausoleums. 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.

We also have preneed funeral trust fund assets in trusts that 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, reflected in our financial statements as *Receivables from preneed funeral trusts, net.*

Our preneed funeral and preneed cemetery merchandise and service trusts are reflected in our financial statements net of an allowance for contract cancellations. We determine this allowance based on our five-year historical experience of contract cancellations. On an ongoing basis, we monitor our historical trend and adjust our allowance accordingly.

See Notes 6 and 7 to the Consolidated Financial Statements herein for additional information related to preneed and perpetual care trust funds.

Fair Value Measurements

We measure the securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts at fair value on a recurring basis in accordance with ASC Topic 820. This guidance defines fair value as the price that would be received in 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). The guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

We disclose the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date. We currently do not have any assets that have fair values determined by Level 3 inputs and no liabilities measured at fair value.

See Notes 6 and 8 to the Consolidated Financial Statements herein for additional required disclosures related to our fair value measurement of our financial assets and liabilities.

Capitalized Commissions on Preneed Contracts

We capitalize sales commissions and other direct selling costs related to preneed cemetery merchandise and services and preneed funeral trust contracts as these costs are incremental and recoverable costs of obtaining a contract with a customer. Our capitalized commissions on preneed contracts are amortized on a straight-line basis over the average maturity period of ten years for our preneed funeral trust contracts and eight years for our preneed cemetery merchandise and services contracts.

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

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

Property, Plant and Equipment

Property, plant and equipment (including equipment under finance leases) are stated at cost. The costs of ordinary maintenance and repairs are charged to operations as incurred, while renewals and major replacements that extend the useful economic life of the asset are capitalized. Depreciation of property, plant and equipment (including equipment under finance leases) is computed based on the straight-line method over the estimated useful lives of the assets.

Long-lived assets, such as property, plant and equipment and right-of-use assets (see discussion of Leases below) are reported at the lower of their carrying amount or fair value and are reviewed for impairment whenever events, such as significant negative industry or economic trends or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Property, plant and equipment is comprised of the following (in thousands):

	December 31, 2021	**June 30, 2022**
Land	$ 82,095	$ 82,628
Buildings and improvements	240,387	244,793
Furniture, equipment and automobiles	73,377	68,406
Property, plant and equipment, at cost	395,859	395,827
Less: accumulated depreciation	(126,492)	(124,295)
Property, plant and equipment, net	$ 269,367	$ 271,532

During the six months ended June 30, 2022, we acquired real property for $2.6 million. Additionally, we sold real property for $2.7 million, with a carrying value of $1.4 million, resulting in a gain on the sale of $1.3 million. We also divested two funeral homes that had a carrying value of property, plant and equipment of $0.7 million, which was included in the loss on the sale of divestitures and recorded in *Net (gain) loss on divestitures, disposals and impairment charges* on our Consolidated Statements of Operations, described in Note 4 to the Consolidated Financial Statements included herein.

During the six months ended June 30, 2021, we acquired real property for $2.9 million. Additionally, we divested three funeral homes that had a carrying value of property, plant and equipment of $2.4 million, which was included in the gain/loss on the sale of divestitures and recorded in *Net (gain) loss on divestitures, disposals and impairment charges.*

Our growth and maintenance capital expenditures totaled $3.2 million and $5.2 million for the three months ended June 30, 2021 and 2022, respectively and $6.1 million and $9.8 million for the six months ended June 30, 2021 and 2022, respectively, for property, plant and equipment. In addition, we recorded depreciation expense of $3.4 million for both the three months ended June 30, 2021 and 2022 and $6.8 million and $6.7 million, for the six months ended June 30, 2021 and 2022, respectively.

Cemetery Property

When we acquire a cemetery, we utilize an internal and external approach to determine the fair value of the cemetery property. From an external perspective, we obtain an accredited appraisal to provide reasonable assurance for property existence, property availability (unrestricted) for development, property lines, available spaces to sell, identifiable obstacles or easements and general valuation inclusive of known variables in that market. From an internal perspective, we conduct a detailed analysis of the acquired cemetery property using other cemeteries in our portfolio as a benchmark. This provides the added benefit of relevant data that is not available to third party appraisers. Through this thorough internal process, we are able to identify viable costs of property based on historical experience, particular markets and demographics, reasonable margins, practical retail prices and park infrastructure and condition.

Cemetery property was $100.7 million and $101.3 million, net of accumulated amortization of $53.1 million and $56.2 million at December 31, 2021 and June 30, 2022, respectively. When cemetery property is sold, the value of the cemetery property (interment right costs) is expensed as amortization using the specific identification method in the period in which the sale of the interment right is recognized as revenue. Our growth capital expenditures for cemetery property development totaled $1.2 million and $1.4 million for the three months ended June 30, 2021 and 2022, respectively and $2.7 million and $3.7 million, for the six months ended June 30, 2021 and 2022, respectively. We recorded amortization expense for cemetery interment rights of $2.2 million and $1.7 million for the three months ended June 30, 2021 and 2022, respectively and $3.7 million and $3.0 million, for the six months ended June 30, 2021 and 2022, respectively.

Leases

We have operating and finance leases. We lease certain office facilities, certain funeral homes and equipment under operating leases with original terms ranging from one to twenty years. Many leases include one or more options to renew, some of which include options to extend the leases for up to forty years. We lease certain funeral homes under finance leases with original terms ranging from ten to forty years. We do not have lease agreements with residual value guarantees, sale-leaseback terms, material restrictive covenants or related parties. We do not have any material sublease arrangements.

We determine if an arrangement is a lease at inception based on the facts and circumstances of the agreement. A right-of-use ("ROU") asset represents our right to use the underlying asset for the lease term and the lease liability represents our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized on our Consolidated Balance Sheet at the lease commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. The lease terms used to calculate the ROU asset and related lease liability include options to extend the lease when it is reasonably certain that we will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense, while the expense for finance leases is recognized as depreciation expense and interest expense using the effective interest method of recognition. Variable lease payment amounts that cannot be determined at the commencement of the lease such as increases in lease payments based on changes in index rates or usage, are not included in the ROU assets or liabilities. These are expensed as incurred and recorded as variable lease expense. We have real estate lease agreements which require payments for lease and non-lease components and we account for these as a single lease component. Leases with an initial term of 12 months or less, that do not include an option to renew the underlying asset, are not recorded on our Consolidated Balance Sheet and expense is recognized on a straight-line basis over the lease term.

Operating lease ROU assets are included in *Operating lease right-of-use assets* and operating lease liabilities are included in *Current portion of operating lease obligation*s and *Obligations under operating leases, net of current portion* on our Consolidated Balance Sheet. Finance lease ROU assets are included in *Property, plant and equipment, net* and finance lease liabilities are included in *Current portion of finance lease obligations* and O*bligations under finance leases, net of current portion* on our Consolidated Balance Sheet.

See Notes 12 to the Consolidated Financial Statements included herein for additional information related to our leases.

Equity Plans and Stock-Based Compensation

We have equity-based employee and director compensation plans under which we have granted stock awards, stock options and performance awards. We also have an employee stock purchase plan (the "ESPP"). We recognize compensation expense in an amount equal to the fair value of the stock-based awards expected to vest or to be purchased over the requisite service period. We recognize the effect of forfeitures in compensation cost when they occur and any previously recognized compensation cost for an award is reversed in the period that the award is forfeited.

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

We recognize all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) as income tax benefit or expense in the income statement. We treat the tax effects of exercised or vested awards as discrete items in the reporting period in which they occur. The excess tax benefit and tax deficiencies are recorded within *Tax adjustment related to discrete items* on our Consolidated Statements of Operations and the excess tax benefits or deficiencies related to share-based payments are included in operating cash flows on the Consolidated Statements of Cash Flows.

See Note 14 to the Consolidated Financial Statements included herein for additional information related to our equity plans and stock-based compensation.

Revenue Recognition

Funeral and Cemetery Operations Revenue is recognized when control of the merchandise or services is transferred to the customer. Our performance obligations include the delivery of funeral and cemetery merchandise and services and cemetery property interment rights. Control transfers when merchandise is delivered or services are performed. For cemetery property interment rights, control transfers to the customer when the property is developed and the interment right has been sold and can no longer be marketed or sold to another customer. On our atneed contracts, we generally deliver the merchandise and perform the services at the time of need.

Memorial services frequently include performance obligations to direct the service, provide facilities and motor vehicles, catering, flowers, and stationary products. All other performance obligations on these contracts, including arrangement, removal, preparation, embalming, cremation, interment, and delivery of urns and caskets and related memorialization merchandise are fulfilled at the time of need. Personalized marker merchandise and marker installation services sold on atneed contracts are recognized when control is transferred to the customer, generally when the marker is delivered and installed in the cemetery.

Some of our contracts with customers include multiple performance obligations. For these contracts, we allocate the transaction price to each performance obligation based on its relative standalone selling price, which is based on prices charged to customers per our general price list. Package discounts are reflected net in *Revenue*. We recognize revenue when the merchandise is transferred or the service is performed, in satisfaction of the corresponding performance obligation. Sales taxes collected are recognized on a net basis in our Consolidated Financial Statements.

Ancillary funeral service revenue, which is recorded in *Other revenue,* represents revenue from our flower shop, pet cremation and online cremation businesses.

The earnings from our preneed trust investments, as well as trust management fees charged by our wholly-owned registered investment advisory firm ("CSV RIA") are recorded in *Other revenue*. As of June 30, 2022, CSV RIA provided investment management and advisory services to approximately 80% 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.

Balances due on undelivered preneed funeral trust contracts have been reclassified to reduce *Deferred preneed funeral revenue* on our Consolidated Balance Sheet of $8.0 million and $8.2 million and at December 31, 2021 and June 30, 2022, respectively. As these performance obligations are to be completed after the date of death, we cannot quantify the recognition of revenue in future periods. However, we estimate an average maturity period of ten years for preneed funeral contracts.

Balances due from customers on delivered preneed cemetery contracts are included in *Accounts receivable, net* and *Preneed cemetery receivables, net* on our Consolidated Balance Sheet. Balances due on undelivered preneed cemetery contracts have been reclassified to reduce *Deferred preneed cemetery revenue* on our Consolidated Balance Sheet. The transaction price allocated to preneed merchandise and service performance obligations that were unfulfilled were $10.4 million and $10.1 million at December 31, 2021 and June 30, 2022, respectively. As these performance obligations are to be completed after the date of death, we cannot quantify the recognition of revenue in future periods. However, we estimate an average maturity period of eight years for preneed cemetery contracts.

See Note 16 to the Consolidated Financial Statements herein for additional information related to revenue.

Income Taxes

We and our subsidiaries file a consolidated U. S. federal income tax return, separate income tax returns in 15 states in which we operate and combined or unitary income tax returns in 14 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 classify our deferred tax liabilities and assets as non-current on our Consolidated Balance Sheet.

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 the financial statements; provide certain disclosures of uncertain tax matters; and specify how reserves for uncertain tax positions should be classified on our Consolidated Balance Sheet.

On June 30, 2020, we filed carryback refund claims for the 2018 and 2019 tax years. The majority of the net operating losses generated in 2018 are the result of filing non-automatic accounting method changes relating to the recognition of revenue from our cemetery property and merchandise and services sales.

On October 11, 2021, we received an adverse ruling from the Internal Revenue Service ("IRS") related to our accounting method change for cemetery property revenue recognition filed in 2018 and subsequently filed an automatic accounting method change to adopt the IRS' preferred method of revenue recognition for cemetery property effective for the year ending December 31, 2021.

On March 2, 2022, we received approval from the IRS regarding our method change filed related to the revenue recognition of cemetery merchandise and services sales. As a result, we recorded a $0.6 million reduction to the reserve for uncertain tax positions, including interest, during the six months ended June 30, 2022.

At December 31, 2021 and June 30, 2022, the reserve for uncertain tax positions was $3.8 million and $3.2 million, respectively, related to carrying back the net operating losses generated in the tax year ended December 31, 2018, filed under the CARES Act on June 30, 2020.

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

For the three months ended June 30, 2021 and 2022, we had an income tax benefit of $4.2 million and an income tax expense of $4.2 million, respectively and for the six months ended June 30, 2021 and 2022, we had an income tax expense of $1.4 million and $9.3 million, respectively. Our operating tax rate before discrete items was 33.0% and 28.0% for the three months ended June 30, 2021 and 2022, respectively and 28.5% and 27.2% for the six months ended June 30, 2021 and 2022, respectively.

Computation of Earnings Per Common Share

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

Share-based awards that contain non-forfeitable 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 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.

Our performance awards are considered to be contingently issuable shares because their issuance is contingent upon the satisfaction of certain performance and service conditions. In accordance with ASC 260, we have included in the computation of diluted earnings per share the number of performance awards that would have been issuable as if the end of the reporting period was the end of the contingency period. These shares are considered to be outstanding at the beginning of the reporting period.

See Note 15 to the Consolidated Financial Statements included herein related to the computation of earnings per share.

Subsequent Events

We have evaluated events and transactions during the period subsequent to June 30, 2022 through the date the financial statements were issued for potential recognition or disclosure in the accompanying financial statements covered by this report.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020, the FASB issued ASU, *Reference Rate Reform* ("Topic 848") to provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference London InterBank Offered Rate ("LIBOR") or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. Contract modifications are required to be evaluated in determining whether the modifications result in the establishment of new contracts or the continuation of existing contracts. We adopted this amendment in March 2020.

On May 27 2022, we amended our Credit Facility (defined in Note 10) to establish the Bloomberg Short-Term Bank Yield Index Rate ("BSBY") as a benchmark rate and removed LIBOR from our Credit Facility, among other things. We did not apply the optional expedients provided by the guidance in this ASU. See Note 10 to the Consolidated Financial Statements herein for additional information related to the amended Credit Facility.

Business Combinations - Accounting for Contract Assets and Contract Liabilities from Contracts with Customers

In October 2021, the FASB issued ASU, *Business Combinations* ("Topic 805") to improve the accounting for acquired revenue contracts with customers in a business combination. The amendments in this update provide specific guidance on how to recognize and measure acquired contract assets and contract liabilities from revenue contracts in a business combination. These amendments require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606 – Revenue from Contracts with Customers ("Topic 606"). At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. These amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and should be applied prospectively to business combinations occurring on or after the effective date of the amendments. We plan to adopt the provisions of this ASU for our fiscal year beginning January 1, 2023. We are still evaluating the impact of adoption on our consolidated financial statements.

Credit Losses - Vintage Disclosures

In March 2022, the FASB issued ASU, *Financial Instruments - Credit Losses* ("Topic 326") to make the requirement to disclose gross write-offs by class of financing receivable and major security type consistent for all public business entities. The amendment in this update provides specific guidance on the disclosure for current period write-offs by year of origination for financing receivables. This amendment is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and should be applied prospectively to disclosures occurring on or after the effective date of the amendment. We plan to adopt the provisions of this ASU for our fiscal year beginning January 1, 2023. We expect the adoption will have no impact on our consolidated financial statements.

3. GOODWILL

The following table presents changes in goodwill in the accompanying Consolidated Balance Sheet (in thousands):

	December 31, 2021	June 30, 2022
Goodwill at the beginning of the period	$ 392,978	$ 391,972
Decrease in goodwill related to divestitures	(1,006)	(901)
Goodwill at the end of the period	$ 391,972	$ 391,071

During the six months ended June 30, 2022, we allocated $0.9 million of goodwill to the sale of two funeral homes for a loss recorded in *Net (gain) loss on divestitures, disposals and impairments charges.*

4. DIVESTED OPERATIONS

During the three and six months ended June 30, 2022, we merged one funeral home with another business we own in an existing market and sold two funeral homes for an aggregate of $0.9 million, respectively. During the three and six months ended June 30, 2021, we sold one funeral home for $0.7 million and three funeral homes for $3.5 million, respectively.

The operating results of these divested funeral homes are reflected on our Consolidated Statements of Operations as shown in the table below (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Revenue	$ 29	$ 63	$ 349	$ 296
Operating income (loss)	(37)	(4)	(12)	25
Gain (loss) on divestitures[(1)]	(205)	—	103	(703)
Income tax benefit (expense)	80	1	(26)	184
Net income (loss) from divested operations, after tax	$ (162)	$ (3)	$ 65	$ (494)

(1) Gain (loss) on divestitures is recorded in *Net (gain) loss on divestitures, disposals and impairments charges* on our Consolidated Statements of Operations.

5. RECEIVABLES

Accounts Receivable

Accounts receivable is comprised of the following (in thousands):

	June 30, 2022			
	Funeral	Cemetery	Corporate	Total
Trade and financed receivables	$ 8,719	$ 14,650	$ —	$ 23,369
Other receivables	402	1,160	331	1,893
Allowance for credit losses	(328)	(626)	—	(954)
Accounts receivable, net	$ 8,793	$ 15,184	$ 331	$ 24,308

	December 31, 2021			
	Funeral	Cemetery	Corporate	T
Trade and financed receivables	$ 10,728	$ 13,629	$ —	$ 24,3
Other receivables	329	1,433	185	1,9
Allowance for credit losses	(365)	(625)	—	(9
Accounts receivable, net	$ 10,692	$ 14,437	$ 185	$ 25,3

Other receivables include supplier rebates, commissions due from third party insurance companies and perpetual care income receivables. We do not provide an allowance for credit losses for these receivables as we have historically not had any collectability issues nor do we expect any in the foreseeable future.

