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, 2023

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 ☐	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 November 3, 2023 was 14,981,459.

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, 2022	September 30, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,170	$ 1,675
Accounts receivable, net	24,458	25,524
Inventories	7,613	9,088
Prepaid and other current assets	4,733	4,030
Total current assets	37,974	40,317
Preneed cemetery trust investments	95,065	92,583
Preneed funeral trust investments	104,553	106,433
Preneed cemetery receivables, net	26,672	34,332
Receivables from preneed funeral trusts, net	19,976	21,295
Property, plant and equipment, net	278,106	288,407
Cemetery property, net	104,170	113,199
Goodwill	410,137	423,643
Intangible and other non-current assets, net	32,930	37,221
Operating lease right-of-use assets	17,060	15,987
Cemetery perpetual care trust investments	66,307	82,042
Total assets	$ 1,192,950	$ 1,255,459
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and lease obligations	$ 3,172	$ 3,811
Accounts payable	11,675	11,558
Accrued and other liabilities	30,621	37,977
Total current liabilities	45,468	53,346
Acquisition debt, net of current portion	3,438	3,335
Credit facility	188,836	185,856
Senior notes	395,243	395,737
Obligations under finance leases, net of current portion	4,743	6,724
Obligations under operating leases, net of current portion	17,315	15,736
Deferred preneed cemetery revenue	51,746	62,384
Deferred preneed funeral revenue	32,029	40,343
Deferred tax liability	48,820	48,907
Other long-term liabilities	3,065	1,504
Deferred preneed cemetery receipts held in trust	95,065	92,583
Deferred preneed funeral receipts held in trust	104,553	106,433
Care trusts' corpus	65,495	81,299
Total liabilities	1,055,816	1,094,187
Commitments and contingencies:		
Stockholders' equity:		
Common stock, $0.01 par value; 80,000,000 shares authorized and 26,359,876 and 26,609,277 shares issued, respectively and 14,732,058 and 14,981,459 shares outstanding, respectively	264	266
Additional paid-in capital	238,780	241,141
Retained earnings	176,843	198,618
Treasury stock, at cost; 11,627,818 shares	(278,753)	(278,753)
Total stockholders' equity	137,134	161,272
Total liabilities and stockholders' equity	$ 1,192,950	$ 1,255,459

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 September 30,		Nine months ended September 30,	
	2022	**2023**	**2022**	**2023**
Revenue:				
Service revenue	$ 42,992	$ 43,708	$ 135,279	$ 136,437
Property and merchandise revenue	37,607	40,287	120,495	125,928
Other revenue	6,898	6,499	20,484	21,321
	87,497	90,494	276,258	283,686
Field costs and expenses:				
Cost of service	22,317	22,650	65,805	69,202
Cost of merchandise	28,668	30,302	87,304	92,255
Cemetery property amortization	1,278	1,318	4,314	4,411
Field depreciation expense	3,281	3,634	9,831	10,546
Regional and unallocated funeral and cemetery costs	5,096	3,771	17,409	13,339
Other expenses	1,259	1,407	3,807	4,264
	61,899	63,082	188,470	194,017
Gross profit	25,598	27,412	87,788	89,669
Corporate costs and expenses:				
General, administrative and other	10,383	11,303	28,123	31,682
Net (gain) loss on divestitures, disposals and impairments charges	(7)	423	(433)	929
Operating income	15,222	15,686	60,098	57,058
Interest expense	6,678	9,278	18,208	27,213
Net gain on property damage, net of insurance claims	—	(379)	(3,275)	(343)
Other, net	(95)	11	(78)	(636)
Income before income taxes	8,639	6,776	45,243	30,824
Expense for income taxes	2,640	2,058	12,578	8,899
Tax adjustment related to discrete items	139	73	(496)	150
Total expense for income taxes	2,779	2,131	12,082	9,049
Net income	$ 5,860	$ 4,645	$ 33,161	$ 21,775
Basic earnings per common share:	$ 0.40	$ 0.31	$ 2.22	$ 1.46
Diluted earnings per common share:	$ 0.38	$ 0.30	$ 2.09	$ 1.39
Dividends declared per common share:	$ 0.1125	$ 0.1125	$ 0.3375	$ 0.3375
Weighted average number of common and common equivalent shares outstanding:				
Basic	14,689	14,820	14,908	14,791
Diluted	15,537	15,514	15,849	15,480

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)

