

CARRIAGE SERVICES INC  
Form 10-Q  
July 31, 2018  
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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, 2018

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 (§ 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.

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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 27, 2018 was 19,153,655.

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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, 2017	June 30, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 952	\$40,531
Accounts receivable, net of allowance for bad debts of \$835 in 2017 and \$854 in 2018	19,655	17,026
Inventories	6,519	6,616
Prepaid expenses	2,028	1,571
Other current assets	986	2,460
Total current assets	30,140	68,204
Preneed cemetery trust investments	73,853	70,278
Preneed funeral trust investments	90,682	91,203
Preneed receivables, net of allowance for bad debts of \$2,278 in 2017 and \$2,380 in 2018	31,644	21,327
Receivables from preneed trusts	15,287	16,313
Property, plant and equipment, net of accumulated depreciation of \$115,776 in 2017 and \$120,246 in 2018	247,294	244,579
Cemetery property, net of accumulated amortization of \$37,543 in 2017 and \$39,342 in 2018	76,331	75,599
Goodwill	287,956	287,956
Intangible and other non-current assets	18,117	21,552
Cemetery perpetual care trust investments	50,229	48,600
Total assets	\$ 921,533	\$ 945,611
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 17,251	\$ 2,402
Accounts payable	6,547	5,788
Other liabilities	1,361	875
Accrued liabilities	17,559	17,021
Total current liabilities	42,718	26,086
Long-term debt, net of current portion	212,154	7,818
Convertible subordinated notes due 2021	124,441	25,425
Senior notes due 2026	—	318,807
Obligations under capital leases, net of current portion	6,361	6,287
Deferred preneed cemetery revenue	54,690	50,699
Deferred preneed funeral revenue	34,585	27,740
Deferred tax liability	31,159	30,293
Other long-term liabilities	3,378	2,843
Deferred preneed cemetery receipts held in trust	73,853	70,278
Deferred preneed funeral receipts held in trust	90,682	91,203
Care trusts' corpus	49,856	48,154
Total liabilities	723,877	705,633
Commitments and contingencies:		
Stockholders' equity:		

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Common stock, \$.01 par value; 80,000,000 shares authorized and 22,622,242 and 25,677,025 shares issued at December 31, 2017 and June 30, 2018, respectively	226	257
Additional paid-in capital	216,158	244,215
Retained earnings	57,904	72,138
Treasury stock, at cost; 6,523,370 shares at December 31, 2017 and June 30, 2018	(76,632	) (76,632 )
Total stockholders' equity	197,656	239,978
Total liabilities and stockholders' equity	\$ 921,533	\$ 945,611

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2018	2017	2018
Revenues:				
Funeral	\$48,739	\$48,532	\$102,950	\$107,126
Cemetery	15,113	15,315	29,059	30,108
	63,852	63,847	132,009	137,234
Field costs and expenses:				
Funeral	29,422	30,579	59,851	64,081
Cemetery	9,162	9,272	17,373	17,915
Depreciation and amortization	3,647	3,904	7,118	7,677
Regional and unallocated funeral and cemetery costs	2,954	3,267	5,908	6,548
	45,185	47,022	90,250	96,221
Gross profit	18,667	16,825	41,759	41,013
Corporate costs and expenses:				
General, administrative and other	6,568	6,380	13,415	12,998
Home office depreciation and amortization	378	464	754	907
	6,946	6,844	14,169	13,905
Operating income	11,721	9,981	27,590	27,108
Interest expense	(3,206 )	(4,743 )	(6,235 )	(8,478 )
Accretion of discount on convertible subordinated notes	(1,066 )	(555 )	(2,103 )	(1,715 )
Net loss on early extinguishment of debt	—	(936 )	—	(936 )
Other, net	—	—	3	2
Income before income taxes	7,449	3,747	19,255	15,981
Provision for income taxes	(2,980 )	(1,030 )	(7,702 )	(4,395 )
Tax adjustment related to certain discrete items	(59 )	30	(59 )	517
Total provision for income taxes	(3,039 )	(1,000 )	\$(7,761 )	\$(3,878 )
Net income	\$4,410	\$2,747	\$11,494	\$12,103
Basic earnings per common share:	\$0.26	\$0.15	\$0.69	\$0.71
Diluted earnings per common share:	\$0.24	\$0.15	\$0.63	\$0.67
Dividends declared per common share	\$0.050	\$0.075	\$0.100	\$0.150
Weighted average number of common and common equivalent shares outstanding:				
Basic	16,652	17,916	16,625	17,010
Diluted	18,093	18,245	18,083	17,924

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)

	Six Months Ended June 30,	
	2017	2018
Cash flows from operating activities:		
Net income	\$ 11,494	\$ 12,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,872	8,584
Provision for losses on accounts receivable	1,112	883
Stock-based compensation expense	1,609	2,009
Deferred income tax expense	406	2,044
Amortization of deferred financing costs	408	320
Amortization of capitalized commissions on preneed contracts	—	293
Accretion of discount on convertible subordinated notes	2,103	1,715
Amortization of debt discount on senior notes	—	38
Net loss on early extinguishment of debt	—	936
Net loss on sale and disposal of other assets	311	45
Changes in operating assets and liabilities that provided (required) cash:		
Accounts and preneed receivables	(468 )	(779 )
Inventories and other current assets	2,804	(1,139 )
Intangible and other non-current assets	211	(102 )
Preneed funeral and cemetery trust investments	(1,252 )	3,657
Accounts payable	(3,750 )	(758 )
Accrued and other liabilities	(5,102 )	(819 )
Deferred preneed funeral and cemetery revenue	2,020	2,007
Deferred preneed funeral and cemetery receipts held in trust	468	(4,756 )
Net cash provided by operating activities	20,246	26,281
Cash flows from investing activities:		
Acquisition and land for new construction	(625 )	—
Capital expenditures	(8,790 )	(5,080 )
Net cash used in investing activities	(9,415 )	(5,080 )
Cash flows from financing activities:		
Payments against the term loan	(5,625 )	(127,500)
Borrowings from the revolving credit facility	36,800	96,000
Payments against the revolving credit facility	(42,400 )	(188,000)
Payment of debt issuance costs related to long-term debt	—	(1,551 )
Redemption of the 2.75% convertible subordinated notes	—	(75,229 )
Payment of transaction costs related to the redemption of the 2.75% convertible subordinated notes	—	(845 )
Proceeds from the issuance of the 6.625% senior notes	—	320,125
Payments of debt issuance costs related to the 6.625% senior notes	—	(1,367 )
Payments on other long-term debt and obligations under capital leases	(723 )	(828 )
Payments on contingent consideration recorded at acquisition date	(101 )	—