The following table summarizes the activity in our allowance for credit losses by portfolio segment (in thousands):

	January 1, 2022	Provision for Credit Losses	Write Offs	Recoveries	June 30, 2022
Trade and financed receivables:					
Funeral	$ (365)	$ (869)	$ 1,518	$ (612)	$ (328)
Cemetery	(625)	(300)	299	—	(626)
Total allowance for credit losses on Trade and financed receivables	$ (990)	$ (1,169)	$ 1,817	$ (612)	$ (954)

Preneed Cemetery Receivables

Our preneed cemetery receivables are comprised of the following (in thousands):

	December 31, 2021	June 30, 2022
Interment rights	$ 40,863	$ 43,387
Merchandise and services	7,348	8,131
Unearned finance charges	4,644	4,769
Preneed cemetery receivables	$ 52,855	$ 56,287

The components of our preneed cemetery receivables are as follows (in thousands):

	December 31, 2021	June 30, 2022
Preneed cemetery receivables	$ 52,855	$ 56,287
Less: unearned finance charges	(4,644)	(4,769)
Preneed cemetery receivables, at amortized cost	$ 48,211	$ 51,518
Less: allowance for credit losses	(1,704)	(1,732)
Less: balances due on undelivered cemetery preneed contracts	(10,353)	(10,063)
Less: amounts in accounts receivable	(13,004)	(14,024)
Preneed cemetery receivables, net	$ 23,150	$ 25,699

The following table summarizes the activity in our allowance for credit losses for *Preneed cemetery receivables, net* (in thousands):

	January 1, 2022	Provision for Credit Losses	Write Offs	June 30, 202
Total allowance for credit losses on *Preneed cemetery receivables, net*	$ (1,079)	$ (488)	$ 461	$ (1,1

The amortized cost basis of our preneed cemetery receivables by year of origination at June 30, 2022 is as follows (in thousands):

	2022	2021	2020	2019	2018	Prior	T
Total preneed cemetery receivables, at amortized cost	$ 16,696	$ 17,141	$ 8,749	$ 5,053	$ 2,117	$ 1,762	$ 51,5

The aging of past due preneed cemetery receivables at June 30, 2022 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
Recognized revenue	$ 608	$ 393	$ 201	$ 1,901	$ 3,103	$ 38,352	$ 41,455
Deferred revenue	191	144	60	469	864	13,968	14,832
Total contracts	$ 799	$ 537	$ 261	$ 2,370	$ 3,967	$ 52,320	$ 56,287

6. TRUST INVESTMENTS

Preneed trust investments represent trust fund assets that we are generally permitted to withdraw as the services and merchandise are provided to customers. Preneed funeral and cemetery contracts are secured by payments from customers, less amounts not required by law to be deposited into trust. These earnings are recognized in *Other revenue* on our Consolidated Statements of Operations, when a service is performed or merchandise is delivered. Trust management fees charged by CSV RIA are included as revenue in the period in which they are earned. Our investments are diversified across multiple industry segments using a balanced allocation strategy to minimize long-term risk. We do not intend to sell and it is likely that we will not be required to sell the securities prior to their anticipated recovery.

Cemetery perpetual care trust investments represent a portion of the proceeds from the sale of cemetery property interment rights that we are required by various state laws to deposit into perpetual care trust funds. The income earned from these perpetual care trusts offsets maintenance expenses for cemetery property and memorials. This trust fund income is recognized in *Other revenue.*

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 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, certificates of deposit 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. See Note 8 to the Consolidated Financial Statements included herein for further information of the fair value measurement.

Changes in the fair value of our trust fund assets (*Preneed funeral, cemetery and perpetual care trust investments*) are offset by changes in the fair value of our trust fund liabilities (*Deferred preneed funeral and cemetery receipts held in trust* and *Care trusts' corpus*) and reflected in *Other, net*. There is no impact on earnings until such time the services are performed or the merchandise is delivered, causing the contract to be withdrawn from the trust in accordance with state regulations and the gain or loss is allocated to the contract.

We rely on our trust investments to provide funding for the various contractual obligations that arise upon maturity of the underlying preneed contracts. Because of the long-term relationship between the establishment of trust investments and the required performance of the underlying contractual obligations, the impact of current market conditions that may exist at any given time is not necessarily indicative of our ability to generate profit on our future performance obligations.

Preneed Cemetery Trust Investments

The components of *Preneed cemetery trust investments* on our Consolidated Balance Sheet are as follows (in thousands):

	December 31, 2021	June 30, 2022
Preneed cemetery trust investments, at market value	$ 103,808	$ 94,435
Less: allowance for contract cancellation	(2,905)	(3,083)
Preneed cemetery trust investments	$ 100,903	$ 91,352

The cost and market values associated with preneed cemetery trust investments at June 30, 2022 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 11,852	$ —	$ —	$ 11,852
Fixed income securities:					
U.S. agency obligations	2	803	—	(46)	757
Foreign debt	2	10,914	752	(791)	10,875
Corporate debt	2	13,837	214	(2,869)	11,182
Preferred stock	2	12,647	224	(1,324)	11,547
Certificates of deposit	2	79	—	(5)	74
Common stock	1	40,998	3,160	(5,560)	38,598
Mutual funds:					
Equity	1	29	—	(3)	26
Fixed income	2	11,612	23	(2,875)	8,760
Trust securities		$ 102,771	$ 4,373	$ (13,473)	$ 93,671
Accrued investment income		$ 764			$ 764
Preneed cemetery trust investments					$ 94,435
Market value as a percentage of cost					91.1%

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

Due in one year or less	$ 1,372
Due in one to five years	7,092
Due in five to ten years	6,137
Thereafter	19,834
Total fixed income securities	$ 34,435

The cost and market values associated with preneed cemetery trust investments at December 31, 2021 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 3,088	$ —	$ —	$ 3,088
Fixed income securities:					
Foreign debt	2	15,846	2,025	(953)	16,918
Corporate debt	2	12,965	1,374	(49)	14,290
Preferred stock	2	12,455	1,111	(344)	13,222
Common stock	1	40,992	6,906	(4,079)	43,819
Mutual funds:					
Equity	1	28	8	—	36
Fixed income	2	11,443	615	(567)	11,491
Trust Securities		$ 96,817	$ 12,039	$ (5,992)	$ 102,864
Accrued investment income		$ 944			$ 944
Preneed cemetery trust investments					$ 103,808
Market value as a percentage of cost					106.2%

The following table summarized our fixed income securities (excluding mutual funds) within our preneed cemetery trust investments in an unrealized loss position at June 30, 2022, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	June 30, 2022					
	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. agency obligations	$ 757	$ (46)	$ —	$ —	$ 757	$ (46)
Foreign debt	6,018	(323)	616	(468)	6,634	(791)
Corporate debt	8,298	(2,869)	—	—	8,298	(2,869)
Preferred stock	6,574	(868)	3,430	(456)	10,004	(1,324)
Certificates of deposit	74	(5)	—	—	74	(5)
Total fixed income securities with an unrealized loss	$ 21,721	$ (4,111)	$ 4,046	$ (924)	$ 25,767	$ (5,035)

The following table summarized our fixed income securities (excluding mutual funds) within our preneed cemetery trust investments in an unrealized loss position at December 31, 2021, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 2021					
	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	$ 4,228	$ (517)	$ 629	$ (436)	$ 4,857	$ (953)
Corporate debt	1,037	(49)	—	—	1,037	(49)
Preferred stock	1,301	(63)	2,913	(281)	4,214	(344)
Total fixed income securities with an unrealized loss	$ 6,566	$ (629)	$ 3,542	$ (717)	$ 10,108	$ (1,346)

Preneed cemetery trust investment security transactions recorded in *Other, net* on our Consolidated Statements of Operations are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Investment income	$ 662	$ 571	$ 1,129	$ 1,062
Realized gains	10,016	6,870	14,108	8,893
Realized losses	(3,831)	(2,320)	(6,349)	(2,383)
Unrealized gains (losses), net	(849)	(15,977)	8,859	(9,100)
Expenses and taxes	(435)	(507)	(762)	(871)
Net change in deferred preneed cemetery receipts held in trust	(5,563)	11,363	(16,985)	2,399
	$ —	$ —	$ —	$ —

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Purchases	$ (18,797)	$ (309)	$ (27,208)	$ (1,624)
Sales	19,352	461	27,401	661

Preneed Funeral Trust Investments

Preneed funeral trust investments represent trust fund assets that we are permitted to withdraw as services and merchandise are provided to customers. Preneed funeral contracts are secured by payments from customers, less retained amounts not required to be deposited into trust.

The components of *Preneed funeral trust investments* on our Consolidated Balance Sheet are as follows (in thousands):

	December 31, 2021	June 30, 2022
Preneed funeral trust investments, at market value	$ 116,973	$ 106,232
Less: allowance for contract cancellation	(3,315)	(3,389)
Preneed funeral trust investments	$ 113,658	$ 102,843

The cost and market values associated with preneed funeral trust investments at June 30, 2022 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 31,673	$ —	$ —	$ 31,673
Fixed income securities:					
U.S treasury debt	1	551	—	(31)	520
Foreign debt	2	9,728	681	(684)	9,725
Corporate debt	2	11,713	185	(2,394)	9,504
Preferred stock	2	10,881	203	(1,181)	9,903
Common stock	1	35,408	2,851	(4,665)	33,594
Mutual funds:					
Equity	1	26	0	(2)	24
Fixed income	2	9,312	20	(2,383)	6,949
Other investments	2	3,677	—	—	3,677
Trust securities		$ 112,969	$ 3,940	$ (11,340)	$ 105,569
Accrued investment income		$ 663			$ 663
Preneed funeral trust investments					$ 106,232
Market value as a percentage of cost					93.4%

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

Due in one year or less	$	1,241
Due in one to five years		5,844
Due in five to ten years		5,297
Thereafter		17,270
Total fixed income securities	$	29,652

The cost and market values associated with preneed funeral trust investments at December 31, 2021 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 23,438	$ —	$ —	$ 23,438
Fixed income securities:					
Foreign debt	2	14,936	1,874	(887)	15,923
Corporate debt	2	11,231	1,223	(46)	12,408
Preferred stock	2	11,001	986	(319)	11,668
Common stock	1	36,694	6,417	(3,574)	39,537
Mutual funds:					
Equity	1	26	7	—	33
Fixed income	2	9,396	454	(470)	9,380
Other investments	2	3,754	—	—	3,754
Trust securities		$ 110,476	$ 10,961	$ (5,296)	$ 116,141
Accrued investment income		$ 832			$ 832
Preneed funeral trust investments					$ 116,973
Market value as a percentage of cost					105.1%

The following table summarized our fixed income securities (excluding mutual funds) within our preneed funeral trust investment in an unrealized loss position at June 30, 2022, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	June 30, 2022					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
U.S. treasury debt	$ 520	$ (31)	$ —	$ —	$ 520	$ (31)
Foreign debt	5,365	(289)	522	(395)	5,887	(684)
Corporate debt	6,951	(2,394)	—	—	6,951	(2,394)
Preferred stock	5,683	(762)	3,009	(419)	8,692	(1,181)
Total fixed income securities with an unrealized loss	$ 18,519	$ (3,476)	$ 3,531	$ (814)	$ 22,050	$ (4,290)

The following table summarized our fixed income securities (excluding mutual funds) within our preneed funeral trust investment in an unrealized loss position at December 31, 2021, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 2021					
	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	$ 4,251	$ (509)	$ 548	$ (378)	$ 4,799	$ (887)
Corporate debt	965	(46)	—	—	965	(46)
Preferred stock	1,211	(58)	2,710	(261)	3,921	(319)
Total fixed income securities with an unrealized loss	$ 6,427	$ (613)	$ 3,258	$ (639)	$ 9,685	$ (1,252)

Preneed funeral trust investment security transactions recorded in *Other, net* on the Consolidated Statements of Operations are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Investment income	$ 535	$ 481	$ 904	$ 847
Realized gains	9,388	6,147	13,259	7,890
Realized losses	(3,528)	(2,088)	(5,896)	(2,146)
Unrealized gains (losses), net	(1,113)	(13,927)	8,206	(7,400)
Expenses and taxes	(436)	(322)	(632)	(537)
Net change in deferred preneed funeral receipts held in trust	(4,846)	9,709	(15,841)	1,346
	$ —	$ —	$ —	$ —

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Purchases	$ (17,863)	$ —	$ (25,491)	$ (590)
Sales	17,765	30	25,289	530

Cemetery Perpetual Care Trust Investments

Care trusts' corpus on our Consolidated Balance Sheet represent the corpus of those trusts plus undistributed income. The components of *Care trusts' corpus* are as follows (in thousands):

	December 31, 2021	June 30, 2022
Cemetery perpetual care trust investments, at market value	$ 72,400	$ 63,703
Obligations due from trust	(1,244)	(699)
Care trusts' corpus	$ 71,156	$ 63,004

The following table reflects the cost and market values associated with the trust investments held in cemetery perpetual care trust funds at June 30, 2022 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 7,600	$ —	$ —	$ 7,600
Fixed income securities:					
Foreign debt	2	7,637	480	(566)	7,551
Corporate debt	2	9,449	209	(1,974)	7,684
Preferred stock	2	9,630	143	(951)	8,822
Common stock	1	26,615	2,210	(3,771)	25,054
Mutual funds:					
Equity	1	18	—	(2)	16
Fixed Income	2	8,312	28	(1,922)	6,418
Trust securities		$ 69,261	$ 3,070	$ (9,186)	$ 63,145
Accrued investment income		$ 558			$ 558
Cemetery perpetual care investments					$ 63,703
Market value as a percentage of cost					91.2%

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

Due in one year or less	$ 875
Due in one to five years	4,217
Due in five to ten years	4,177
Thereafter	14,788
Total fixed income securities	$ 24,057

The following table reflects the cost and market values associated with the trust investments held in cemetery perpetual care trust funds at December 31, 2021 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 1,447	$ —	$ —	$ 1,447
Fixed income securities:					
Foreign debt	2	10,949	1,401	(647)	11,703
Corporate debt	2	9,139	1,065	(32)	10,172
Preferred stock	2	9,742	803	(226)	10,319
Common stock	1	27,853	4,990	(3,008)	29,835
Mutual funds:					
Equity	1	19	5	—	24
Fixed income	2	8,141	530	(460)	8,211
Trust securities		$ 67,290	$ 8,794	$ (4,373)	$ 71,711
Accrued investment income		$ 689			$ 689
Cemetery perpetual care investments					$ 72,400
Market value as a percentage of cost					106.6%

The following table summarized our fixed income securities (excluding mutual funds) within our cemetery perpetual care trust investment in an unrealized loss position at June 30, 2022, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	June 30, 2022											
	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	$	4,401	$	(225)	$	446	$	(341)	$	4,847	$	(566)
Corporate debt		5,511		(1,974)		—		—		5,511		(1,974)
Preferred stock		5,137		(634)		2,831		(317)		7,968		(951)
Total fixed income securities with an unrealized loss	$	15,049	$	(2,833)	$	3,277	$	(658)	$	18,326	$	(3,491)

The following table summarized our fixed income securities (excluding mutual funds) within our perpetual care trust investment in an unrealized loss position at December 31, 2021, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 2021											
	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	$	2,649	$	(321)	$	468	$	(326)	$	3,117	$	(647)
Corporate debt		846		(32)		—		—		846		(32)
Preferred stock		856		(41)		1,917		(185)		2,773		(226)
Total fixed income securities with an unrealized loss	$	4,351	$	(394)	$	2,385	$	(511)	$	6,736	$	(905)

Cemetery perpetual care trust investment security transactions recorded in *Other, net* on our Consolidated Statements of Operations are as follows (in thousands):

	Three months ended June 30,				Six months ended June 30,			
	2021		2022		2021		2022	
Realized gains	$	1,258	$	994	$	1,949	$	1,244
Realized losses		(496)		(281)		(916)		(289)
Unrealized gains (losses), net		(882)		(10,844)		6,817		(6,116)
Net change in Care trusts' corpus		120		10,131		(7,850)		5,161
Total	$	—	$	—	$	—	$	—

Cemetery perpetual care trust investment security transactions recorded in *Other revenue* are as follows (in thousands):

	Three months ended June 30,				Six months ended June 30,			
	2021		2022		2021		2022	
Investment income	$	2,710	$	2,776	$	5,223	$	5,538
Realized losses, net		(141)		(258)		(279)		(604)
Total	$	2,569	$	2,518	$	4,944	$	4,934

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

	Three months ended June 30,				Six months ended June 30,			
	2021		2022		2021		2022	
Purchases	$	(12,919)	$	(280)	$	(19,056)	$	(411)
Sales		13,307		441		19,263		441

7. RECEIVABLES FROM PRENEED FUNERAL TRUSTS

Our receivables from preneed funeral 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. Receivables from preneed funeral trusts are as follows (in thousands):

	December 31, 2021	June 30, 2022
Preneed funeral trust funds, at cost	$ 19,597	$ 20,298
Less: allowance for contract cancellation	(588)	(609)
Receivables from preneed funeral trusts, net	$ 19,009	$ 19,689

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 December 31, 2021 and June 30, 2022. The cost basis includes reinvested interest and dividends that have been earned on the trust assets. Fair value includes unrealized gains and losses on trust assets.