	Nine months ended September 30, 2022	Nine months ended September 30, 2023
Cash flows from operating activities:		
Net income	$ 33,161	$ 21,775
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,611	15,623
Provision for credit losses	2,292	2,314
Stock-based compensation expense	4,577	6,155
Deferred income tax expense	1,699	87
Amortization of intangibles	957	982
Amortization of debt issuance costs	397	524
Amortization and accretion of debt	368	384
Net (gain) loss on divestitures, disposals and impairment charges	(433)	929
Net gain on property damage, net of insurance claims	(3,275)	(343)
Gain on sale of real property	—	(658)
Other	(153)	—
Changes in operating assets and liabilities that provided (used) cash:		
Accounts and preneed receivables	(3,053)	(4,607)
Inventories, prepaid and other current assets	2,785	(52)
Intangible and other non-current assets	(1,381)	(2,285)
Preneed funeral and cemetery trust investments	(12,585)	990
Accounts payable	(2,451)	(117)
Accrued and other liabilities	(3,080)	5,297
Incentive payment from vendor	—	6,000
Deferred preneed funeral and cemetery revenue	2,852	11,110
Deferred preneed funeral and cemetery receipts held in trust	12,758	(2,259)
Net cash provided by operating activities	50,046	61,849
Cash flows from investing activities:		
Acquisitions of businesses and real property	(8,876)	(44,000)
Proceeds from divestitures and sale of other assets	4,313	2,296
Proceeds from insurance claims	2,209	1,388
Capital expenditures	(20,346)	(13,069)
Net cash used in investing activities	(22,700)	(53,385)
Cash flows from financing activities:		
Borrowings from the credit facility	114,600	68,100
Payments against the credit facility	(101,000)	(71,500)
Payment of debt issuance costs for the credit facility and senior notes	(339)	—
Payments on acquisition debt and obligations under finance leases	(314)	(491)
Proceeds from the exercise of stock options and employee stock purchase plan contributions	1,438	1,207
Taxes paid on restricted stock vestings and exercise of stock options	(287)	(252)
Dividends paid on common stock	(5,108)	(5,023)
Purchase of treasury stock	(36,663)	—
Net cash used in financing activities	(27,673)	(7,959)
Net increase (decrease) in cash and cash equivalents	(327)	505
Cash and cash equivalents at beginning of period	1,148	1,170
Cash and cash equivalents at end of period	$ 821	$ 1,675

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 September 30, 2022					
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance – June 30, 2022	14,698	$ 263	$ 238,571	$ 162,763	$ (278,753)	$ 122,844
Net income	—	—	—	5,860	—	5,860
Issuance of common stock from employee stock purchase plan	14	—	377	—	—	377
Issuance of common stock to directors and board advisor	2	—	76	—	—	76
Cancellation and surrender of restricted stock	(1)	—	—	—	—	—
Stock-based compensation expense	—	—	1,416	—	—	1,416
Dividends on common stock	—	—	(1,653)	—	—	(1,653)
Balance – September 30, 2022	14,713	$ 263	$ 238,787	$ 168,623	$ (278,753)	$ 128,920

	Three months ended September 30, 2023					
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance – June 30, 2023	14,958	$ 266	$ 240,681	$ 193,973	$ (278,753)	$ 156,167
Net income	—	—	—	4,645	—	4,645
Issuance of common stock from employee stock purchase plan	12	—	284	—	—	284
Issuance of common stock to directors and board advisor	5	—	161	—	—	161
Exercise of stock options	7	—	(133)	—	—	(133)
Stock-based compensation expense	—	—	1,831	—	—	1,831
Dividends on common stock	—	—	(1,683)	—	—	(1,683)
Balance – September 30, 2023	14,982	$ 266	$ 241,141	$ 198,618	$ (278,753)	$ 161,272

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

	Nine months ended September 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	—	—	—	33,161	—	33,161
Issuance of common stock from employee stock purchase plan	39	—	1,378	—	—	1,378
Issuance of common stock to directors and board advisor	7	—	322	—	—	322
Exercise of stock options	9	—	(22)	—	—	(22)
Cancellation and surrender of restricted stock	(6)	—	(205)	—	—	(205)
Stock-based compensation expense	—	—	4,255	—	—	4,255
Dividends on common stock	—	—	(5,108)	—	—	(5,108)
Treasury stock acquired	(695)	—	—	—	(34,234)	(34,234)
Other	27	—	1,358	—	—	1,358
Balance – September 30, 2022	14,713	$ 263	$ 238,787	$ 168,623	$ (278,753)	$ 128,920

	Nine months ended September 30, 2023					
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance – December 31, 2022	14,732	$ 264	$ 238,780	$ 176,843	$ (278,753)	$ 137,134
Net income	—	—	—	21,775	—	21,775
Issuance of common stock from employee stock purchase plan	50	—	1,207	—	—	1,207
Issuance of common stock to directors and board advisor	11	—	338	—	—	338
Issuance of common stock to former executive	30	—	826	—	—	826
Issuance of restricted stock	142	2	(2)	—	—	—
Exercise of stock options	12	—	(174)	—	—	(174)
Cancellation and surrender of common and restricted stock	(3)	—	(78)	—	—	(78)
Stock-based compensation expense	—	—	4,991	—	—	4,991
Dividends on common stock	—	—	(5,023)	—	—	(5,023)
Other	8	—	276	—	—	276
Balance – September 30, 2023	14,982	$ 266	$ 241,141	$ 198,618	$ (278,753)	$ 161,272

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

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 accounts for approximately 70% of our total revenue and Cemetery operations, which currently accounts for approximately 30% of our total revenue. At September 30, 2023, we operated 171 funeral homes in 26 states and 32 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 sale of caskets and related funeral merchandise, 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.

