

CARRIAGE SERVICES INC

Form 10-Q

October 26, 2016

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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 September 30, 2016

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" 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 ☐

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 October 20, 2016 was 16,610,806.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CARRIAGE SERVICES, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited and in thousands, except share data)

	December 31, 2015	September 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 535	\$ 855
Accounts receivable, net of allowance for bad debts of \$1,054 in 2015 and \$918 in 2016	18,181	18,023
Inventories	5,654	5,853
Prepaid expenses	4,684	3,599
Other current assets	4,707	838
Total current assets	33,761	29,168
Preneed cemetery trust investments	63,291	65,896
Preneed funeral trust investments	85,553	85,560
Preneed receivables, net of allowance for bad debts of \$2,042 in 2015 and \$2,139 in 2016	27,998	30,579
Receivables from preneed trusts	13,544	13,839
Property, plant and equipment, net of accumulated depreciation of \$103,306 in 2015 and \$109,106 in 2016	214,874	231,465
Cemetery property, net of accumulated amortization of \$30,289 in 2015 and \$33,361 in 2016	75,597	75,692
Goodwill	264,416	267,788
Intangible and other non-current assets	10,978	14,476
Cemetery perpetual care trust investments	43,127	45,048
Total assets	\$ 833,139	\$ 859,511
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 12,236	\$ 12,633
Accounts payable	7,917	5,857
Other liabilities	524	2,546
Accrued liabilities	16,541	17,714
Total current liabilities	37,218	38,750
Long-term debt, net of current portion	103,495	136,628
Revolving credit facility	91,514	62,073
Convertible subordinated notes due 2021	115,227	118,461
Obligations under capital leases, net of current portion	2,875	2,689
Deferred preneed cemetery revenue	56,721	55,953
Deferred preneed funeral revenue	31,748	33,258
Deferred tax liability	39,956	39,318
Other long-term liabilities	5,531	2,629
Deferred preneed cemetery receipts held in trust	63,291	65,896
Deferred preneed funeral receipts held in trust	85,553	85,560
Care trusts' corpus	42,416	44,345
Total liabilities	675,545	685,560
Commitments and contingencies:		
Stockholders' equity:		

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Common stock, \$.01 par value; 80,000,000 shares authorized and 22,497,873 and 22,458,007 shares issued at December 31, 2015 and September 30, 2016, respectively	225	225
Additional paid-in capital	214,250	215,153
Retained earnings	3,385	18,839
Treasury stock, at cost; 5,849,316 shares at December 31, 2015 and September 30, 2016	(60,266)	(60,266)
Total stockholders' equity	157,594	173,951
Total liabilities and stockholders' equity	\$ 833,139	\$ 859,511

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 September 30,		For the Nine Months Ended September 30,	
	2015	2016	2015	2016
Revenues:				
Funeral	\$44,089	\$45,183	\$138,727	\$140,952
Cemetery	14,289	14,957	42,165	44,384
	58,378	60,140	180,892	185,336
Field costs and expenses:				
Funeral	26,798	26,982	82,476	82,546
Cemetery	8,292	8,695	24,040	25,546
Depreciation and amortization	3,019	3,452	8,814	10,359
Regional and unallocated funeral and cemetery costs	2,909	2,783	7,745	8,547
	41,018	41,912	123,075	126,998
Gross profit	17,360	18,228	57,817	58,338
Corporate costs and expenses:				
General and administrative costs and expenses	6,238	6,130	20,294	21,208
Home office depreciation and amortization	418	355	1,310	1,139
	6,656	6,485	21,604	22,347
Operating income	10,704	11,743	36,213	35,991
Interest expense	(2,629)	(2,903)	(7,671)	(8,722)
Accretion of discount on convertible subordinated notes	(876)	(981)	(2,554)	(2,862)
Loss on early extinguishment of debt	—	—	—	(567)
Other income (expense)	52	(285)	(54)	20
Income before income taxes	7,251	7,574	25,934	23,860
Provision for income taxes	(2,807)	(3,030)	(10,515)	(9,545)
Income tax benefit related to state tax returns	—	1,139	—	1,139
Net provision for income taxes	(2,807)	(1,891)	(10,515)	(8,406)
Net income	\$4,444	\$5,683	\$15,419	\$15,454
Basic earnings per common share:	\$0.24	\$0.34	\$0.84	\$0.93
Diluted earnings per common share:	\$0.24	\$0.33	\$0.82	\$0.91
Dividends declared per common share	\$0.025	\$0.050	\$0.075	\$0.100
Weighted average number of common and common equivalent shares outstanding:				
Basic	17,874	16,529	18,115	16,502
Diluted	18,083	17,101	18,588	16,962
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 Nine Months Ended September 30, 2015	2016
Cash flows from operating activities:		
Net income	\$ 15,419	\$ 15,454
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,124	11,498
Provision for losses on accounts receivable	1,332	1,522
Stock-based compensation expense	3,448	2,645
Deferred income tax expense	2,065	3,618
Amortization of deferred financing costs	688	622
Accretion of discount on convertible subordinated notes	2,554	2,862
Loss on early extinguishment of debt	—	567
Net (gain) loss on sale and disposal of other assets	(49)	186
Impairment of intangible assets	—	145
Changes in operating assets and liabilities that provided (required) cash:		
Accounts and preneed receivables	(779)	(3,945)
Inventories and other current assets	3,277	682
Intangible and other non-current assets	114	386
Preneed funeral and cemetery trust investments	21,234	(4,828)
Accounts payable	368	(2,149)
Accrued and other liabilities	4,408	(268)
	432	742

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Deferred preneed funeral and cemetery revenue			
Deferred preneed funeral and cemetery receipts held in trust	(21,647))	4,541
Net cash provided by operating activities	42,988		34,280
Cash flows from investing activities:			
Acquisitions and land for new construction	(4,250)	)	(15,056)
Purchase of land and buildings previously leased	(6,080)	)	(6,258)
Net proceeds from the sale of other assets	65		955
Capital expenditures	(22,823)	)	(12,039)
Net cash used in investing activities	(33,088)	)	(32,398)
Cash flows from financing activities:			
Borrowings from the revolving credit facility	56,200		45,500
Payments against the revolving credit facility	(33,700)	)	(74,800)
Borrowings from the term loan	—		39,063
Payments against the term loan	(7,032)	)	(8,438)
Payments on other long-term debt and obligations under capital leases	(679)	)	(987)
Proceeds from the exercise of stock options and employee stock purchase plan contributions	575		686
Dividends on common stock	(1,385)	)	(1,662)
Payment of loan origination costs related to the credit facility	(13)	)	(717)
Purchase of treasury stock	(23,940))	—
Excess tax benefit (deficiency) of equity compensation	57		(207)
	(9,917)	)	(1,562)

Net cash used in
financing activities

Net increase (decrease) in cash and cash equivalents	(17))	320
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