The composition of the preneed funeral trust funds at June 30, 2022 is as follows (in thousands):

	Historical Cost Basis	Fair Value
Cash and cash equivalents	$ 5,927	$ 5,927
Fixed income investments	11,706	11,706
Mutual funds and common stocks	2,661	2,436
Annuities	4	4
Total	$ 20,298	$ 20,073

The composition of the preneed funeral trust funds at December 31, 2021 is as follows (in thousands):

	Historical Cost Basis	Fair Value
Cash and cash equivalents	$ 5,595	$ 5,595
Fixed income investments	11,386	11,386
Mutual funds and common stocks	2,611	2,682
Annuities	5	5
Total	$ 19,597	$ 19,668

8. 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 that met the criteria of the disclosure requirements and fair value framework. The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate the fair values of those instruments due to the short-term nature of the instruments. The fair values of our receivables on preneed 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 acquisition debt and Credit Facility (as defined in Note 10) and Senior Notes (as defined in Note 11) are classified within Level 2 of the Fair Value Measurements hierarchy.

At June 30, 2022, the carrying value and fair value of our Credit Facility was $175.2 million. We believe that our Credit Facility bears interest at a rate that approximates prevailing market rates for instruments with similar characteristics and therefore, the carrying value of our Credit Facility approximates fair value. At June 30, 2022, the carrying value of our acquisition debt was $4.5 million, which approximated its fair value. We estimate the fair value of our acquisition debt utilizing an income approach, which uses a present value calculation to discount payments based on current market rates as of the reporting date. At June 30, 2022, the fair value of our Senior Notes was $327.7 million based on the last traded or broker quoted price.

At December 31, 2021 and June 30, 2022, we did not have any assets that had fair values determined by Level 3 inputs and no liabilities measured at fair value.

We identified investments in fixed income securities, common stock and mutual funds presented within the preneed and perpetual care trust investments categories on our Consolidated Balance Sheet as having met the criteria for fair value measurement. Our receivables from preneed funeral 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. See Notes 6 and 7 to our Consolidated Financial Statements herein for the fair value hierarchy levels of our trust investments.

9. INTANGIBLE AND OTHER NON-CURRENT ASSETS

Intangible and other non-current assets are as follows (in thousands):

	December 31, 2021	June 30, 2022
Tradenames	$ 23,565	$ 23,565
Prepaid agreements not-to-compete, net of accumulated amortization of $3,316 and $3,232, respectively	2,247	2,019
Capitalized commissions on preneed contracts, net of accumulated amortization of $2,278 and $2,622, respectively	3,560	3,809
Other	6	260
Intangible and other non-current assets, net	$ 29,378	$ 29,653

Tradenames

Our tradenames have indefinite lives and therefore are not amortized.

Prepaid Agreements

Prepaid agreements not-to-compete are amortized over the term of the respective agreements, ranging generally from one to ten years. Amortization expense was $169,000 and $142,000 for the three months ended June 30, 2021 and 2022, respectively and $337,000 and $290,000 for the six months ended June 30, 2021 and 2022, respectively.

Capitalized Commissions

We capitalize our selling costs related to preneed cemetery merchandise and services and preneed funeral trust contracts. These costs are amortized on a straight-line basis over the average maturity period for our preneed cemetery merchandise and services contracts and preneed funeral trust contracts, of eight and ten years, respectively. Amortization expense was $156,000 and $174,000 for the three months ended June 30, 2021 and 2022, respectively and $308,000 and $344,000 for the six months ended June 30, 2021 and 2022, respectively.

The aggregate amortization expense for our non-compete agreements and capitalized commissions as of June 30, 2022 is as follows (in thousands):

	Prepaid Agreements	Capitalized Commissions
Years ending December 31,		
Remainder of 2022	$ 270	$ 644
2023	496	673
2024	381	612
2025	372	547
2026	257	481
Thereafter	243	852
Total amortization expense	$ 2,019	$ 3,809

10. CREDIT FACILITY AND ACQUISITION DEBT

On May 27 2022, we entered into a second amendment and commitment increase (the “Credit Facility Amendment”) to the first amended and restated credit agreement dated May 13, 2021 (as amended, the “Credit Facility”) with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. The Credit Facility Amendment provided, among other things, for (i) an increase to the Revolving Credit Commitments (as defined in the Credit Facility) under the Credit Facility from $200.0 million to $250.0 million in the aggregate; (ii) modifications to the definitions of “Applicable Rate” and “Applicable Fee Rate” to change the applicable rates and pricing levels set forth in each pricing grid; (iii) the establishment of the BSBY as a benchmark rate and the removal of LIBOR from the Credit Facility; (iv) an increase in the maximum Total Leverage Ratio (as defined in the Credit Facility) to 5.25 to 1.00; and (v) modifications to the restricted payments covenant to allow the Company to make additional stock repurchases, subject to the satisfaction of certain conditions therein. We incurred $0.3 million in transactions costs related to this amendment, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

At June 30, 2022, our senior secured revolving Credit Facility was comprised of: (i) a $250.0 million revolving credit facility, including a $15.0 million subfacility for letters of credit and a $10.0 million swingline, and (ii) an accordion or incremental option allowing for future increases in the facility size by an additional amount of up to $75.0 million in the form of increased revolving commitments or incremental term loans. The final maturity of the Credit Facility will occur on May 13, 2026.

Our obligations under the Credit Facility are unconditionally guaranteed on a joint and several basis by the same subsidiaries which guarantee the Senior Notes (as defined in Note 11) and certain of our subsequently acquired or organized domestic subsidiaries (collectively, the "Subsidiary Guarantors"). The Credit Facility allows for future increases in the facility size in the form of increased revolving commitments or new incremental term loans by an additional amount of up to $75.0 million in the aggregate.

The Credit Facility is secured by a first-priority perfected security interest in and lien on substantially all of the Company's personal property assets and those of the Subsidiary Guarantors. In addition, the Credit Facility includes provisions which require the Company and the Subsidiary Guarantors, upon the occurrence of an event of default or in the event the Company's actual Total Leverage Ratio is not at least 0.25 less than the required Total Leverage Ratio covenant level under the Credit Facility, to grant additional liens on real property assets accounting for no less than 50% of the Company's and the Subsidiary Guarantors' funeral operations if requested by the administrative agent.

The Credit Facility contains customary affirmative covenants, including, but not limited to, covenants with respect to the use of proceeds, payment of taxes and other obligations, continuation of the Company's business and the maintenance of existing rights and privileges, the maintenance of property and insurance, amongst others.

In addition, the Credit Facility also contains customary negative covenants, including, but not limited to, covenants that restrict (subject to certain exceptions) the ability of the Company and the Subsidiary Guarantors to incur indebtedness, grant liens, make investments, engage in mergers and acquisitions, and pay dividends and other restricted payments, and certain financial maintenance covenants. At June 30, 2022, we were subject to the following financial covenants under our Credit Facility: (A) a Total Leverage Ratio not to exceed 5.25 to 1.00 and (B) a Fixed Charge Coverage Ratio (as defined in the Credit Facility) of not less than 1.20 to 1.00 as of the end of any period of four consecutive fiscal quarters. These financial maintenance covenants are calculated for the Company and its subsidiaries on a consolidated basis.

We were in compliance with all of the covenants contained in our Credit Facility as of June 30, 2022.

Our Credit Facility and Acquisition debt consisted of the following (in thousands):

	December 31, 2021	June 30, 2022
Credit Facility	$ 155,400	$ 175,200
Debt issuance costs, net of accumulated amortization of $1,324 and $1,508, respectively	(1,543)	(1,699)
Total Credit Facility	$ 153,857	$ 173,501
Acquisition debt	$ 4,500	$ 4,474
Less: current portion	(521)	(583)
Total acquisition debt, net of current portion	$ 3,979	$ 3,891

At June 30, 2022, we had outstanding borrowings under the Credit Facility of $175.2 million. We also had one letter of credit for $2.3 million under the Credit Facility. The letter of credit will expire on November 25, 2022 and is expected to automatically renew annually and secures our obligations under our various self-insured policies. At June 30, 2022, we had $72.5 million of availability under the Credit Facility.

As of the effective date of the Credit Facility Amendment, outstanding borrowings under our Credit Facility bear interest at a prime rate or a BSBY rate, plus an applicable margin based our leverage ratio. At June 30, 2022, the prime rate margin was equivalent to 1.125% and the BSBY rate margin was 2.125%. The weighted average interest rate on our Credit Facility was 2.5% and 2.9% for the three months ended June 30, 2021 and 2022, respectively and 2.8% and 2.5% for the six months ended June 30, 2021 and 2022, respectively.

The interest expense and amortization of debt issuance costs related to our Credit Facility are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Credit Facility interest expense	$ 372	$ 1,314	$ 817	$ 2,161
Credit Facility amortization of debt issuance costs	99	96	217	184

Acquisition debt consists of deferred purchase price and promissory notes payable to sellers. A majority of the deferred purchase price and notes bear no interest and are discounted at imputed interest rates ranging from 7.3% to 10.0%. Original maturities range from nine to twenty years.

The imputed interest expense related to our acquisition debt is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Acquisition debt imputed interest expense	$ 93	$ 79	$ 190	$ 159

11. SENIOR NOTES

The carrying value of our 4.25% senior notes due 2029 (the "Senior Notes") is reflected on our Consolidated Balance Sheet as follows (in thousands):

	December 31, 2021	June 30, 2022
Long-term liabilities:		
Principal amount	$ 400,000	$ 400,000
Debt discount, net of accumulated amortization of $301 and $544, respectively	(4,199)	(3,955)
Debt issuance costs, net of accumulated amortization of $86 and $155, respectively	(1,191)	(1,122)
Carrying value of the Senior Notes	$ 394,610	$ 394,923

At June 30, 2022, the fair value of the Senior Notes, which are Level 2 measurements, was $327.7 million.

The Senior Notes were issued under an indenture, dated as of May 13, 2021 (the "Indenture"), among the Company, the Subsidiary Guarantors and Wilmington Trust, National Association, as trustee. The Senior Notes are unsecured, senior obligations and are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally by each of the Subsidiary Guarantors. The Senior Notes mature on May 15, 2029, unless earlier redeemed or purchased and bear interest at 4.25% per year, which is payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2021.

We may redeem the Senior Notes, in whole or in part, at the redemption price of 102.13% on or after May 15, 2024, 101.06% on or after May 15, 2025 and 100% on or after May 15, 2026, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. At any time before May 15, 2024, we may also redeem all or part of the Senior Notes at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to (but excluding) the date of redemption. In addition, before May 15, 2024, we may redeem up to 40% of the aggregate principal amount of the Senior Notes outstanding using an amount of cash equal to the net proceeds of certain equity offerings, at a price of 104.25% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to (but excluding) the date of redemption; provided that (1) at least 50% of the aggregate principal amount of the Senior Notes (including any additional Senior Notes) outstanding under the Indenture remain outstanding immediately after the occurrence of such redemption (unless all Senior Notes are redeemed concurrently), and (2) each such redemption must occur within 180 days of the date of the consummation of any such equity offering.

If a "change of control" occurs, holders of the Senior Notes will have the option to require us to purchase for cash all or a portion of their Senior Notes at a price equal to 101% of the principal amount of the Senior Notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the Senior Notes at a price equal to 100% of the principal amount of the Senior Notes, plus accrued and unpaid interest.

The Indenture contains restrictive covenants limiting our ability and our Restricted Subsidiaries (as defined in the Indenture) to, among other things, incur additional indebtedness or issue certain preferred shares, create liens on certain assets to secure debt, pay dividends or make other equity distributions, purchase or redeem capital stock, make certain investments, sell assets, agree to certain restrictions on the ability of Restricted Subsidiaries to make payments to us, consolidate, merge, sell or otherwise dispose of all or substantially all assets, or engage in transactions with affiliates. The Indenture also contains customary events of default.

The interest expense and amortization of debt discount, debt premium and debt issuance costs related to our Senior Notes are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Senior Notes interest expense	$ 6,642	$ 4,230	$ 13,267	$ 8,480
Senior Notes amortization of debt discount	128	122	266	243
Senior Notes amortization of debt premium	27	—	85	—
Senior Notes amortization of debt issuance costs	53	35	127	69

The debt discount and the debt issuance costs are being amortized using the effective interest method over the remaining term of approximately 83 months of the Senior Notes. For both the three and six months ended June 30, 2022, the effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Senior Notes was 4.42% and 4.30%, respectively.

For the three and six months ended June 30, 2021, the effective interest rate on the unamortized debt discount and unamortized debt issuance costs for our $400 million in aggregate principal amount of 6.625% senior notes due 2026 (the "Original Senior Notes") was 6.87% and 6.69%, respectively. For the three and six months ended June 30, 2021, the effective interest rate on the unamortized debt premium and the unamortized debt issuance costs for the additional Original Senior Notes, issued in December 2019 was 6.20% and 6.88%, respectively. All of our Original Senior Notes were redeemed on June 1, 2021.

12. LEASES

Our lease obligations consist of operating and finance leases related to real estate and equipment. The components of lease cost are as follows (in thousands):

		Three months ended June 30,		Six months ended June 30,	
	Income Statement Classification	2021	2022	2021	2022
Operating lease cost	Facilities and grounds expense(1)	$ 964	$ 853	$ 1,924	$ 1,701
Short-term lease cost	Facilities and grounds expense(1)	57	76	106	178
Variable lease cost	Facilities and grounds expense(1)	16	16	57	23
Finance lease cost:					
Depreciation of leased assets	Depreciation and amortization(2)	$ 109	$ 109	$ 217	$ 217
Interest on lease liabilities	*Interest expense*	119	112	239	225
Total finance lease cost		228	221	456	442
Total lease cost		$ 1,265	$ 1,166	$ 2,543	$ 2,344

(1) Facilities and grounds expense is included within *Cost of service* and *General, administrative and other* on our Consolidated Statements of Operations.
(2) Depreciation and amortization expense is included within *Field depreciation* and *General, administrative and other* on our Consolidated Statements of Operations.

Supplemental cash flow information related to our leases is as follows (in thousands):

	Six months ended June 30,	
	2021	2022
Cash paid for operating leases included in operating activities	$ 1,930	$ 1,795
Cash paid for finance leases included in financing activities	417	426

Right-of-use assets obtained in exchange for new leases is as follows (in thousands):

	Six months ended June 30,	
	2021	2022
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 75	$ 576
Right-of-use assets obtained in exchange for new finance lease liabilities	—	—

Supplemental balance sheet information related to leases is as follows (in thousands):

Lease Type	Balance Sheet Classification	December 31, 2021	June 30, 2022
Operating lease right-of-use assets	*Operating lease right-of-use assets*	$ 17,881	$ 17,571
Finance lease right-of-use assets	*Property, plant and equipment, net*	$ 6,770	$ 6,770
Accumulated depreciation	*Property, plant and equipment, net*	(2,443)	(2,660)
Finance lease right-of-use assets, net		$ 4,327	$ 4,110
Operating lease current liabilities	*Current portion of operating lease obligations*	$ 1,913	$ 2,029
Finance lease current liabilities	*Current portion of finance lease obligations*	375	411
Total current lease liabilities		$ 2,288	$ 2,440
Operating lease non-current liabilities	*Obligations under operating leases, net of current portion*	$ 18,520	$ 18,005
Finance lease non-current liabilities	*Obligations under finance leases, net of current portion*	5,157	4,945
Total non-current lease liabilities		$ 23,677	$ 22,950
Total lease liabilities		$ 25,965	$ 25,390

The average lease terms and discount rates at June 30, 2022 are as follows:

	Weighted-average remaining lease term (years)	Weighted-average discount rate
Operating leases	9.3	8.1 %
Finance leases	12.0	8.2 %

The aggregate future lease payments for operating and finance leases at June 30, 2022 are as follows (in thousands):

	Operating	Finance
Lease payments due:		
Remainder of 2022	$ 1,791	$ 442
2023	3,509	860
2024	3,485	791
2025	3,256	736
2026	3,201	745
Thereafter	13,101	4,810
Total lease payments	28,343	8,384
Less: Interest	(8,309)	(3,028)
Present value of lease liabilities	$ 20,034	$ 5,356

At June 30, 2022, we had no additional significant operating or finance leases that had not yet commenced.

13. COMMITMENTS AND CONTINGENCIES

Chinchilla v. Carriage Services, Inc., et al., Superior Court of California, San Joaquin County, Case No. STK-CV-UOE-2021-0004661. On May 19, 2021, a putative class action against the Company and several of our subsidiaries was filed. The plaintiff, a former employee, seeks monetary damages on behalf of himself and other similarly situated current and former non-exempt employees. The plaintiff claims that the Company failed to, among other things, pay minimum wages, provide meal and rest breaks, pay overtime, provide accurately itemized wage statements, reimburse employees for business expenses, and provide wages when due.

