

CARRIAGE SERVICES INC  
Form 10-Q  
July 28, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

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

For the quarterly period ended June 30, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-11961

CARRIAGE SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE 76-0423828  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

3040 Post Oak Boulevard, Suite 300  
Houston, Texas, 77056  
(Address of principal executive offices)  
(713) 332-8400  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 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 or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer  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

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The number of shares of the registrant's Common Stock, \$.01 par value per share, outstanding as of July 24, 2017 was 16,720,045.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CARRIAGE SERVICES, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

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

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

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

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

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

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

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

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