There have been no material changes in our accounting policies previously disclosed in Part II, Item 8 "Financial Statements and Supplementary Data" in Note 1 in our Annual Report on Form 10-K for the year ended December 31, 2022. In addition, 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, 2022 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.

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.

Deferred Revenue

During the nine months ended September 30, 2023, we withdrew $8.6 million of realized capital gains and earnings from our preneed funeral and cemetery trust investments. In certain states, we are allowed to make these withdrawals prior to the delivery of preneed merchandise and service contracts. The realized capital gains and earnings withdrawn increase our cash flow from operations, but are not recognized as revenue in our Consolidated Statements of Operations, however, they reduce our *Preneed funeral trust investments* and *Preneed cemetery trust investments* and increase our *Deferred preneed funeral revenue* and *Deferred preneed cemetery revenue.*

Additionally, during the nine months ended September 30, 2023, we received a $6.0 million incentive payment from a vendor for entering into a strategic partnership agreement to market and sell prearranged funeral services in the future, which increased our cash flow from operations and *Deferred preneed funeral revenue.* The incentive payment will be deferred until we complete our implementation of the program and begin selling prearranged funeral services.

Goodwill

The excess of the purchase price over the fair value of identifiable net assets of funeral home businesses and cemeteries we acquire 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.

We performed our most recent annual goodwill impairment test as of August 31, 2023. We intend to perform a quantitative impairment test at least once every three years and perform a qualitative assessment during the remaining two years. We conducted a quantitative assessment in 2022 and a qualitative assessment in 2023. 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.

Our quantitative goodwill impairment test involves estimates and management judgment. In the quantitative analysis, we compare the fair value of each reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, the goodwill of that reporting unit is not considered impaired. We determine fair value for each reporting unit using both an income approach, weighted 90%, and a market approach, weighted 10%. Our methodology for determining an income-based fair value is based on discounting projected future cash flows. The projected future cash flows include assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows discounted at our weighted average cost of capital based on market participant assumptions. Our methodology for determining a market approach fair value utilizes the guideline public company method, in which we rely on market multiples of comparable companies operating in the same industry as the individual reporting units. In accordance with the guidance, if the fair value of the reporting unit is less than its carrying amount an impairment charge is recorded in an amount equal to the difference.

For our 2023 annual qualitative assessment, we determined that there were no factors that would indicate the need to perform an additional quantitative goodwill impairment test. We concluded that it is more-likely-than-not that the fair value of our reporting units is greater than their carrying value and thus there was no impairment to goodwill. For our 2022 annual quantitative assessment, there was no impairment to goodwill as the fair value of our reporting units was greater than the carrying value.

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 4 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.

We performed our most recent annual intangible assets impairment test as of August 31, 2023. We intend to perform a quantitative impairment test at least once every three years and perform a qualitative assessment during the remaining two years. We conducted a quantitative assessment in 2022 and a qualitative assessment in 2023. 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.

Our quantitative intangible asset impairment test involves estimates and management judgment. Our quantitative analysis is performed using the relief from royalty method, which measures the tradenames by determining the value of the royalties that we are relieved from paying due to our ownership of the asset. We determine the fair value of the asset by discounting the cash flows that represent a savings in lieu of paying a royalty fee for use of the tradename. The discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows and the determination and application of an appropriate royalty rate and discount rate. To estimate the royalty rates for the individual tradename, we mainly rely on the profit split method, but also consider the comparable third-party license agreements and the return on asset method. A scorecard is used to assess the relative strength of the individual tradename to further adjust the royalty rates selected under the profit-split method for qualitative factors. In accordance with the guidance, if the fair value of the tradename is less than its carrying amount, then an impairment charge is recorded in an amount equal to the difference.

As a result of our 2023 qualitative assessment, we determined that there were factors that would indicate the need to perform an additional quantitative impairment test for certain funeral home businesses. As a result of this additional quantitative impairment test, we recorded an impairment to the tradenames for two of our funeral homes of $0.2 million, during the three and nine months ended September 30, 2023, as the carrying amount of these tradenames exceeded the fair value. For our 2022 assessment, there was no impairment to intangibles assets.

See Note 10 to the Consolidated Financial Statements included herein for additional information related to our intangible assets.