On January 5, 2022, the parties to the litigation engaged in and executed a Memorandum of Understanding for class settlement in the amount of $1.0 million. The parties subsequently executed a Class Settlement Agreement, and the court granted preliminary approval of the Class Settlement Agreement on March 29, 2022. The court granted Final Approval on July 26, 2022, and we will fund the final settlement in the amount of $1.2 million within 15 days of the court’s order. At June 30, 2022, we accrued $1.3 million for the final settlement amount and associated legal fees.

14. STOCKHOLDERS' EQUITY

Restricted Stock

Restricted stock activity is as follows (in thousands, except shares):

	Three months ended June 30,				Six months ended June 30,			
	2021		2022		2021		2022	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Granted(1)	—	$ —	—	$ —	9,300	$ 324	—	$ —
Returned for payroll taxes	—	$ —	(49)	$ (2)	9,688	$ 347	4,136	$ 205
Cancelled	966	$ 27	450	$ 16	966	$ 27	1,450	$ 47

(1) Restricted stock granted during the six months ended June 30, 2021 vests over a three-year period, if the employee has remained continuously employed by us during the vesting period, at a weighted average stock price of $34.79.

We recorded stock-based compensation expense, which is included in *General, administrative and other expenses*, for restricted stock awards of $98,000 and $40,000 for the three months ended June 30, 2021 and 2022, respectively and $219,000 and $97,000 for the six months ended June 30, 2021 and 2022, respectively.

Stock Options

Stock option grants and cancellations are as follows (in thousands, except shares):

	Three months ended June 30,				Six months ended June 30,			
	2021		2022		2021		2022	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Granted(1)	—	$ —	—	$ —	701,400	$ 7,115	58,500	$ 959
Granted(2)	—	$ —	—	$ —	—	$ —	310,000	$ 5,388
Granted(3)	—	—	—	—	150,000	$ 1,684	—	—
Cancelled	—	$ —	18,138	$ 214	3,840	$ 24	25,138	$ 285

(1) Stock options granted during the six months ended June 30, 2021 and 2022 had a weighted average price of $34.79 and $49.48, respectively. The fair value of these options was calculated using the Black-Scholes option pricing model. The options granted in 2021 and 2022 vest over a five-year period and have a ten-year term. These options will vest if the employee has remained continuously employed by us through the vesting period.

(2) Stock options granted during the six months ended June 30, 2022 had a weighted average price of $49.48. The fair value of these options was calculated using the Black-Scholes option pricing model and vest over a seven-year period and have a ten-year term. These options will vest if the employee has remained continuously employed by us through the vesting period.

(3) We granted 150,000 options to a certain key employee at a weighted average price of $34.79. These options will vest when the price of our common stock closes at or above $53.39 (50,000 options) and $77.34 (100,000 options) for three consecutive days within the ten-year term and the employee has remained continuously employed by us through such date. The fair value of these options was $1.7 million.

Additional stock option activity is as follows (in thousands, except shares):

	Three months ended June 30,				Six months ended June 30,			
	2021		2022		2021		2022	
	Shares	Cash	Shares	Cash	Shares	Cash	Shares	Cash
Exercised(1)	180,629	(1)	—	—	281,629	(1)	18,736	(1)
Returned for option price(2)	77,792	$ 733	—	$ —	142,524	$ 879	8,125	$ 60
Returned for payroll taxes(3)	17,971	$ 681	—	$ —	25,982	$ 976	1,601	$ 82

(1) Stock options exercised during the three months ended June 30, 2021 had a weighted average exercise price of $20.44, with an aggregate intrinsic value of $3.1 million. Stock options exercised during the six months ended June 30, 2021 and 2022 had a weighted average exercise price of $21.78 and $25.88, respectively, with an aggregate intrinsic value of $4.4 million and $0.5 million, respectively.

(2) Represents shares withheld/cash received for the payment of the option price.

(3) Represents shares withheld/cash paid for the payment of payroll taxes.

We recorded stock-based compensation expense, which is included in *General, administrative and other expenses*, for stock options of $480,000 and $550,000 for the three months ended June 30, 2021 and 2022, respectively and $1,040,000 and $1,188,000 for the six months ended June 30, 2021 and 2022, respectively.

Performance Awards

Performance award activity is as follows (in thousands, except shares):

	Three months ended June 30,				Six months ended June 30,			
	2021		2022		2021		2022	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Granted	—	$ —	23,263	$ 1,100	10,254	$ 402	27,013	$ 1,262
Cancelled	6,987	$ 67	13,974	$ 134	34,935	$ 335	20,961	$ 201

On June 1, 2021, we amended the performance award agreements granted on May 19, 2020 for three of our executives. The amendment increased the amount of performance awards payable in shares for the last three predetermined growth targets. It was treated as a modification of the original performance award agreement and resulted in an additional $2.6 million of incremental compensation expense, expected to be recognized over the remaining term of 36 months.

The fair value of the performance awards granted during the three months ended June 30, 2022 was determined by using the Monte-Carlo simulation pricing model with the following assumptions:

Grant date	**April 1, 2022**
Performance Period	April 1, 2022 - December 31, 2024
Simulation period (years)	2.75
Share price at grant date	$52.49
Expected volatility	44.44 %
Risk-free interest rate	2.55 %

We recorded stock-based compensation expense, which is included in *General, administrative and other expenses*, for performance awards of $352,000 and $637,000 for the three months ended June 30, 2021 and 2022, respectively and $589,000 and $1,203,000 for the six months ended June 30, 2021 and 2022, respectively.

Employee Stock Purchase Plan

ESPP activity is as follows (in thousands, except shares):

	Three months ended June 30,				Six months ended June 30,			
	2021		2022		2021		2022	
	Shares	Price	Shares	Price	Shares	Price	Shares	Price
ESPP	13,706	$ 26.32	11,796	$ 33.70	31,888	$ 26.32	25,089	$ 39.86

The fair value of the right (option) to purchase shares under the ESPP is estimated at the date of purchase with the four quarterly purchase dates using the following assumptions:

	2022
Dividend yield	0.01%
Expected volatility	30.24%
Risk-free interest rate	0.08%, 0.22%, 0.31%, 0.40%
Expected life (years)	0.25, 0.50, 0.75, 1.00

We recorded stock-based compensation expense, which is included in *General, administrative and other expenses and Regional and unallocated funeral and cemetery costs*, for the ESPP totaling $135,000 and $152,000 for the three months ended June 30, 2021 and 2022, respectively and $341,000 and $351,000 for the six months ended June 30, 2021 and 2022, respectively.

Good To Great Incentive Program

Common stock issued to certain employees under this incentive program is as follows (in millions, except shares):

Three months ended June 30,				Six months ended June 30,			
2021		2022		2021		2022	
Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
—	$ —	—	$ —	—	$ —	27,448	$ 1.4

(1) Common stock granted during the six months ended June 30, 2022 had a grant date stock price of $49.48.

Non-Employee Director and Board Advisor Compensation

Non-Employee Director and Board Advisor common stock activity is as follows (in thousands, except shares):

	Three months ended June 30,				Six months ended June 30,			
	2021		2022		2021		2022	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Board of Directors	4,333	$ 160	2,372	$ 94	9,373	$ 338	5,041	$ 236
Advisor to the Board	135	$ 5	126	$ 5	277	$ 10	219	$ 10

(1) Common stock granted during the three months ended June 30, 2021 and 2022 had a weighted average price of $36.97 and $39.65, respectively and $36.01 and $46.83 for the six months ended June 30, 2021 and 2022.

We recorded compensation expense, which is included in *General, administrative and other expenses*, related to annual retainers, including the value of stock granted to non-employee Directors and an advisor to our Board, of $219,000 and $184,000 for the three months ended June 30, 2021 and 2022, respectively and $455,000 and $385,000 for the six months ended June 30, 2021 and 2022, respectively.

Share Repurchase

On February 23, 2022, our Board authorized an increase in our share repurchase program to permit us to purchase up to an additional $75.0 million under our share repurchase program, in addition to amounts previously authorized and outstanding in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended ("the Exchange Act").

Share repurchase activity is as follows (dollar value in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Number of Shares Repurchased[(1)]	324,700	205,496	324,700	695,496
Average Price Paid Per Share	$ 37.88	$ 40.02	$ 37.88	$ 49.22
Dollar Value of Shares Repurchased[(1)]	$ 12,301	$ 8,224	$ 12,301	$ 34,234

(1) During the six months ended June 30, 2021, 24,700 shares settled in July 2021, which had a cost of $0.7 million.

Our shares were purchased in the open market at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury shares. At June 30, 2022, our share repurchase program had $48.9 million authorized for repurchases.

Cash Dividend

Our Board declared the following dividends payable on the dates below (in thousands, except per share amounts):

2022	Per Share	Dollar Value
March 1st	$ 0.1125	$ 1,725
June 1st	$ 0.1125	$ 1,730

2021	Per Share	Dollar Value
March 1st	$ 0.1000	$ 1,799
June 1st	$ 0.1000	$ 1,808

15. EARNINGS PER SHARE

The following table sets forth the computation of the basic and diluted earnings per share (in thousands, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Numerator for basic and diluted earnings per share:				
Net income (loss)	$ (6,167)	$ 10,899	$ 6,766	$ 27,301
Less: Loss (earnings) allocated to unvested restricted stock	8	(6)	(13)	(20)
Income (loss) attributable to common stockholders	$ (6,159)	$ 10,893	$ 6,753	$ 27,281
Denominator:				
Denominator for basic earnings per common share - weighted average shares outstanding	17,967	14,798	17,966	15,020
Effect of dilutive securities:				
Stock options	213	226	232	325
Performance awards	331	688	166	688
Denominator for diluted earnings per common share - weighted average shares outstanding	18,511	15,712	18,364	16,033
Basic earnings (loss) per common share:	$ (0.34)	$ 0.74	$ 0.38	$ 1.82
Diluted earnings (loss) per common share:	$ (0.33)	$ 0.69	$ 0.37	$ 1.70

For the three and six months ended June 30, 2022 there were 366,038 and 259,359 stock options, respectively, excluded from the computation of diluted earnings per share because the inclusion of such stock option would result in an antidilutive effect. For the three and six months ended June 30, 2021, no stock options were excluded from the computation of diluted earnings per share.

Our performance awards are considered to be contingently issuable shares because their issuance is contingent upon the satisfaction of certain performance and service conditions. At June 30, 2022, we had satisfied certain performance criteria for the first, second and third predetermined growth targets of our performance awards to be considered outstanding. Therefore, we included these awards in the computation of diluted earnings per share as of the beginning of the reporting period.

16. SEGMENT REPORTING

Revenue, disaggregated by major source for each of our reportable segments was as follows (in thousands):

Three months ended June 30, 2022	Funeral	Cemetery	To
Services	$ 38,140	$ 4,410	$ 42,5
Merchandise	20,525	3,777	24,3
Cemetery property	—	16,974	16,9
Other revenue	3,273	3,501	6,7
Total	$ 61,938	$ 28,662	$ 90,6

Three months ended June 30, 2021

		Funeral		Cemetery		To
Services	$	36,225	$	3,894	$	40,1
Merchandise		20,370		3,658		24,0
Cemetery property		—		17,578		17,5
Other revenue		3,237		3,315		6,5
Total	$	59,832	$	28,445	$	88,2

Six months ended June 30, 2022

		Funeral		Cemetery		To
Services	$	83,656	$	8,631	$	92,2
Merchandise		45,810		6,878		52,6
Cemetery property		—		30,200		30,2
Other revenue		6,827		6,759		13,5
Total	$	136,293	$	52,468	$	188,7

Six months ended June 30, 2021

		Funeral		Cemetery		To
Services	$	79,747	$	8,129	$	87,8
Merchandise		44,831		7,082		51,9
Cemetery property		—		31,589		31,5
Other revenue		7,028		6,508		13,5
Total	$	131,606	$	53,308	$	184,9

The following table presents operating income (loss), income (loss) before income taxes and total assets (in thousands):

		Funeral		Cemetery		Corporate		Consolidated
Operating income (loss):								
Three months ended June 30, 2022	$	18,485	$	10,421	$	(9,181)	$	19,725
Three months ended June 30, 2021		16,604		11,498		(7,178)		20,924
Six months ended June 30, 2022	$	43,947	$	18,639	$	(17,710)	$	44,876
Six months ended June 30, 2021		42,480		20,991		(16,301)		47,170
Income (loss) before income taxes:								
Three months ended June 30, 2022	$	19,765	$	10,427	$	(15,072)	$	15,120
Three months ended June 30, 2021		16,462		11,552		(38,373)		(10,359)
Six months ended June 30, 2022	$	46,973	$	18,686	$	(29,055)	$	36,604
Six months ended June 30, 2021		42,174		21,028		(54,987)		8,215
Total assets:								
June 30, 2022	$	757,341	$	377,702	$	16,380	$	1,151,423
December 31, 2021		769,539		390,344		18,748		1,178,631

17. SUPPLEMENTARY DATA

Balance Sheet

The following table presents the detail of certain balance sheet accounts (in thousands):

	December 31, 2021		June 30, 2022	
Prepaid and other current assets:				
Prepaid expenses	$	2,215	$	3,466
Federal income taxes receivable		4,064		—
State income taxes receivable		—		361
Other current assets		125		124
Total prepaid and other current assets	$	6,404	$	3,951
Current portion of debt and lease obligations:				
Acquisition debt	$	521	$	583
Finance lease obligations		375		411
Operating lease obligations		1,913		2,029
Total current portion of debt and lease obligations	$	2,809	$	3,023
Accrued and other liabilities:				
Incentive compensation	$	19,121	$	6,069
Insurance		4,089		4,547
Unrecognized tax benefit		3,761		3,250
Vacation		3,334		3,425
Natural disaster liability		2,628		—
Interest		2,250		2,221
Salaries and wages		2,193		5,131
Employer payroll tax deferral		1,773		1,773
Employee meetings and award trips		1,462		234
Commissions		684		1,077
Income tax payable		485		387
Ad valorem and franchise taxes		450		1,653
Perpetual care trust payable		389		65
Other accrued liabilities		1,154		912
Total accrued and other liabilities	$	43,773	$	30,744
Other long-term liabilities:				
Incentive compensation	$	1,291	$	1,829
Other long-term liabilities		128		—
Total other long-term liabilities	$	1,419	$	1,829

Cash Flow

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

	Six months ended June 30,			
		2021		2
Cash paid for interest	$	14,329	$	10,9
Cash paid for taxes		7,663		4,4
Unsettled share repurchases		742		
Fair value of donated real property		635		

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains certain statements and information that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical information, should be deemed to be forward-looking statements. The words “may”, “will”, “estimate”, “intend”, “believe”, “expect”, “seek”, “project”, “forecast”, “foresee”, “should”, “would”, “could”, “plan”, “anticipate” and other similar words or expressions are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements include, but are not limited to, statements regarding any projections of earnings, revenue, cash flow, debt levels, market share growth, overhead or other financial items; any statements of the plans, strategies and objectives of management for future operations; including, but not limited to, technology innovations and product development; any statements of the plans, timing and objectives of management for acquisition activities; any statements of the plans, timing, expectations and objectives of management for future financing activities, including, but not limited to, capital allocation; any statements regarding future economic and market conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing and are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenue and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- our ability to find and retain skilled personnel;
- the effects of our talent recruitment efforts, incentive and compensation plans and programs, including such effects on our Standards Operating Model and the Company’s operational and financial performance;
- our ability to execute our growth strategy;
- the execution of our Standards Operating, 4E Leadership and Standard Acquisition Models;
- the effects of competition;
- changes in the number of deaths in our markets;
- changes in consumer preferences and our ability to adapt to or meet those changes;
- our ability to generate preneed sales, including implementing our cemetery portfolio sales strategy, product development and optimization plans;
- the investment performance of our funeral and cemetery trust funds;
- fluctuations in interest rates;
- our ability to obtain debt or equity financing on satisfactory terms to fund additional acquisitions, expansion projects, working capital requirements and the repayment or refinancing of indebtedness;
- our ability to meet the timing, objectives and expectations related to our capital allocation framework, including our forecasted rates of return, planned uses of free cash flow and future capital allocation, including share repurchases, potential strategic acquisitions, internal growth projects, dividend increases, or debt repayment plans;
- our ability to meet the projected financial and equity performance metrics to our rolling four quarter outlook, if at all;
- the timely and full payment of death benefits related to preneed funeral contracts funded through life insurance contracts;
- the financial condition of third-party insurance companies that fund our preneed funeral contracts;
- increased or unanticipated costs, such as merchandise, goods, insurance or taxes, and our ability to mitigate or minimize such costs, if at all;
- our level of indebtedness and the cash required to service our indebtedness;
- changes in federal income tax laws and regulations and the implementation and interpretation of these laws and regulations by the Internal Revenue Service;
- effects of the application of other applicable laws and regulations, including changes in such regulations or the interpretation thereof;
- the potential impact of epidemics and pandemics, including the COVID-19 coronavirus, including new variants of COVID-19, such as the Delta and Omicron variants, on customer preferences and on our business;
- government, social, business and other actions that have been and will be taken in response to pandemics, including potential responses to new variants of COVID-19, such as the Delta and Omicron variants;
- effects and expense of litigation;
- consolidation of the funeral and cemetery industry;
- our ability to identify and consummate strategic acquisitions, if at all, and successfully integrate acquired businesses with our existing businesses, including expected performance and financial improvements related thereto;
- economic, financial and stock market fluctuations,

- interruptions or security lapses of our information technology, including any cybersecurity or ransomware incidents,
- acts of war or terrorists acts and the governmental or military response to such acts;
- our failure to maintain effective control over financial reporting; and
- other factors and uncertainties inherent in the funeral and cemetery industry.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see (i) Part II, Item 1A “Risk Factors” in this Quarterly Report on Form 10-Q and (ii) Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021.

Investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

General

Carriage Services, Inc. ("Carriage," the "Company," "we," "us," or "our") was incorporated in the State of Delaware in December 1993 and is a leading U.S. provider of funeral and cemetery services and merchandise. We operate in two business segments: Funeral Home Operations, which currently account for approximately 70% of our revenue, and Cemetery Operations, which currently account for approximately 30% of our revenue.

At June 30, 2022, we operated 167 funeral homes in 26 states and 31 cemeteries in 11 states. We compete with other publicly held and independent operators of funeral and cemetery companies. We believe we are a market leader in most of our markets.

Funeral home and cemetery businesses provide products and services to families in three principal areas: (i) ceremony and tribute, generally in the form of a funeral or memorial service; (ii) disposition of remains, either through burial or cremation; and (iii) memorialization, generally through monuments, markers or inscriptions. Our funeral homes offer a complete range of services to meet a family's funeral needs, including consultation, the removal and preparation of remains, the sale of caskets and related funeral merchandise, the use of funeral home facilities for visitation and memorial services and transportation services. Most of our funeral homes have a non-denominational chapel on the premises, which permits family visitation and services to take place at one location and thereby reduces transportation costs and inconvenience to the family.

Our cemeteries provide interment rights (primarily grave sites, lawn crypts, mausoleum spaces and niches), related cemetery merchandise (such as outer burial containers, memorial markers and floral placements) and services (interments, inurnments and installation of cemetery merchandise).

We provide funeral and cemetery services and products on both an "atneed" (time of death) and "preneed" (planned prior to death) basis.

Recent Developments

Executive Leadership Changes

On April 1, 2022, Rob Franch joined our executive leadership team as Chief Information Officer.

Divestitures

During the six months ended June 30, 2022, we sold real property for $2.7 million and two funeral homes for $0.9 million for a net gain of $0.6 million.

Credit Facility

On May 27 2022, we entered into a second amendment and commitment increase to the Credit Facility with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. Pursuant to this amendment, the revolving credit commitment was increased from $200.0 million to $250.0 million.

Business Impact under the Macroeconomic Environment of COVID-19

On March 11, 2020, COVID-19 was deemed a global pandemic and since then, the Company has continued to proactively monitor and assess the pandemic's current and potential impact to the Company's operations. Throughout the pandemic, the Company's senior leadership team has taken steps to assist our businesses in appropriately adjusting and adapting to the conditions resulting from the COVID-19 pandemic.

Our businesses are open and ready to provide service to the families and communities they serve. While our businesses provide an essential public function, along with a critical responsibility to the communities and families they serve, the health and safety of our employees and the families we serve remain our top priority. We continue to review and update our processes and procedures to comply with all regulatory mandates and procure additional supplies to ensure that each of our businesses have appropriate personal protective equipment to provide these essential services. The Company also implemented additional safety and precautionary measures as it concerns our businesses' day-to-day interaction with the families and communities they serve.

The overall impact of the macroeconomic environment to the deathcare industry from the pandemic may provide varying results as compared to other industries. Our industry's revenues are impacted by various factors, including the number of funeral services performed, the average price for a service and the mix of traditional burial versus cremation contracts. During the second quarter of 2022, we continued to see the number of funeral contracts normalize to pre-COVID-19 levels. Regardless of these recent trends, our businesses have remained focused on being innovative and resourceful, providing families immediate service as part of the grieving process.

Within our financial reporting environment, we have considered various areas that could affect the results of our operations, though the scope, severity and duration of these impacts remain uncertain at this time because the ultimate impact of COVID-19 remains uncertain, including the potential impacts of new variants of COVID-19, such as the Delta and Omicron variants, and any resulting government responses to such variants. We do not believe we are particularly vulnerable to concentrations, with respect to geographic area, revenue for specific products or our relationships with our vendors. Our relationships with our vendors and suppliers have remained consistent and we continue to receive reliable service. To date, we have not experienced any material supply chain impacts or disruptions from our vendors attributable to COVID-19. Remote working arrangements, when utilized, have not materially affected our ability to maintain and support operations, including financial reporting systems, internal controls over financial reporting, and disclosure controls and procedures.

We believe our access to capital, the cost of our capital, or the sources and uses of our cash should be relatively consistent in the near term. While the expected duration of the pandemic is unknown, we have not currently experienced any material negative impacts to our liquidity position, access to capital, or cash flows as a result of COVID-19. See Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources for additional information related to our liquidity position.

During the second quarter of 2022, we continued to see a decrease in COVID-19-related deaths and the normalization of funeral contracts to pre-COVID-19 levels at broadly higher funeral contract revenue averages. During this same time, we have not seen an adverse impact to our overall financial performance. Although we expect these trends to continue, we will continue to assess these impacts, including the potential impacts of new variants of COVID-19, such as the Delta and Omicron variants, and implement appropriate procedures, plans, strategy, and issue any disclosures that may be required, as the situation surrounding the pandemic and related regulatory mandates and restrictions, if any, evolves.

Inflationary Trends

Beginning in the second quarter of 2022, we began to experience modest cost increases and surcharges from our vendors and suppliers on merchandise and goods due to broader inflationary, raw material cost increases, and global supply chain impacts. Although we have taken steps to mitigate these cost increases, we expect these impacts to continue through the end of the year. More broadly, the U.S. economy has recently experienced an increase in the rate of inflation, which has impacted a wide variety of industries and sectors, with consumers facing rising prices. Such inflation may negatively impact consumers or discretionary spending, although we have not experienced such impacts to date and our industry has been largely resilient to similar adverse economic and market environments in the past. Although we expect these trends to continue through the end of the year, we will continue to assess these impacts and take the appropriate steps, if necessary, to mitigate these cost increases, if possible.

Funeral Home Operations

Our funeral homes offer a complete range of high value personal services to meet a family’s funeral needs, including consultation, the removal and preparation of remains, the sale of caskets and related funeral merchandise, the use of funeral home facilities for visitation and remembrance services and transportation services. Factors affecting our funeral operating results include, but are not limited to: demographic trends relating to population growth and average age, which impact death rates and number of deaths; establishing and maintaining leading market share positions supported by strong local heritage and relationships; effectively responding to increasing cremation trends by selling complementary services and merchandise; controlling salary and merchandise costs; and exercising pricing leverage to increase average revenue per contract.

Cemetery Operations

Our cemeteries provide interment rights (grave sites and mausoleum spaces) and related merchandise, such as markers and outer burial containers both on an atneed and preneed basis. Factors affecting our cemetery operating results include, but are not limited to: the size and success of our sales organization; local perceptions and heritage of our cemeteries; our ability to adapt to changes in the economy and consumer confidence; and our response to fluctuations in capital markets and interest rates, which affect investment earnings on trust funds, finance charges on installment contracts and our securities portfolio within the trust funds.

Business Strategy

Our business strategy is based on strong, local leadership with entrepreneurial principles that is focused on sustainable long term market share, revenue, and profitability growth in each local business. We believe Carriage has the most innovative operating model in the funeral and cemetery industry, which we are able to achieve through a decentralized, high-performance culture and operating framework linked with incentive compensation programs that attract top quality industry talent to our organization. We also believe that Carriage provides a unique consolidation and operating framework that offers a highly attractive succession planning solution for independent funeral home owners who want their legacy family business to remain operationally prosperous in their local communities.

Our **Mission Statement** states that “we are committed to being the most professional, ethical and highest quality funeral and cemetery service organization in our industry” and our **Guiding Principles** state our core values, which are comprised of:

- Honesty, integrity and quality in all that we do;
- Hard work, pride of accomplishment, and shared success through employee ownership;
- Belief in the power of people through individual initiative and teamwork;
- Outstanding service and profitability go hand-in-hand; and
- Growth of the Company is driven by decentralization and partnership.

Our five **Guiding Principles** collectively embody our **Being The Best** high-performance culture and operating framework. Our operations and business strategy are built upon the execution of the following three models:

- Standards Operating Model;
- 4E Leadership Model; and
- Strategic Acquisition Model.

Standards Operating Model

Our Standards Operating Model is focused on growing local market share, providing personalized high-value services to our client families and guests, and operating financial metrics that drive long-term, sustainable revenue growth and improved earning power of our portfolio of businesses by employing leadership and entrepreneurial principles that fit the nature of our high-value personal service business. Standards Achievement is the measure by which we judge the success of each business and incentivize our local managers and their teams. Our Standards Operating Model is not designed to produce maximum short-term earnings because we believe such performance is unsustainable and will ultimately stress the business, which very often leads to declining market share, revenue and earnings.

4E Leadership Model

Our 4E Leadership Model requires strong local leadership in each business to grow an entrepreneurial, decentralized, high-value, personal service and sales business at sustainable profit margins. Our 4E Leadership Model is based upon principles established by Jack Welch during his tenure at General Electric, and is based upon 4E qualities essential to succeed in a high performance culture: *Energy* to get the job done; the ability to *Energiz*e others; the *Edge* necessary to make difficult decisions; and the ability to *Execute* and produce results. To achieve a high level within our Standards in a business year after year, we require our local Managing Partners that have the 4E Leadership skills to entrepreneurially grow the business by hiring, training and developing highly motivated and productive local teams.

Strategic Acquisition Model

Our Standards Operating Model led to the development of our Strategic Acquisition Model, which guides our acquisition strategy. We believe that both models, when executed effectively, will drive long-term, sustainable increases in market share, revenue, earnings and cash flow. We believe a primary driver of higher revenue and profits in the future will be the execution of our Strategic Acquisition Model using strategic criteria to assess acquisition candidates. As we execute this strategy over time, we expect to acquire larger, higher margin strategic businesses.

We have learned that the long-term growth or decline of a local branded funeral and cemetery business is reflected by several criteria that correlate strongly with five to ten year performance in volumes (market share), revenue and sustainable field-level earnings before interest, taxes, depreciation and amortization (“EBITDA”) margins (a non-GAAP financial measure). We use criteria such as cultural alignment, volume and price trends, size of business, size of market, competitive standing, demographics, strength of brand and barriers to entry to evaluate the strategic position of potential acquisition candidates. Our financial valuation of the acquisition candidate is then determined through the application of an appropriate after-tax cash return on investment that exceeds our cost of capital.

Our belief in our **Mission Statement** and **Guiding Principles** and proper execution of the three models that define our strategy have given us a competitive advantage in every market where we compete. We believe that we can execute our three models without proportionate incremental investment in our consolidation platform infrastructure and without additional fixed regional and corporate overhead. This gives us a competitive advantage that is evidenced by the sustained earning power of our portfolio as defined by our EBITDA margin.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary sources of liquidity and capital resources are internally generated cash flows from operating activities and availability under our Credit Facility (defined below).

We generate cash in our operations primarily from atneed sales and delivery of preneed sales. We also generate cash from earnings on our cemetery perpetual care trusts. Based on our recent operating results, current cash position and anticipated future cash flows, we do not anticipate any significant liquidity constraints in the foreseeable future. We have the ability to draw on our Credit Facility, subject to its customary terms and conditions. At June 30, 2022, we had $72.5 million of availability under the Credit Facility. However, if our capital expenditures or acquisition plans change, we may need to access the capital markets to obtain additional funding and we may not be able to obtain such funding on terms and conditions that are acceptable to us. Further, to the extent operating cash flow or access to and cost of financing sources are materially different than expected, future liquidity may be adversely affected. For additional information regarding known material factors that could cause cash flow or access to and cost of finance sources to differ from our expectations, please read Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021.

Our plan is to use cash on hand and borrowings under our Credit Facility primarily for general corporate purposes, payment of dividends and debt obligations, strategic acquisitions, internal growth capital expenditures, share repurchases, dividend increases and further debt repayments. From time to time we may also use available cash resources (including borrowings under our Credit Facility) to repurchase shares of our common stock, subject to satisfying certain financial covenants in our Credit Facility and in the Indenture (defined below) governing our Senior Notes (defined below). We believe that our existing and anticipated cash resources will be sufficient to meet our anticipated working capital requirements, capital expenditures, scheduled debt payments, commitments and dividends for the next 12 months, as well as our long-term financial obligations.

Cash Flows

We began 2022 with $1.1 million in cash and ended the second quarter with $1.1 million in cash. At June 30, 2022, we had borrowings of $175.2 million outstanding on our Credit Facility compared to $155.4 million at December 31, 2021.

The following table sets forth the elements of cash flow (in thousands):

	Six months ended June 30,	
	2021	2022
Cash at beginning of the year	$ 889	$ 1,148
Net cash provided by operating activities	41,441	30,177
Acquisitions of real estate	(2,935)	(2,601)
Proceeds from divestitures and sale of other assets	3,622	3,720
Proceeds from insurance reimbursements	120	2,167
Capital expenditures	(8,751)	(13,468)
Net cash used in investing activities	(7,944)	(10,182)
Net borrowings on our Credit Facility, acquisition debt and finance lease obligations	12,848	19,598
Payments to redeem the Original Senior Notes	(400,000)	—
Payment of call premium for the redemption of the Original Senior Notes	(19,876)	—
Payment of debt issuance costs for the Credit Facility and Senior Notes	(1,930)	(339)
Proceeds from the issuance of the Senior Notes	395,500	—
Conversions and maturity of the Convertibles Notes	(3,980)	—
Net proceeds related to employee equity plans	172	774
Dividends paid on common stock	(3,607)	(3,455)
Purchase of treasury stock	(11,559)	(36,663)
Other financing costs	(461)	—
Net cash used in financing activities	(32,893)	(20,085)
Cash at end of the period	$ 1,493	$ 1,058

Operating Activities

For the six months ended June 30, 2022, cash provided by operating activities was $30.2 million compared to $41.4 million for the six months ended June 30, 2021. The decrease of $11.2 million is primarily due to unfavorable working capital changes in accrued liabilities and income tax receivables.

Investing Activities

Our investing activities, resulted in a net cash outflow of $10.2 million for the six months ended June 30, 2022 compared to $7.9 million for the six months ended June 30, 2021, a decrease of $2.3 million.

Acquisition and Divestiture Activity

During the six months ended June 30, 2022, we sold real property for $2.9 million and two funeral homes for $0.9 million and we purchased real property for $2.6 million.

During the six months ended June 30, 2021, we sold three funeral homes for $3.5 million and we purchased real property for $2.9 million.

Capital Expenditures

For the six months ended June 30, 2022, capital expenditures (comprised of growth and maintenance spend) totaled $13.5 million compared to $8.8 million for the six months ended June 30, 2021, an increase of $4.7 million.

The following tables present our growth and maintenance capital expenditures (in thousands):

	Six months ended June 30,	
	2021	2022
Growth		
Cemetery development	$ 2,665	$ 3,673
Renovations at certain businesses[1]	1,397	3,620
Other	87	193
Total Growth	$ 4,149	$ 7,486

(1) During the six months ended June 30, 2022, we spent $2.1 million for renovations on two businesses that were affected by Hurricane Ida, all of which was reimbursed by our property insurance.

	Six months ended June 30,	
	2021	2022
Maintenance		
Facility repairs and improvements	$ 870	$ 1,599
Vehicles	795	1,129
General equipment and furniture	2,296	2,347
Paving roads and parking lots	265	485
Other	376	422
Total Maintenance	$ 4,602	$ 5,982

Financing Activities

Our financing activities resulted in a net cash outflow of $20.1 million for the six months ended June 30, 2022 compared to $32.9 million for the six months ended June 30, 2021, a decrease of $12.8 million.

During the six months ended June 30, 2022, we had net borrowings on our Credit Facility, acquisition debt and finance leases of $19.6 million, offset by $36.7 million for the purchase of treasury stock and $3.5 million in dividends.

During the six months ended June 30, 2021, we had net borrowings on our Credit Facility, acquisition debt and finance leases of $12.8 million, offset by the following payments: i) $19.9 million for the call premium to redeem our Original Senior Notes; ii) $11.6 million for the purchase of treasury stock; iii) $6.4 million for debt issuance and transactions costs related to our Senior Notes and Credit Facility; iv) $4.0 million for the conversions and maturity of our Convertible Notes; and v) $3.6 million in dividends.

Share Repurchase

On February 23, 2022, our Board authorized an increase in our share repurchase program to permit us to purchase up to an additional $75.0 million under our share repurchase program, in addition to amounts previously authorized and outstanding in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended ("the Exchange Act").