Property, Plant and Equipment

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

	December 31, 2022	September 30, 2023
Land	$ 84,405	$ 85,660
Buildings and improvements	251,778	262,856
Furniture, equipment and automobiles	70,522	76,653
Property, plant and equipment, at cost	406,705	425,169
Less: accumulated depreciation	(128,599)	(136,762)
Property, plant and equipment, net	$ 278,106	$ 288,407

During the nine months ended September 30, 2023, we acquired $12.8 million of property, plant and equipment related to our acquisition of a business located in Bakersfield, CA, as more fully described in Note 3 to the Consolidated Financial Statements. Additionally, we sold real property for $1.2 million, with a carrying value of $0.6 million, resulting in a gain on the sale of $0.6 million. We also divested one funeral home that had a carrying value of property, plant and equipment of $0.3 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.

During the nine months ended September 30, 2022, we acquired real property for $5.6 million. Additionally, we sold real property for $3.3 million, with a carrying value of $1.8 million, resulting in a gain on the sale of $1.4 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.*

Our growth and maintenance capital expenditures totaled $5.3 million and $2.4 million for the three months ended September 30, 2022 and 2023, respectively and $15.1 million and $7.9 million for the nine months ended September 30, 2022 and 2023, respectively, for property, plant and equipment. In addition, we recorded depreciation expense of $3.4 million and $3.8 million for the three months ended September 30, 2022 and 2023, respectively and $10.1 million and $11.0 million for the nine months ended September 30, 2022 and 2023, respectively.

Cemetery Property

Cemetery property was $104.2 million and $113.2 million, net of accumulated amortization of $59.0 million and $63.0 million at December 31, 2022 and September 30, 2023, 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 $1.5 million and $1.6 million for the three months ended September 30, 2022 and 2023 and $5.2 million and $5.1 million for the nine months ended September 30, 2022 and 2023, respectively. We recorded amortization expense for cemetery interment rights of $1.3 million for both the three months ended September 30, 2022 and 2023 and $4.3 million and $4.4 million for the nine months ended September 30, 2022 and 2023, respectively.

During the nine months ended September 30, 2023, we acquired cemetery property for $9.0 million related to our acquisition of a business located in Bakersfield, CA, as more fully described in Note 3 to the Consolidated Financial Statements. We also divested two cemeteries that had a carrying value of cemetery property of $0.8 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.

Income Taxes

Income tax expense was $2.8 million and $2.1 million for the three months ended September 30, 2022 and 2023, respectively and $12.1 million and $9.0 million for the nine months ended September 30, 2022 and 2023, respectively. Our operating tax rate before discrete items was 30.6% and 30.4% for the three months ended September 30, 2022 and 2023, respectively and 27.8% and 28.9% for the nine months ended September 30, 2022 and 2023, respectively.

Subsequent Events

We have evaluated events and transactions during the period subsequent to September 30, 2023 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

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, and therefore was effective for us beginning January 1, 2023. Our adoption of these amendments had no impact on our consolidated financial statements.

3. 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 measurement period, we may adjust goodwill, intangible assets, assets or liabilities associated with the acquisition.

On March 22, 2023, we acquired a business consisting of three funeral homes, two cemeteries and one cremation focused business in the Bakersfield, California area for $44.0 million in cash. We acquired substantially all of the assets and assumed certain operating liabilities of this business.

The pro forma impact of this acquisition on prior periods is not presented, as the impact is not significant to our reported results. The results of the acquired business are reflected in our Consolidated Statements of Operations from the date of acquisition.

The following table summarizes the breakdown of the purchase price allocation for our Bakersfield, CA business acquisition (in thousands):

	Initial Purchase Price Allocation	Adjustments	Adjusted Purchase Price Allocation
Current assets	$ 7,087	$ 131	$ 7,218
Preneed trust assets	—	11,428	11,428
Property, plant & equipment	12,577	245	12,822
Cemetery property	9,035	—	9,035
Goodwill	13,612	(106)	13,506
Intangible and other non-current assets	3,763	—	3,763
Assumed liabilities	(300)	(66)	(366)
Preneed trust liabilities	—	(11,428)	(11,428)
Deferred revenue	(1,774)	(204)	(1,978)
Purchase price	$ 44,000	$ —	$ 44,000

The current assets relate to accounts receivable and inventory. The intangible and other non-current assets relate to the fair value of tradenames and right-of-use operating lease assets. The assumed liabilities relate to operating lease obligations and commissions payable. As of September 30, 2023, our accounting for this acquisition is complete.

The following table summarizes the fair value of the assets acquired and liabilities assumed for this business (in thousands):

Acquisition Date	Type of Business	Market	Assets Acquired (Excluding Goodwill)	Goodwill Recorded	Liabilities and Debt Assumed
March 22, 2023	Three Funeral Homes, Two Cemeteries and One Cremation Focused Business	Bakersfield, CA	$ 44,266	$ 13,506	$ (13,772)

On August 8, 2022, we acquired a business consisting of two funeral homes in Kissimmee, FL for $6.3 million in cash. We acquired substantially all of the assets and assumed certain operating liabilities of this business.

The following table summarizes the breakdown of the purchase price allocation for our Kissimmee, FL business acquisition (in thousands):

	Purchase Price Allocation
Current assets	$ 28
Preneed trust assets	1,439
Property, plant & equipment	2,986
Goodwill	2,694
Intangible and other non-current assets	542
Preneed trust liabilities	(1,439)
Purchase price	$ 6,250

The intangible and other non-current assets relate to the fair value of tradenames and non-compete agreements.

The following table summarizes the fair value of the assets acquired and liabilities assumed for our Kissimmee, FL business acquisition (in thousands):

Acquisition Date	Type of Business	Market	Assets Acquired (Excluding Goodwill)	Goodwill Recorded	Liabilities and Debt Assumed
August 8, 2022	Two Funeral Homes	Kissimmee, FL	$ 4,995	$ 2,694	$ (1,439)

4. GOODWILL

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

	December 31, 2022	September 30, 2023
Goodwill at the beginning of the period	$ 391,972	$ 410,137
Increase in goodwill related to acquisitions	19,511	13,506
Decrease in goodwill related to divestitures	(901)	—
Decrease in goodwill related to assets held for sale	(445)	—
Goodwill at the end of the period	$ 410,137	$ 423,643

During the nine months ended September 30, 2023, we recognized $13.5 million in goodwill related to our acquisition of a business located in Bakersfield, CA, of which $4.5 million was allocated to our cemetery segment and $9.0 million was allocated to our funeral home segment.

See Note 1 to the Consolidated Financial Statements included herein, for a discussion of the methodology used for our goodwill impairment test.

5. DIVESTED OPERATIONS

During the three months ended September 30, 2023, we sold one funeral home for $0.3 million. During the nine months ended September 30, 2023, we sold two funeral homes and two cemeteries for an aggregate of $1.1 million and merged one funeral home with another business we own in a nearby market.

During the three months ended September 30, 2022, we did not sell any funeral homes or cemeteries. During the nine months ended September 30, 2022, we sold two funeral homes for an aggregate of $0.9 million and merged one funeral home with another business we own in a nearby market.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Revenue	$ —	$ 18	$ 296	$ 242
Operating income	—	8	25	3
Loss on divestitures[(1)]	—	(24)	(703)	(107)
Income tax benefit	—	5	188	30
Net loss from divested operations, after tax	$ —	$ (11)	$ (490)	$ (74)

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

6. RECEIVABLES

Accounts Receivable

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.*

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

	September 30, 2023			
	Funeral	Cemetery	Corporate	Total
Trade and financed receivables	$ 7,983	$ 18,240	$ —	$ 26,223
Other receivables	336	391	100	827
Allowance for credit losses	(285)	(1,241)	—	(1,526)
Accounts receivable, net	$ 8,034	$ 17,390	$ 100	$ 25,524

	December 31, 2022			
	Funeral	Cemetery	Corporate	T
Trade and financed receivables	$ 9,518	$ 14,429	$ —	$ 23,9
Other receivables	643	833	48	1,5
Allowance for credit losses	(311)	(702)	—	(1,0
Accounts receivable, net	$ 9,850	$ 14,560	$ 48	$ 24,4

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 segment (in thousands):

	January 1, 2023	Provision for Credit Losses	Write Offs	Recoveries	September 30, 2023
Trade and financed receivables:					
Funeral	$ (311)	$ (858)	$ 1,745	$ (861)	$ (285)
Cemetery	(702)	(548)	9	—	(1,241)
Total allowance for credit losses on trade and financed receivables	$ (1,013)	$ (1,406)	$ 1,754	$ (861)	$ (1,526)

Balances due on undelivered preneed funeral trust contracts have been reclassified to reduce *Deferred preneed funeral revenue* on our Consolidated Balance Sheet of $8.9 million and $10.7 million at December 31, 2022 and September 30, 2023, 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.