Share repurchase activity is as follows (dollar value in thousands):

	Six months ended June 30,			
		2021		**2022**
Number of Shares Repurchased[1]		324,700		695,496
Average Price Paid Per Share	$	37.88	$	49.22
Dollar Value of Shares Repurchased[1]	$	12,301	$	34,233

Our shares were purchased in the open market at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury shares. At June 30, 2022, our share repurchase program had $48.9 million authorized for repurchases.

Cash Dividends

Our Board declared the following dividends payable on the dates below (in thousands, except per share amounts):

2022		**Per Share**		**Dollar Value**
March 1st	$	0.1125	$	1,725
June 1st	$	0.1125	$	1,730

2021		**Per Share**		**Dollar Value**
March 1st	$	0.1000	$	1,799
June 1st	$	0.1000	$	1,808

Credit Facility, Lease Obligations and Acquisition Debt

The outstanding principal of our Credit Facility, lease obligations and acquisition debt at June 30, 2022 is as follows (in thousands):

		June 30, 2022
Credit Facility	$	175,200
Finance leases		5,356
Operating leases		20,034
Acquisition debt		4,474
Total	$	205,064

Credit Facility

On May 27 2022, we entered into a second amendment and commitment increase (the "Credit Facility Amendment") to the first amended and restated credit agreement dated May 13, 2021 (as amended, the "Credit Facility") with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. The Credit Facility Amendment provided, among other things, for (i) an increase to the Revolving Credit Commitments (as defined in the Credit Facility) under the Credit Facility from $200.0 million to $250.0 million in the aggregate; (ii) modifications to the definitions of "Applicable Rate" and "Applicable Fee Rate" to change the applicable rates and pricing levels set forth in each pricing grid; (iii) the establishment of the BSBY as a benchmark rate and the removal of LIBOR from the Credit Facility; (iv) an increase in the maximum Total Leverage Ratio (as defined in the Credit Facility) to 5.25 to 1.00; and (v) modifications to the restricted payments covenant to allow the Company to make additional stock repurchases, subject to the satisfaction of certain conditions therein. We incurred $0.3 million in transactions costs related to this amendment, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

At June 30, 2022, our senior secured revolving Credit Facility was comprised of: (i) a $250.0 million revolving credit facility, including a $15.0 million subfacility for letters of credit and a $10.0 million swingline, and (ii) an accordion or incremental option allowing for future increases in the facility size by an additional amount of up to $75.0 million in the form of increased revolving commitments or incremental term loans. The final maturity of the Credit Facility will occur on May 13, 2026.

Our obligations under the Credit Facility are unconditionally guaranteed on a joint and several basis by the same subsidiaries which guarantee the Senior Notes (defined below) and certain of our subsequently acquired or organized domestic subsidiaries (collectively, the “Subsidiary Guarantors”). The Credit Facility allows for future increases in the facility size in the form of increased revolving commitments or new incremental term loans by an additional amount of up to $75.0 million in the aggregate.

The Credit Facility is secured by a first-priority perfected security interest in and lien on substantially all of the Company’s personal property assets and those of the Subsidiary Guarantors. In addition, the Credit Facility includes provisions which require the Company and the Subsidiary Guarantors, upon the occurrence of an event of default or in the event the Company’s actual Total Leverage Ratio is not at least 0.25 less than the required Total Leverage Ratio covenant level under the Credit Facility, to grant additional liens on real property assets accounting for no less than 50% of the Company’s and the Subsidiary Guarantors’ funeral operations if requested by the administrative agent.

The Credit Facility contains customary affirmative covenants, including, but not limited to, covenants with respect to the use of proceeds, payment of taxes and other obligations, continuation of the Company’s business and the maintenance of existing rights and privileges, the maintenance of property and insurance, amongst others.

In addition, the Credit Facility also contains customary negative covenants, including, but not limited to, covenants that restrict (subject to certain exceptions) the ability of the Company and the Subsidiary Guarantors to incur indebtedness, grant liens, make investments, engage in mergers and acquisitions, and pay dividends and other restricted payments, and certain financial maintenance covenants. At June 30, 2022, we were subject to the following financial covenants under our Credit Facility: (A) a Total Leverage Ratio not to exceed 5.25 to 1.00 and (B) a Fixed Charge Coverage Ratio (as defined in the Credit Facility) of not less than 1.20 to 1.00 as of the end of any period of four consecutive fiscal quarters. These financial maintenance covenants are calculated for the Company and its subsidiaries on a consolidated basis.

We were in compliance with all of the covenants contained in our Credit Facility as of June 30, 2022.

At June 30, 2022, we had outstanding borrowings under the Credit Facility of $175.2 million. We also had one letter of credit for $2.3 million under the Credit Facility. The letter of credit will expire on November 25, 2022 and is expected to automatically renew annually and secures our obligations under our various self-insured policies. At June 30, 2022, we had $72.5 million of availability under the Credit Facility.

As of the effective date of the Credit Facility Amendment, outstanding borrowings under our Credit Facility bear interest at a prime rate or a BSBY rate, plus an applicable margin based our leverage ratio. At June 30, 2022, the prime rate margin was equivalent to 1.125% and the BSBY rate margin was 2.125%. The weighted average interest rate on our Credit Facility was 2.5% and 2.9% for the three months ended June 30, 2021 and 2022, respectively and 2.8% and 2.5% for the six months ended June 30, 2021 and 2022, respectively.

The interest expense and amortization of debt issuance costs related to our Credit Facility are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	**2022**	**2021**	**2022**
Credit Facility interest expense	$ 372	$ 1,314	$ 817	$ 2,161
Credit Facility amortization of debt issuance costs	99	96	217	184

Lease Obligations

Our lease obligations consist of operating and finance leases. We lease certain office facilities, certain funeral homes and equipment under operating leases with original terms ranging from one to twenty years. Many leases include one or more options to renew, some of which include options to extend the leases for up to forty years. We lease certain funeral homes under finance leases with original terms ranging from ten to forty years. At June 30, 2022, operating and finance lease obligations were $36.7 million, with $4.4 million payable within 12 months.

The lease cost related to our operating leases and short-term leases and depreciation expense and interest expense related to our finance leases are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2020	**2021**	**2021**	**2022**
Operating lease cost	$ 964	$ 853	$ 1,924	$ 1,701
Short-term lease cost	57	76	106	178
Variable lease cost	16	16	57	23
Finance lease cost:				
Depreciation of leased assets	$ 109	$ 109	$ 217	$ 217
Interest on lease liabilities	119	112	239	225
Total finance lease cost	228	221	456	442
Total lease cost	$ 1,265	$ 1,166	$ 2,543	$ 2,344

Acquisition Debt

Acquisition debt consists of deferred purchase price and promissory notes payable to sellers. A majority of the deferred purchase price and notes bear no interest and are discounted at imputed interest rates ranging from 7.3% to 10.0%. Original maturities range from nine to twenty years. At June 30, 2022, acquisition debt obligations were $6.4 million, with $0.8 million payable within 12 months.

The imputed interest expense related to our acquisition debt is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	**2022**	**2021**	**2022**
Acquisition debt imputed interest expense	$ 93	$ 79	$ 190	$ 159

Senior Notes

At June 30, 2022, the principal amount of our 4.25% senior notes due in May 2029 (the "Senior Notes") was $400.0 million. The Senior Notes were issued under an indenture, dated as of May 13, 2021 (the "Indenture"), among the Company, the Subsidiary Guarantors and Wilmington Trust, National Association, as trustee. The Senior Notes are unsecured, senior obligations and are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally by each of the Subsidiary Guarantors. The Senior Notes mature on May 15, 2029, unless earlier redeemed or purchased and bear interest at 4.25% per year, which is payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2021.

We may redeem the Senior Notes, in whole or in part, at the redemption price of 102.13% on or after May 15, 2024, 101.06% on or after May 15, 2025 and 100% on or after May 15, 2026, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. At any time before May 15, 2024, we may also redeem all or part of the Senior Notes at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to (but excluding) the date of redemption. In addition, before May 15, 2024, we may redeem up to 40% of the aggregate principal amount of the Senior Notes outstanding using an amount of cash equal to the net proceeds of certain equity offerings, at a price of 104.25% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to (but excluding) the date of redemption; provided that (1) at least 50% of the aggregate principal amount of the Senior Notes (including any additional Senior Notes) outstanding under the Indenture remain outstanding immediately after the occurrence of such redemption (unless all Senior Notes are redeemed concurrently), and (2) each such redemption must occur within 180 days of the date of the consummation of any such equity offering.

If a "change of control" occurs, holders of the Senior Notes will have the option to require us to purchase for cash all or a portion of their Senior Notes at a price equal to 101% of the principal amount of the Senior Notes, plus accrued and unpaid interest. In addition, if we make certain asset sales and do not reinvest the proceeds thereof or use such proceeds to repay certain debt, we will be required to use the proceeds of such asset sales to make an offer to purchase the Senior Notes at a price equal to 100% of the principal amount of the Senior Notes, plus accrued and unpaid interest.

The Indenture contains restrictive covenants limiting our ability and our Restricted Subsidiaries (as defined in the Indenture) to, among other things, incur additional indebtedness or issue certain preferred shares, create liens on certain assets to secure debt, pay dividends or make other equity distributions, purchase or redeem capital stock, make certain investments, sell assets, agree to certain restrictions on the ability of Restricted Subsidiaries to make payments to us, consolidate, merge, sell or otherwise dispose of all or substantially all assets, or engage in transactions with affiliates. The Indenture also contains customary events of default.

The debt discount and the debt issuance costs are being amortized using the effective interest method over the remaining term of approximately 83 months of the Senior Notes. For both the three and six months ended June 30, 2022, the effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Senior Notes was 4.42% and 4.30%, respectively.

For the three and six months ended June 30, 2021, the effective interest rate on the unamortized debt discount and unamortized debt issuance costs for our $400 million in aggregate principal amount of 6.625% senior notes due 2026 (the "Original Senior Notes") was 6.87% and 6.69%, respectively. For the six months ended June 30, 2021, the effective interest rate on the unamortized debt premium and the unamortized debt issuance costs for the additional Original Senior Notes, issued in December 2019 was 6.20% and 6.88%, respectively. All of our Original Senior Notes were redeemed on June 1, 2021.

At June 30, 2022, the fair value of the Senior Notes, which are Level 2 measurements, was $327.7 million.

The interest expense and amortization of debt discount, debt premium and debt issuance costs related to our Senior Notes are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Senior Notes interest expense	$ 6,642	$ 4,230	$ 13,267	$ 8,480
Senior Notes amortization of debt discount	128	122	266	243
Senior Notes amortization of debt premium	27	—	85	—
Senior Notes amortization of debt issuance costs	53	35	127	69

At June 30, 2022, our future interest payments on our outstanding balance were $116.9 million, with $17.0 million payable within 12 months.

FINANCIAL HIGHLIGHTS

Below are our financial highlights (in thousands except for volumes and averages):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Revenue	$ 88,277	$ 90,600	$ 184,914	$ 188,761
Funeral contracts	10,842	11,006	24,138	24,521
Average revenue per funeral contract	$ 5,385	$ 5,493	$ 5,325	$ 5,439
Preneed interment rights (property) sold	3,276	3,511	5,934	5,889
Average price per preneed interment right sold	$ 4,592	$ 4,337	$ 4,573	$ 4,398
Gross profit	$ 28,927	$ 27,712	$ 63,988	$ 62,190
Net income (loss)	$ (6,167)	$ 10,899	$ 6,766	$ 27,301

Revenue for the three months ended June 30, 2022 increased $2.3 million compared to the three months ended June 30, 2021, as we experienced a 1.5% increase in funeral contract volume, as well as a 2.0% increase in average revenue per funeral contract primarily due to market share gains and higher normalized death rates, offset by a 7.2% decrease in the number of preneed interment rights (property) sold, as well as a 5.6% decrease in the average price per interment right sold.

Gross profit for the three months ended June 30, 2022 decreased $1.2 million compared to the three months ended June 30, 2021, primarily due to the increase in operating expenses in our cemetery segment.

Net income for the three months ended June 30, 2022 increased $17.1 million compared to the three months ended June 30, 2021, primarily due to a $23.8 million loss on extinguishment of debt in 2021, a $2.0 million increase in net gain on divestitures, disposals and impairments charges, a $1.5 million decrease in interest expense, and a $1.4 million gain on insurance reimbursements, offset by a $8.4 million increase in income tax expense.

Revenue for the six months ended June 30, 2022 increased $3.8 million compared to the six months ended June 30, 2021, as we experienced a 1.6% increase in funeral contract volume, as well as a 2.1% increase in average revenue per funeral contract primarily due to market share gains and higher normalized death rates, offset by a 0.8% decrease in the number of preneed interment rights (property) sold, as well as a 3.8% decrease in the average price per interment right sold.

Gross profit for the six months ended June 30, 2022 decreased $1.8 million compared to the six months ended June 30, 2021, primarily due to the increase in operating expenses in our cemetery segment.

Net income for the six months ended June 30, 2022 increased $20.5 million compared to the six months ended June 30, 2021, primarily due primarily due to a $23.8 million loss on extinguishment of debt in 2021, a $3.5 million decrease in interest expense, a $3.3 million gain on insurance reimbursements and a $0.9 million increase in net gain on divestitures, disposals and impairments charges, offset by a $7.9 million increase in income tax expense.

Further discussion of Revenue and the components of Gross profit for our funeral home and cemetery segments is presented herein under "– Results of Operations."

Further discussion of General, administrative and other expenses, Interest expense, Income taxes and other components of income and expenses are presented herein under "– Other Financial Statement Items."

REPORTING AND NON-GAAP FINANCIAL MEASURES

We also present our financial performance in our "Operating and Financial Trend Report" ("Trend Report") as reported in our earnings release for the three months ended June 30, 2022 issued on July 27, 2022 and discussed in the corresponding earnings conference call. The Trend Report is used as a supplemental financial statement by management and investors to compare our current financial performance with our previous results and with the performance of other companies. We do not intend for this information to be considered in isolation or as a substitute for other measures of performance prepared in accordance with United States generally accepted accounting principles ("GAAP"). The Trend Report contains non-GAAP financial measures that we believe provides insight into underlying trends in our business.

Below is a reconciliation of Net income, a GAAP financial measure, to Adjusted net income, a non-GAAP financial measure, (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Net income (loss)	$ (6,167)	$ 10,899	$ 6,766	$ 27,301
Special items[1]				
Severance and separation costs[2]	—	—	1,575	—
Accretion of discount on Convertible Notes[1]	—	—	20	—
Loss on extinguishment of debt[3]	23,807	—	23,807	—
Net (gain) loss on divestitures and other costs	205	(1,284)	(103)	(581)
Litigation reserve[4]	—	200	—	200
Net gain on insurance reimbursements[5]	—	(1,376)	—	(3,275)
Disaster recovery and pandemic costs[6]	145	—	1,039	168
Change in uncertain tax reserves and other[1]	—	—	—	(533)
Other special items[7]	1,334	—	1,334	—
Sum of special items	$ 25,491	$ (2,460)	$ 27,672	$ (4,021)
Tax effect on special items[1]	7,457	(653)	7,881	(926)
Adjusted net income[8]	$ 11,867	$ 9,092	$ 26,557	$ 24,206

(1) Special items are defined as charges or credits included in our GAAP financial statements that can vary from period to period and are not reflective of costs incurred in the ordinary course of our operations. Special items are taxed at the operating tax rate for the period except for the Accretion of the discount on Convertible Notes, as this is a non-tax deductible item and the Change in uncertain tax reserves and other, as this item is a tax benefit.

(2) Costs related to the termination or resignation of certain key members of leadership in the first quarter of 2021.

(3) Loss on the redemption of our Original Senior Notes during the second quarter of 2021.

(4) Costs related to litigation matters.

(5) Net gain recognized on insurance reimbursements for property damage caused by Hurricane Ida that occurred during the third quarter of 2021.

(6) Relates to health and safety expenses, including personal protective equipment ("PPE") due to COVID-19. We purchased more PPE during the three and six months ended 2021 compared to the same periods in 2022.

(7) Relates to the write-off of certain fixed assets and interest paid on our Original Senior Notes for the two-week period during which our Senior Notes were issued prior to the redemption of our Original Senior Notes.

(8) Adjusted net income is defined as Net income plus adjustments for Special items and other expenses or gains that we believe do not directly reflect our core operations and may not be indicative of our normal business operations.

Below is a reconciliation of Gross profit (a GAAP financial measure) to Operating profit (a non-GAAP financial measure) (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Gross profit	$ 28,927	$ 27,712	$ 63,988	$ 62,190
Cemetery property amortization	2,175	1,704	3,692	3,036
Field depreciation expense	3,142	3,253	6,278	6,550
Regional and unallocated funeral and cemetery costs	5,770	5,966	11,843	12,313
Operating profit[1]	$ 40,014	$ 38,635	$ 85,801	$ 84,089

(1) Operating profit is defined as Gross profit less Cemetery property amortization, Field depreciation expense and Regional and unallocated funeral and cemetery costs.