Preneed Cemetery Receivables

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

	December 31, 2022	September 30, 2023
Interment rights	$ 45,351	$ 58,032
Merchandise and services	8,585	10,574
Unearned finance charges	4,894	5,407
Preneed cemetery receivables	$ 58,830	$ 74,013

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

	December 31, 2022	September 30, 2023
Preneed cemetery receivables	$ 58,830	$ 74,013
Less: unearned finance charges	(4,894)	(5,407)
Preneed cemetery receivables, at amortized cost	$ 53,936	$ 68,606
Less: allowance for credit losses	(1,985)	(3,548)
Less: balances due on undelivered cemetery preneed contracts	(11,552)	(13,727)
Less: amounts in accounts receivable	(13,727)	(16,999)
Preneed cemetery receivables, net	$ 26,672	$ 34,332

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

	January 1, 2023	Provision for Credit Losses	Write Offs	September 30, 2(
Total allowance for credit losses on *Preneed cemetery receivables, net*	$ (1,283)	$ (908)	$ (116)	$ (2,3

The amortized cost basis of our preneed cemetery receivables by year of origination at September 30, 2023 is as follows (in thousands):

	2023	2022	2021	2020	2019	Prior	T
Total preneed cemetery receivables, at amortized cost	$ 27,143	$ 21,505	$ 11,134	$ 5,312	$ 1,909	$ 1,603	$ 68,(

The aging of past due preneed cemetery receivables at September 30, 2023 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	$ 1,174	$ 739	$ 648	$ 3,686	$ 6,247	$ 48,632	$ 54,879
Deferred revenue	281	294	124	1,292	1,991	17,143	19,134
Total contracts	$ 1,455	$ 1,033	$ 772	$ 4,978	$ 8,238	$ 65,775	$ 74,013

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 $11.6 million and $13.7 million at December 31, 2022 and September 30, 2023, 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.

7. FAIR VALUE MEASUREMENTS

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 11) and Senior Notes (as defined in Note 12) are classified within Level 2 of the Fair Value Measurements hierarchy.

At September 30, 2023, the carrying value and fair value of our Credit Facility was $187.3 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. 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 September 30, 2023, the carrying value of our acquisition debt was $3.9 million, which approximated its fair value. The fair value of our Senior Notes was $342.6 million at September 30, 2023 based on the last traded or broker quoted price.

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. 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.

In addition, we have an investment in a limited partnership fund, whose fair value has been estimated using the net asset value per share practical expedient described in ASC 820-10-35-59, *Fair Value Measurement of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* and therefore, has not been classified in the fair value hierarchy. The value of the investments in this fund cannot be redeemed because the investments include restrictions that do not allow for redemption within the first 12 months after acquisition. Our unfunded commitment for this investment at September 30, 2023 is $10.0 million.

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 8 and 9 to our Consolidated Financial Statements for the fair value hierarchy levels of our trust investments.

8. 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 our wholly-owned registered investment advisory firm (“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.*

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, 2022	September 30, 2023
Preneed cemetery trust investments, at market value	$ 98,269	$ 95,632
Less: allowance for contract cancellation	(3,204)	(3,049)
Preneed cemetery trust investments	$ 95,065	$ 92,583

The cost and market values associated with preneed cemetery trust investments at September 30, 2023 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 9,177	$ —	$ —	$ 9,177
Fixed income securities:					
U.S. agency obligations	2	803	—	(75)	728
Foreign debt	2	9,246	959	(351)	9,854
Corporate debt	2	15,058	109	(4,872)	10,295
Preferred stock	2	11,524	528	(1,466)	10,586
Certificates of deposit	2	79	—	(9)	70
Common stock	1	40,264	8,897	(7,508)	41,653
Limited partnership fund		3,572	108	—	3,680
Mutual funds:					
Equity	1	553	—	(65)	488
Fixed income	2	11,361	2	(3,153)	8,210
Trust securities		$ 101,637	$ 10,603	$ (17,499)	$ 94,741
Accrued investment income		$ 891			$ 891
Preneed cemetery trust investments					$ 95,632
Market value as a percentage of cost					93.2%

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

Due in one year or less	$ 138
Due in one to five years	8,981
Due in five to ten years	3,956
Thereafter	18,458
Total fixed income securities	$ 31,533

The cost and market values associated with preneed cemetery trust investments at December 31, 2022 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 10,434	$ —	$ —	$ 10,434
Fixed income securities:					
U.S. agency obligations	2	803	—	(72)	731
Foreign debt	2	12,241	910	(644)	12,507
Corporate debt	2	15,066	104	(4,139)	11,031
Preferred stock	2	12,560	436	(1,789)	11,207
Certificate of deposit	2	79	—	(8)	71
Common stock	1	42,929	5,102	(6,228)	41,803
Mutual funds:					
Equity	1	362	—	(33)	329
Fixed income	2	12,324	10	(3,310)	9,024
Trust Securities		$ 106,798	$ 6,562	$ (16,223)	$ 97,137
Accrued investment income		$ 1,132			$ 1,132
Preneed cemetery trust investments					$ 98,269
Market value as a percentage of cost					91.0%

The following table summarizes our fixed income securities (excluding mutual funds) within our preneed cemetery trust investments in an unrealized loss position at September 30, 2023, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	September 30, 2023					
	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	$ —	$ —	$ 728	$ (75)	$ 728	$ (75)
Foreign debt	2,885	(100)	1,711	(251)	4,596	(351)
Corporate debt	3,106	(276)	4,374	(4,596)	7,480	(4,872)
Preferred stock	305	(21)	7,993	(1,445)	8,298	(1,466)
Certificates of deposit	—	—	71	(9)	71	(9)
Total fixed income securities with an unrealized loss	$ 6,296	$ (397)	$ 14,877	$ (6,376)	$ 21,173	$ (6,773)

The following table summarizes our fixed income securities (excluding mutual funds) within our preneed cemetery trust investments in an unrealized loss position at December 31, 2022, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 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	$ 732	$ (72)	$ —	$ —	$ 732	$ (72)
Foreign debt	5,394	(308)	744	(336)	6,138	(644)
Corporate debt	8,037	(3,922)	563	(217)	8,600	(4,139)
Preferred stock	7,146	(1,271)	2,517	(518)	9,663	(1,789)
Certificates of deposit	71	(8)	—	—	71	(8)
Total fixed income securities with an unrealized loss	$ 21,380	$ (5,581)	$ 3,824	$ (1,071)	$ 25,204	$ (6,652)

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Investment income	$ 556	$ 610	$ 1,618	$ 1,889
Realized gains	392	246	9,285	2,247
Realized losses	(105)	(190)	(2,488)	(1,336)
Unrealized gains (losses), net	(5,037)	1,818	(14,137)	(6,896)
Expenses and taxes	(482)	(454)	(1,353)	(1,076)
Net change in deferred preneed cemetery receipts held in trust	4,676	(2,030)	7,075	5,172
	$ —	$ —	$ —	$ —

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Purchases	$ (459)	$ (5,481)	$ (2,083)	$ (14,619)
Sales	—	5,368	661	11,230

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, 2022	September 30, 2023
Preneed funeral trust investments, at market value	$ 107,995	$ 109,863
Less: allowance for contract cancellation	(3,442)	(3,430)
Preneed funeral trust investments	$ 104,553	$ 106,433

The cost and market values associated with preneed funeral trust investments at September 30, 2023 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 27,984	$ —	$ —	$ 27,984
Fixed income securities:					
U.S treasury debt	1	485	—	(48)	437
Foreign debt	2	8,680	917	(320)	9,277
Corporate debt	2	13,540	98	(4,287)	9,351
Preferred stock	2	10,413	495	(1,380)	9,528
Common stock	1	36,309	8,456	(6,561)	38,204
Limited partnership fund		3,413	103	—	3,516
Mutual funds:					
Equity	1	405	—	(57)	348
Fixed income	2	9,599	2	(2,712)	6,889
Other investments	2	3,511	—	—	3,511
Trust securities		$ 114,339	$ 10,071	$ (15,365)	$ 109,045
Accrued investment income		$ 818			$ 818
Preneed funeral trust investments					$ 109,863
Market value as a percentage of cost					95.4%

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

Due in one year or less	$ 80
Due in one to five years	7,980
Due in five to ten years	3,636
Thereafter	16,897
Total fixed income securities	$ 28,593

The cost and market values associated with preneed funeral trust investments at December 31, 2022 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 29,641	$ —	$ —	$ 29,641
Fixed income securities:					
U.S. treasury debt	1	484	—	(45)	439
Foreign debt	2	10,851	818	(555)	11,114
Corporate debt	2	12,735	89	(3,443)	9,381
Preferred stock	2	10,730	391	(1,564)	9,557
Common stock	1	36,478	4,485	(5,187)	35,776
Mutual funds:					
Equity	1	326	—	(30)	296
Fixed income	2	9,907	9	(2,691)	7,225
Other investments	2	3,592	—	—	3,592
Trust securities		$ 114,744	$ 5,792	$ (13,515)	$ 107,021
Accrued investment income		$ 974			$ 974
Preneed funeral trust investments					$ 107,995
Market value as a percentage of cost					93.3%

The following table summarizes our fixed income securities (excluding mutual funds) within our preneed funeral trust investment in an unrealized loss position at September 30, 2023, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	September 30, 2023					
	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	$ —	$ —	$ 437	$ (48)	$ 437	$ (48)
Foreign debt	2,709	(94)	1,542	(226)	4,251	(320)
Corporate debt	2,969	(264)	3,749	(4,023)	6,718	(4,287)
Preferred stock	291	(20)	7,269	(1,360)	7,560	(1,380)
Total fixed income securities with an unrealized loss	$ 5,969	$ (378)	$ 12,997	$ (5,657)	$ 18,966	$ (6,035)