Our operations are reported in two business segments: Funeral Home and Cemetery. Below is a breakdown of Operating profit (a non-GAAP financial measure) by Segment (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Funeral Home	$ 24,184	$ 24,152	$ 57,090	$ 57,887
Cemetery	15,830	14,483	28,711	26,202
Operating profit	$ 40,014	$ 38,635	$ 85,801	$ 84,089
Operating profit margin(1)	45.3%	42.6%	46.4%	44.5%

(1) Operating profit margin is defined as Operating profit as a percentage of Revenue.

Further discussion of Operating profit for our funeral home and cemetery segments is presented herein under "– Results of Operations."

RESULTS OF OPERATIONS

The following is a discussion of our results of operations for the three and six months ended June 30, 2022 and 2021.

The term "same store" refers to funeral homes and cemeteries acquired prior to January 1, 2018 and owned and operated for the entirety of each period being presented, excluding certain funeral home and cemetery businesses that we intend to divest in the near future.

The term "acquired" refers to funeral homes and cemeteries purchased after December 31, 2017, excluding any funeral home and cemetery businesses that we intend to divest in the near future. This classification of acquisitions has been important to management and investors in monitoring the results of these businesses and to gauge the leveraging performance contribution that a selective acquisition program can have on total company performance.

The term "divested" when discussed in the Funeral Home Segment, refers to two funeral homes we sold and one funeral home we merged with another business in an existing market in the first six months of 2022 and three funeral homes we sold in the first six months of 2021. The term "divested" when discussed in the Cemetery Segment, refers to one cemetery we sold during 2021.

"Planned divested" refers to the funeral home businesses that we intend to divest.

"Ancillary" in the Funeral Home Segment represents our flower shop, pet cremation business and online cremation business.

Cemetery property amortization, Field depreciation expense and Regional and unallocated funeral and cemetery costs, are not included in Operating profit, a non-GAAP financial measure. Adding back these items will result in Gross profit, a GAAP financial measure.

Funeral Home Segment

The following table sets forth certain information regarding our Revenue and Operating profit from our funeral home operations (in thousands):

	Three months ended June 30,	
	2021	2022
Revenue:		
Same store operating revenue	$ 48,922	$ 50,631
Acquired operating revenue	6,939	7,641
Divested/planned divested revenue	783	428
Ancillary revenue	1,088	980
Preneed funeral insurance commissions	263	409
Preneed funeral trust and insurance	1,837	1,849
Total	$ 59,832	$ 61,938
Operating profit:		
Same store operating profit	$ 19,144	$ 19,042
Acquired operating profit	2,769	3,059
Divested/planned divested operating profit	119	(54)
Ancillary operating profit	274	151
Preneed funeral insurance commissions	79	145
Preneed funeral trust and insurance	1,799	1,809
Total	$ 24,184	$ 24,152

The following measures reflect the significant metrics over this comparative period:

	Three months ended June 30,	
	2021	2022
Same store:		
Contract volume	9,241	9,415
Average revenue per contract, excluding preneed funeral trust earnings	$ 5,294	$ 5,378
Average revenue per contract, including preneed funeral trust earnings	$ 5,472	$ 5,547
Burial rate	35.7%	34.3%
Cremation rate	56.5%	57.3%
Acquired:		
Contract volume	1,446	1,489
Average revenue per contract, excluding preneed funeral trust earnings	$ 4,799	$ 5,131
Average revenue per contract, including preneed funeral trust earnings	$ 4,864	$ 5,238
Burial rate	38.4%	37.7%
Cremation rate	56.7%	57.2%

Funeral home same store operating revenue increased $1.7 million for the three months ended June 30, 2022 compared to the same period in 2021. The increase in operating revenue is primarily related to a 1.9% increase in same store contract volume, as well as a 1.6% increase in the average revenue per contract excluding preneed interest. The same store contract volume increased in spite of a 45.4% decrease in same store COVID-19 related contracts during the second quarter of 2022 compared to the second quarter of 2021. This additional volume increase is primarily due to market share gains and higher normalized death rates. The increase in average revenue per contract in the second quarter of 2022 reflects increases of 1.8% in cremations with memorial services and 1.5% in burials with memorial services compared to the second quarter of 2021. These increases are primarily due to the normalization of customer preferences for memorial services and our continued focus to welcome and educate families on the many products and service options that are available with cremation.

Funeral home same store operating profit for the three months ended June 30, 2022 decreased $0.1 million when compared to the same period in 2021, due to the increase in operating expenses. The comparable operating profit margin decreased 150 basis points to 37.6%. Operating expenses as a percentage of operating revenue increased 1.5% with the largest increases in property and general liability insurance of 0.5%, transportation costs of 0.3%, and general and administrative expenses of 0.3%, which were partially offset by a decrease in salaries and benefits expenses of 0.4%, primarily due to lower health insurance expenses.

Funeral home acquired operating revenue for the three months ended June 30, 2022 increased $0.7 million compared to the same period in 2021. The increase in operating revenue is primarily due to a 6.9% increase in the average revenue per contract excluding preneed interest, as well as a 3.0% increase in acquired contract volume. The acquired contract volume increased in spite of a 74.1% decrease in acquired COVID-19 related contracts for the second quarter of 2022 compared to the second quarter of 2021. This additional volume increase is primarily due to market share gains and higher normalized death rates. The increase in average revenue per contract in the second quarter of 2022 reflects increases of 6.1% in burials with memorial services and 1.8% in cremations with memorial services compared to the second quarter of 2021. These increases are primarily due to the normalization of customer preferences for memorial services and our continued focus to welcome and educate families on the many products and service options that are available with cremation.

Funeral home acquired operating profit for the three months ended June 30, 2022 increased $0.3 million when compared to the same period in 2021, due to the increase in acquired operating revenue and a decrease in operating expenses. The comparable operating profit margin increased 10 basis points to 40.0%. Operating expenses as a percentage of operating revenue decreased 0.1% with the largest decrease in salaries and benefits expenses of 0.9%, primarily due to lower health insurance expenses, offset by an increase in allowance for credit losses of 0.8%, due to the aging of higher accounts receivable related to the high volume of sales due to the COVID-19 spike during the latter half of 2021.

Ancillary revenue, recorded in *Other revenue*, which represents revenue from our flower shop, pet cremation and online cremation businesses, as well as Ancillary operating profit each decreased $0.1 million for the three months ended June 30, 2022 compared to the same period in 2021.

Preneed funeral insurance commissions and preneed funeral trust and insurance revenue (recorded in *Other revenue*) on a combined basis, increased $0.2 million for the three months ended June 30, 2022 compared to the same period in 2021. The increase is primarily related to the increase in funeral insurance commissions, resulting from an increase in preneed insurance sales. Operating profit for preneed funeral insurance commissions and preneed trust and insurance, on a combined basis, increased $0.1 million for the same comparative period, primarily due to the increase in preneed funeral insurance commission revenue.

The following table sets forth certain information regarding our Revenue and Operating profit from our funeral home operations (in thousands):

	Six months ended June 30,	
	2021	**2022**
Revenue:		
Same store operating revenue	$ 107,777	$ 112,157
Acquired operating revenue	14,924	16,251
Divested/planned divested revenue	1,984	1,146
Ancillary revenue	2,295	2,050
Preneed funeral insurance commissions	593	672
Preneed funeral trust and insurance	4,033	4,017
Total	$ 131,606	$ 136,293
Operating profit:		
Same store operating profit	$ 45,770	$ 46,541
Acquired operating profit	6,413	6,809
Divested/planned divested operating profit	264	71
Ancillary operating profit	516	372
Preneed funeral insurance commissions	168	158
Preneed funeral trust and insurance	3,959	3,936
Total	$ 57,090	$ 57,887

The following measures reflect the significant metrics over this comparative period:

	Six months ended June 30,	
	2021	**2022**
Same store:		
Contract volume	20,516	21,068
Average revenue per contract, excluding preneed funeral trust earnings	$ 5,253	$ 5,324
Average revenue per contract, including preneed funeral trust earnings	$ 5,429	$ 5,491
Burial rate	36.5%	34.7%
Cremation rate	56.5%	57.1%
Acquired:		
Contract volume	3,194	3,195
Average revenue per contract, excluding preneed funeral trust earnings	$ 4,673	$ 5,086
Average revenue per contract, including preneed funeral trust earnings	$ 4,747	$ 5,177
Burial rate	38.4%	37.3%
Cremation rate	56.5%	57.4%

Funeral home same store operating revenue increased $4.4 million for the six months ended June 30, 2022 compared to the same period in 2021. The increase in operating revenue is primarily related to a 2.7% increase in same store contract volume, as well as a 1.4% increase in the average revenue per contract excluding preneed interest. The same store contract volume increased in spite of a 48.4% decrease in COVID-19 related contracts for the six months ended June 30, 2022 compared to the same period in 2021. This additional volume increase is primarily due to market share gains and higher normalized death rates. The increase in average revenue per contract for the six months ended June 30, 2022 reflects increases of 4.2% in burials with memorial services and 2.3% in cremations with memorial services compared to the same period of 2021. These increases are primarily due to the normalization of customer preferences for memorial services and our continued focus to welcome and educate families on the many products and service options that are available with cremation.

Funeral home same store operating profit for the six months ended June 30, 2022 increased $0.8 million when compared to the same period in 2021, due to the increase in operating revenue, offset by the increase in operating expenses as a percentage of revenue. The comparable operating profit margin decreased 100 basis points to 41.5%. Operating expenses as a percentage of revenue increased 1.0% with the largest increases in allowance for credit losses of 0.3%, transportation costs of 0.2%, and general and administrative expenses of 0.2%, which were partially offset by a decrease in salaries and benefits expenses of 0.4%, primarily due to lower health insurance expenses.

Funeral home acquired operating revenue for the six months ended June 30, 2022 increased $1.3 million compared to the same period in 2021. The increase in operating revenue is primarily due to an 8.8% increase in the average revenue per contract excluding preneed interest, while the acquired contract volume was flat in spite of a 65.6% decrease in COVID-19 related contracts for the six months ended June 30, 2022 compared to the same period in 2021. The increase in average revenue per contract in the six months ending June 30, 2022 reflects increases of 6.9% in burials with memorial services and 5.2% in cremations with memorial services compared to the same period of 2021. These increases are primarily due to the normalization of customer preferences for memorial services and our continued focus to welcome and educate families on the many products and service options that are available with cremation.

Funeral home acquired operating profit for the six months ended June 30, 2022 increased $0.4 million when compared to the same period in 2021, due to the increase in operating revenue, offset by the increase in operating expenses as a percentage of revenue. The comparable operating profit margin decreased 110 basis points to 41.9%. Operating expenses as a percentage of revenue increased 1.1% with the largest increases in allowance for credit losses of 0.9% and funeral costs of 0.5%, which were partially offset by a decrease in salaries and benefits expenses of 0.2%, primarily due to lower health insurance expenses.

Ancillary revenue, which is recorded in *Other revenue*, represents revenue from our flower shop, pet cremation and online cremation businesses, decreased $0.2 million and Ancillary operating profit decreased $0.1 million for the six months ended June 30, 2022 compared to the same period in 2021.

Preneed funeral insurance commissions and preneed funeral trust and insurance revenue (recorded in *Other revenue*) on a combined basis, increased $0.1 million for the six months ended June 30, 2022 compared to the same period in 2021. Operating profit for preneed funeral insurance commissions and preneed trust and insurance, on a combined basis, remained flat for the same comparative period.

Cemetery Segment

The following table sets forth certain information regarding our Revenue and Operating profit from our cemetery operations (in thousands):

	Three months ended June 30, 2021	2022
Revenue:		
Same store operating revenue	$ 16,906	$ 16,969
Acquired operating revenue	8,175	8,193
Divested revenue	70	—
Preneed cemetery trust revenue	3,040	3,183
Preneed cemetery finance charges	254	317
Total	$ 28,445	$ 28,662
Operating profit:		
Same store operating profit	$ 7,907	$ 6,479
Acquired operating profit	4,737	4,640
Divested operating profit	16	—
Preneed cemetery trust operating profit	2,916	3,047
Preneed cemetery finance charges	254	317
Total	$ 15,830	$ 14,483

The following measures reflect the significant metrics over this comparative period:

	Three months ended June 30, 2021	2022
Same store:		
Preneed revenue as a percentage of operating revenue	63%	65%
Preneed revenue (in thousands)	$ 10,676	$ 11,097
Atneed revenue (in thousands)	$ 6,230	$ 5,872
Number of preneed interment rights sold	2,253	2,390
Average price per interment right sold	$ 4,108	$ 4,102
Acquired:		
Preneed revenue as a percentage of operating revenue	74%	66%
Preneed revenue (in thousands)	$ 6,055	$ 5,397
Atneed revenue (in thousands)	$ 2,120	$ 2,796
Number of preneed interment rights sold	1,013	1,121
Average price per interment right sold	$ 5,704	$ 4,838

Cemetery same store preneed revenue increased \$0.4 million for the three months ended June 30, 2022 compared to the same period in 2021, as we experienced a 6.1% increase in the number of interment rights sold, while the average price per interment right sold remained flat. Cemetery same store atneed revenue, which represents 35% of our same store operating revenue decreased \$0.4 million for the three months ended June 30, 2022 compared to the same period in 2021, as we experienced a 3.7% decrease in the number of interment rights sold, as well as a 2.2% decrease in the average price per interment right sold.

Cemetery same store operating profit for the three months ended June 30, 2022 decreased \$1.4 million from the same period in 2021, due to the increase in operating expenses. The comparable operating profit margin decreased 860 basis points to 38.2%. Operating expenses as a percent of operating revenue increased 8.6% with the largest increases in the following areas: (1) allowance for credit losses of 4.9%, due to a change in estimate in the prior period, which resulted in lower credit loss expense in the prior period; (2) promotional expenses of 2.4% due to an increase in commissions paid on preneed sales; and (3) facilities and grounds expenses of 1.8%, primarily due to an increase in property and general liability insurance.

Cemetery acquired preneed revenue decreased $0.7 million for the three months ended June 30, 2022 compared to the same period in 2021, as we experienced a 15.2% decrease in the average price per interment right sold, while the number of interment rights sold increased 10.7%. Cemetery acquired atneed revenue, which represents 34% of our acquired operating revenue, increased $0.7 million for the three months ended June 30, 2022 compared to the same period in 2021, as we experienced a 42.8% increase in the average price per interment right sold, while the number of interment rights sold decreased 16.3%.

Cemetery acquired operating profit decreased $0.1 million for the three months ended June 30, 2022 from the same period in 2021. The comparable operating profit margin decreased 130 basis points to 56.6% primarily as a result a 1.3% increase in operating expenses as a percent of operating revenue.

Preneed cemetery trust revenue and preneed cemetery finance charges (recorded in *Other revenue*) on a combined basis increased $0.2 million for the three months ended June 30, 2022 compared to the same period in 2021. The increase in trust revenue is due to an increase in realized gains on delivered merchandise and services contracts. Operating profit for the two categories of *Other Revenue*, on a combined basis, increased $0.2 million for the three months ended June 30, 2022 compared to the same period in 2021 primarily due to the increase in revenue.

The following table sets forth certain information regarding our Revenue and Operating profit from our cemetery operations (in thousands):

	Six months ended June 30,	
	2021	**2022**
Revenue:		
Same store operating revenue	$ 31,541	$ 31,220
Acquired operating revenue	15,155	14,490
Divested revenue	150	—
Preneed cemetery trust revenue	5,943	6,197
Preneed cemetery finance charges	519	561
Total	$ 53,308	$ 52,468
Operating profit:		
Same store operating profit	$ 13,611	$ 11,779
Acquired operating profit	8,839	7,939
Divested operating profit	47	—
Preneed cemetery trust operating profit	5,695	5,923
Preneed cemetery finance charges	519	561
Total	$ 28,711	$ 26,202

The following measures reflect the significant metrics over this comparative period:

	Six months ended June 30,	
	2021	2022
Same store:		
Preneed revenue as a percentage of operating revenue	61%	62%
Preneed revenue (in thousands)	$ 19,134	$ 19,201
Atneed revenue (in thousands)	12,407	12,019
Number of preneed interment rights sold	4,152	4,171
Average price per interment right sold	$ 4,093	$ 4,056
Acquired:		
Preneed revenue as a percentage of operating revenue	69%	65%
Preneed revenue (in thousands)	10,498	9,386
Atneed revenue (in thousands)	4,657	5,104
Number of preneed interment rights sold	1,763	1,718
Average price per interment right sold	$ 5,745	$ 5,231

Cemetery same store preneed revenue increased $0.1 million for the six months ended June 30, 2022 compared to the same period in 2021, as we experienced a 0.5% increase in the number of interment rights sold, while the average price per interment right sold decreased 0.9%. Cemetery same store atneed revenue, which represents 38% of our same store operating revenue, decreased $0.4 million for the six months ended June 30, 2022 compared to the same period in 2021, as we experienced a 3.6% decrease in the number of interment rights sold, while the average price per interment right sold increased 0.5%.

Cemetery same store operating profit for the six months ended June 30, 2022 decreased $1.8 million from the same period in 2021, due to the decrease in operating revenue and increase in operating costs. The comparable operating profit margin decreased 550 basis points to 37.7%. Operating expenses as a percent of operating revenue increased 5.4% with the largest increases in the following areas: (1) allowance for credit losses of 2.6%, due to a change in estimate in the second quarter of the prior year, which resulted in lower credit loss expense in the prior period; (2) promotional expenses of 1.4% due to an increase in commissions paid on preneed sales; and (3) facilities and grounds expenses of 1.2%, primarily due to an increase in property and general liability insurance.

Cemetery acquired preneed revenue decreased $1.1 million for the six months ended June 30, 2022 compared to the same period in 2021, as we experienced an 8.9% decrease in the average price per interment right sold, as well as a 2.6% decrease in the number of interment rights sold. Cemetery acquired atneed revenue, which represents 35% of our acquired operating revenue, increased $0.4 million for the six months ended June 30, 2022 compared to the same period in 2021, as we experienced a 15.3% increase in the average price per interment right sold, while the number of interment rights sold decreased 12.7%.

Cemetery acquired operating profit decreased $0.9 million for the six months ended June 30, 2022 from the same period in 2021, due to the decrease in operating revenue and increase in operating costs. The comparable operating profit margin decreased 350 basis points to 54.8%. Operating expenses as a percent of operating revenue increased 3.5% with the largest increases in the following areas: (1) facilities and grounds expenses of 1.5%, primarily due to an increase in property and general liability insurance; (2) promotional expenses of 0.9% due to an increase in commissions paid on preneed and atneed sales; and (3) general and administrative expenses increased 0.7%.

Preneed cemetery trust revenue and preneed cemetery finance charges (recorded in *Other revenue*) on a combined basis increased $0.3 million for the six months ended June 30, 2022 compared to the same period in 2021. The increase in trust revenue is primarily due to an increase in realized gains on delivered merchandise and services contracts. Operating profit for the two categories of *Other Revenue*, on a combined basis, increased $0.3 million for the six months ended June 30, 2022 compared to the same period in 2021 primarily due to the increase in revenue.

Cemetery property amortization. Cemetery property amortization totaled $1.7 million and $3.0 million for the three and six months ended June 30, 2022, respectively, a decrease of $0.5 million and $0.7 million, respectively, compared to the same periods in 2021, primarily due to the decrease in property sold across our cemetery portfolio.

Field depreciation. Depreciation expense for our field businesses totaled $3.3 million and $6.6 million for the three and six months ended June 30, 2022, respectively, an increase of $0.1 million and $0.3 million, respectively, compared to the same periods in 2021, primarily due to depreciation from technology equipment added in the last twelve months.

Regional and unallocated funeral and cemetery costs. Regional and unallocated funeral and cemetery costs consist of salaries and benefits for regional management, field incentive compensation and other related costs for field infrastructure. Regional and unallocated funeral and cemetery costs totaled $6.0 million for the three months ended June 30, 2022, an increase of $0.2 million compared to the same period in 2021, primarily due to the following: (1) a $0.6 million increase in incentive award trips and annual managing partner meetings, which were postponed in the prior year due to COVID-19; (2) a $0.2 million increase in salary and benefits expenses, which includes additional cemetery sales employees; offset by (3) a $0.5 million decrease in cash incentives and equity compensation; and (4) a $0.1 million decrease in health and safety expenses related to COVID-19.

Regional and unallocated funeral and cemetery costs totaled $12.3 million for the six months ended June 30, 2022, an increase of $0.5 million compared to the same period in 2021, primarily due to the following: (1) a $1.0 million increase in incentive award trips and annual managing partner meetings, which were postponed in the prior year due to COVID-19; (2) a $0.5 million increase in salary and benefits expenses, which includes additional cemetery sales employees; (3) a $0.3 million increase in other general administrative costs, which includes higher travel costs; and (4) a $0.1 million increase in separation expenses; offset by (4) a $0.7 million decrease in cash incentives and equity compensation; and (5) a $0.7 million decrease in health and safety expenses related to COVID-19.

Other Financial Statement Items

General, administrative and other. General, administrative and other expenses totaled $9.2 million for the three months ended June 30, 2022, an increase of $2.0 million compared to the same period in 2021, primarily due to the following: (1) a $1.0 million increase in other general administrative costs, which includes higher online marketing and advertising costs and software license fees for new technology; (2) a $0.8 million increase in salary and benefits expenses, which includes talent investment in our recently developed marketing department, as well as a Chief Information Officer; and (3) a $0.2 million increase in cash incentives and equity compensation.

General, administrative and other expenses totaled $17.7 million for the six months ended June 30, 2022, an increase of $1.4 million compared to the same period in 2021, primarily due to the following: (1) a $1.3 million increase in other general administrative costs, which includes higher online marketing and advertising costs and software license fees for new technology; (2) a $1.1 million increase in salary and benefits expenses, which includes talent investment in our recently developed marketing department, as well as a Chief Information Officer; (3) a $0.7 million increase in cash incentives and equity compensation; offset by (4) a $1.6 million decrease in separation expense related to the resignation of two members of senior leadership in the first quarter of 2021, and (5) a $0.1 million decrease in divestiture expenses.

Net (gain) loss on divestitures, disposals and impairments charges. The components of *Net (gain) loss on divestitures, disposals and impairment charges* are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Net (gain) loss on divestitures and real property	$ 205	$ (1,278)	(103)	(575)
Net loss on disposals of fixed assets	622	85	622	149
Total	$ 827	$ (1,193)	$ 519	$ (426)

During the six months ended June 30, 2022, we sold real property for $2.7 million and two funeral homes for $0.9 million for a net gain of $0.6 million. During the six months ended June 30, 2021, we sold three funeral homes for $3.5 million for a net gain of $0.1 million and disposed of fixed assets for a net loss of $0.6 million.

Interest expense. Interest expense related to our various debt arrangement is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2021	2022	2021	2022
Senior Notes	$ 6,795	$ 4,387	$ 13,574	$ 8,793
Credit Facility	470	1,409	1,033	2,344
Finance leases	119	112	239	225
Acquisition debt	93	79	190	159
Convertible Notes	—	—	19	—
Other	1	1	7	9
Total	$ 7,478	$ 5,988	$ 15,062	$ 11,530

Gain on insurance reimbursements. During the three and six months ended June 30, 2022, we recorded a gain on the reimbursements received from insurance for property damaged by Hurricane Ida that occurred during third quarter of 2021.

Income taxes. We had an income tax expense of $4.2 million and an income tax benefit of $4.2 million for the three months ended June 30, 2022 and 2021, respectively and income tax expense of $9.3 million and $1.4 million for the six month ended June 30, 2022 and 2021, respectively. Our operating tax rate before discrete items was 28.0% and 33.0% for the three months ended June 30, 2022 and 2021, respectively and 27.15% and 28.5% for the six month ended June 30, 2022 and 2021, respectively.

On June 30, 2020, we filed carryback refund claims for the 2018 and 2019 tax years. The majority of the net operating losses generated in 2018 are the result of filing non-automatic accounting method changes relating to the recognition of revenue from our cemetery property and merchandise and services sales.

On October 11, 2021, we received an adverse ruling from the IRS related to our accounting method change for cemetery property revenue recognition filed in 2018 and subsequently filed an automatic accounting method change to adopt the IRS' preferred method of revenue recognition for cemetery property effective for the year ending December 31, 2021.

On March 2, 2022, we received approval from the IRS regarding our method change filed related to the revenue recognition of cemetery merchandise and services sales. As a result, we recorded a $0.6 million reduction to the reserve for uncertain tax positions, including interest, during the six months ended June 30, 2022.

At December 31, 2021 and June 30, 2022, the reserve for uncertain tax positions was $3.8 million and $3.2 million, respectively, related to carrying back the net operating losses generated in the tax year ended December 31, 2018, filed under the CARES Act on June 30, 2020.

OVERVIEW OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Understanding our accounting policies and the extent to which our management uses judgment, assumptions and estimates in applying these policies is integral to understanding our Consolidated Financial Statements. Our critical accounting policies are more fully described in Part I, Item 1, Financial Statements, Note 1.

We have identified Business Combinations and Goodwill as those accounting policies that require significant judgments, assumptions and estimates and that have a significant impact on our financial condition and results of operations. These policies are considered critical because they may result in fluctuations in our reported results from period to period due to the significant judgments, estimates and assumptions about complex and inherently uncertain matters and because the use of different judgments, assumptions or estimates could have a material impact on our financial condition or results of operations. 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 because there can be no assurance the margins, operating income and net earnings, as a percentage of revenue, will be consistent from period to period. We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as appropriate based on changing conditions.

SEASONALITY

Our business can be affected by seasonal fluctuations in the death rate. Generally, the death rate is higher during the winter months because the incidences of death from influenza and pneumonia are higher during this period than other periods of the year.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In the ordinary course of business, we are typically exposed to a variety of market risks. Currently, these are primarily related to interest rate risk 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. We are not exposed to any other significant market risks other than those related to COVID-19 which are described in more detail in Part 1, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021.

The following quantitative and qualitative information is provided about financial instruments to which we are a party at June 30, 2022 and from which we may incur future gains or losses from changes in market conditions. We do not enter into derivative or other financial instruments for speculative or trading purposes.

Hypothetical changes in interest rates and the values of securities associated with the preneed and perpetual care trusts chosen for the following estimated sensitivity analysis are considered to be reasonable near-term changes generally based on consideration of past fluctuations for each risk category. However, since it is not possible to accurately predict future changes in interest rates, these hypothetical changes may not necessarily be an indicator of probable future fluctuations.

The following information about our market-sensitive financial instruments constitutes a “forward-looking statement.”

In connection with our preneed funeral operations and preneed cemetery merchandise and service sales, the related funeral and cemetery trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices. Cost and market values of such investments at June 30, 2022 are presented in Part 1, Item 1, Financial Statements, Note 6 to our Consolidated Financial Statements in this Quarterly Report on Form 10-Q. The sensitivity of the fixed income securities is such that a 0.25% change in interest rates causes an approximate 1.27% change in the value of the fixed income securities.

We monitor current and forecasted interest rate risk in the ordinary course of business and seek to maintain optimal financial flexibility, quality and solvency. At June 30, 2022, we had outstanding borrowings under the Credit Facility of $175.2 million. Any further borrowings or voluntary prepayments against the Credit Facility or any change in the floating rate would cause a change in interest expense. We have the option to pay interest under the Credit Facility at either prime rate or a BSBY rate, plus an applicable margin based our leverage ratio. At June 30, 2022, the prime rate margin was equivalent to 1.125% and the BSBY rate margin was 2.125%. Assuming the outstanding balance remains unchanged, a change of 100 basis points in our borrowing rate would result in a change in income before taxes of $1.7 million. We have not entered into interest rate hedging arrangements in the past. Management continually evaluates the cost and potential benefits of interest rate hedging arrangements.

Our Senior Notes bear interest at the fixed annual rate of 4.25%. We may redeem the Senior Notes, in whole or in part, at the redemption price of 102.13% on or after May 15, 2024, 101.06% on or after May 15, 2025 and 100% on or after May 15, 2026, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. At any time before May 15, 2024, we may also redeem all or part of the Senior Notes at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to (but excluding) the date of redemption. At June 30, 2022, the carrying value of the Senior Notes on our Consolidated Balance Sheet was $394.9 million and the fair value of the Senior Notes was $327.7 million based on the last traded or broker quoted price, reported by the Financial Industry Regulatory Authority, Inc. Increases in market interest rates may cause the value of the Senior Notes to decrease, but such changes will not affect our interest costs.

The remainder of our long-term debt and leases consist of non-interest bearing notes and fixed rate instruments that do not trade in a market and do not have a quoted market value. Any increase in market interest rates causes the fair value of those liabilities to decrease, but such changes will not affect our interest costs.

Item 4. Controls and Procedures.

Management’s Evaluation of Disclosure Controls and Procedures

Our management, including our principal executive and principal financial officers, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and to ensure that such information is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures are effective at June 30, 2022 and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations, and cash flows for the periods presented in conformity with US GAAP.

Changes in Internal Control over Financial Reporting

There was no change in our system of internal control over financial reporting (defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

We and our subsidiaries are parties to a number of legal proceedings that arise from time to time in the ordinary course of our business. While the outcome of these proceedings cannot be predicted with certainty, we do not expect these matters to have a material adverse effect on our financial statements.

We self-insure against certain risks and carry insurance with coverage and coverage limits for risk in excess of the coverage amounts consistent with our assessment of risks in our business and of an acceptable level of financial exposure. Although there can be no assurance that self-insurance reserves and insurance will be sufficient to mitigate all damages, claims, or contingencies, we believe that the reserves and our insurance provides reasonable coverage for known asserted and unasserted claims. In the event we sustain a loss from a claim and the insurance carrier disputes coverage or coverage limits, we may record a charge in a different period than the recovery, if any, from the insurance carrier.

For more information regarding legal proceedings see Part I, Item 1, Financial Statements, Note 13.

Item 1A. Risk Factors.

Risk Factor Update

In light of increased inflationary trends in the U.S. and global marketplace, we are also supplementing the risk factors set out under Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 with the new risk factor set out below. The risk factor below should be carefully read in conjunction with the risk factors set out in our Annual Report on Form 10-K for the year ended December 31, 2021. The risks described in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2021 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

GENERAL RISKS

<u>Economic Conditions and Natural Disasters</u>

We may be adversely affected by the effects of inflation.

Inflation has the potential to adversely affect our liquidity, business, financial condition and results of operations by increasing our overall cost structure or by reducing the amount of discretionary income consumers have available to spend on our services. The existence of inflation in the economy has resulted in, and may continue to result in, higher interest rates and capital costs, supply shortages, increased costs of labor, components, manufacturing and shipping, as well as weakening exchange rates and other similar effects. As a result of inflation, we have already experienced modest cost increases and surcharges from our vendors and suppliers on merchandise and goods and may continue to experience additional cost increases in the future, which could be of greater magnitude than those experienced to date. In addition, the impacts of inflation are also felt by consumers who face rising prices for a variety of goods and services, which could reduce the amount of discretionary spending that would otherwise be available to our client families and potential client families to spend on our services. Although we may take measures to mitigate the effects of inflation, if these measures are not effective, our business, financial condition, results of operations and liquidity could be materially adversely affected. Even if such measures are effective, there could be a difference between the timing of when these beneficial actions impact our results of operations and when the cost of inflation is incurred.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth certain information with respect to repurchases of our common stock during the quarter ended June 30, 2022:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Dollar Value of Shares That May Yet Be Purchased Under the Program(1)(2)
April 1, 2022 - April 30, 2022	—	$ —	—	$ 57,122,849
May 1, 2022 - May 31, 2022	—	$ —	127,639	$ 52,105,898
June 1, 2022 - June 30, 2022	—	$ —	77,857	$ 48,898,769
Total for quarter ended June 30, 2022	—		205,496	

(1) We repurchased shares of our common stock at an average cost of $39.31 in May 2022 and $41.19 in June 2022.

(2) See Part I, Item 1, Financial Statements, Note 14 for additional information on our publicly announced share repurchase program.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

The exhibits required to be filed pursuant to the requirements of Item 601 of Regulation S-K are set forth in the Exhibit Index accompanying this Quarterly Report on Form 10-Q and are incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CARRIAGE SERVICES, INC.
Date: August 2, 2022	/s/ C. Benjamin Brink
	C. Benjamin Brink
	Executive Vice President, Chief Financial Officer and Treasurer
	(Principal Financial Officer)

CARRIAGE SERVICES, INC.

INDEX OF EXHIBITS

Exhibit No.	Description
10.1	Second Amendment and Commitment Increase to First Amended and Restated Credit Agreement dated as of May 27, 2022, among Carriage Services, Inc., the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent, swing line lender, and L/C issuer. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 1, 2022.
*31.1	Certification of Periodic Financial Reports by Melvin C. Payne in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Periodic Financial Reports by C. Benjamin Brink in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
**32	Certification of Periodic Financial Reports by Melvin C. Payne and C. Benjamin Brink in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. Section 1350.
*101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
*101.SCH	Inline XBRL Taxonomy Extension Schema Documents.
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
*101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
*101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
*104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

(*) Filed herewith.
(**) Furnished herewith.
(†) Management contract or compensatory plan or arrangement.

EXHIBIT 31.1

I, Melvin C. Payne, certify that:

1. I have reviewed this report on Form 10-Q of Carriage Services, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: August 2, 2022

/s/ Melvin C. Payne
Melvin C. Payne
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

EXHIBIT 31.2

I, C. Benjamin Brink, certify that:

1. I have reviewed this report on Form 10-Q of Carriage Services, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: August 2, 2022

/s/ C. Benjamin Brink
C. Benjamin Brink
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

EXHIBIT 32

Certification of
Chief Executive Officer and Chief Financial Officer
under Section 906 of the
Sarbanes Oxley Act of 2002, 18 U.S.C. § 1350

In connection with the Quarterly Report on Form 10-Q of Carriage Services, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Melvin C. Payne, Chief Executive Officer of the Company, and C. Benjamin Brink, Executive Vice President, Principal Financial Officer, Chief Financial Officer and Treasurer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 2, 2022

/s/ Melvin C. Payne
Melvin C. Payne
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

/s/ C. Benjamin Brink
C. Benjamin Brink
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)