The following table summarizes our fixed income securities (excluding mutual funds) within our preneed funeral trust investment in an unrealized loss position at December 31, 2022, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 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	$ 439	$ (45)	$ —	$ —	$ 439	$ (45)
Foreign debt	4,766	(274)	626	(281)	5,392	(555)
Corporate debt	6,742	(3,248)	506	(195)	7,248	(3,443)
Preferred stock	5,908	(1,099)	2,261	(465)	8,169	(1,564)
Total fixed income securities with an unrealized loss	$ 17,855	$ (4,666)	$ 3,393	$ (941)	$ 21,248	$ (5,607)

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2023**	**2022**	**2023**
Investment income	$ 398	$ 479	$ 1,245	$ 1,542
Realized gains	357	235	8,247	2,178
Realized losses	(96)	(181)	(2,242)	(1,278)
Unrealized gains (losses), net	(4,394)	1,911	(11,794)	(5,294)
Expenses and taxes	(214)	(182)	(751)	(576)
Net change in deferred preneed funeral receipts held in trust	3,949	(2,262)	5,295	3,428
	$ —	$ —	$ —	$ —

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2023**	**2022**	**2023**
Purchases	$ —	$ (5,237)	$ (590)	$ (13,987)
Sales	8	5,135	538	10,820

Cemetery Perpetual Care Trust Investments

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

	December 31, 2022	**September 30, 2023**
Cemetery perpetual care trust investments, at market value	$ 66,307	$ 82,042
Obligations due from trust	(812)	(743)
Care trusts' corpus	$ 65,495	$ 81,299

The following table reflects the cost and market values associated with the trust investments held in cemetery perpetual care trust funds at September 30, 2023 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 6,913	$ —	$ —	$ 6,913
Fixed income securities:					
Foreign debt	2	8,447	810	(338)	8,919
Corporate debt	2	13,152	137	(4,292)	8,997
Preferred stock	2	11,121	469	(1,334)	10,256
Common stock	1	33,764	7,586	(6,219)	35,131
Limited partnership fund		3,014	91	—	3,105
Mutual funds:					
Equity	1	464	—	(57)	407
Fixed income	2	10,248	1	(2,737)	7,512
Trust securities		$ 87,123	$ 9,094	$ (14,977)	$ 81,240
Accrued investment income		$ 802			$ 802
Cemetery perpetual care investments					$ 82,042
Market value as a percentage of cost					93.2%

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

Due in one year or less	$ —
Due in one to five years	7,107
Due in five to ten years	3,505
Thereafter	17,560
Total fixed income securities	$ 28,172

The following table reflects the cost and market values associated with the trust investments held in cemetery perpetual care trust funds at December 31, 2022 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 5,326	$ —	$ —	$ 5,326
Fixed income securities:					
Foreign debt	2	8,746	600	(470)	8,876
Corporate debt	2	10,540	118	(2,961)	7,697
Preferred stock	2	9,831	287	(1,374)	8,744
Common stock	1	28,625	3,443	(4,297)	27,771
Mutual funds:					
Equity	1	345	2	(22)	325
Fixed income	2	9,046	26	(2,310)	6,762
Trust securities		$ 72,459	$ 4,476	$ (11,434)	$ 65,501
Accrued investment income		$ 806			$ 806
Cemetery perpetual care investments					$ 66,307
Market value as a percentage of cost					90.4%

The following table summarizes our fixed income securities (excluding mutual funds) within our cemetery perpetual care trust investment in an unrealized loss position at September 30, 2023, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	September 30, 2023					
	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	$ 2,906	$ (107)	$ 1,576	$ (231)	$ 4,482	$ (338)
Corporate debt	2,621	(233)	3,704	(4,059)	6,325	(4,292)
Preferred stock	257	(18)	7,356	(1,316)	7,613	(1,334)
Total fixed income securities with an unrealized loss	$ 5,784	$ (358)	$ 12,636	$ (5,606)	$ 18,420	$ (5,964)

The following table summarizes our fixed income securities (excluding mutual funds) within our perpetual care trust investment in an unrealized loss position at December 31, 2022, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 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	$ 4,123	$ (218)	$ 554	$ (252)	$ 4,677	$ (470)
Corporate debt	5,413	(2,818)	371	(143)	5,784	(2,961)
Preferred stock	6,066	(1,032)	1,659	(342)	7,725	(1,374)
Total fixed income securities with an unrealized loss	$ 15,602	$ (4,068)	$ 2,584	$ (737)	$ 18,186	$ (4,805)

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 September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Realized gains	$ 48	$ 31	$ 1,292	$ 862
Realized losses	(13)	(24)	(302)	(494)
Unrealized gains (losses), net	(3,730)	1,444	(9,846)	(5,883)
Net change in care trusts' corpus	3,695	(1,451)	8,856	5,515
Total	$ —	$ —	$ —	$ —

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Investment income	$ 3,075	$ 2,663	$ 8,613	$ 8,741
Realized losses, net	(739)	(322)	(1,343)	(796)
Total	$ 2,336	$ 2,341	$ 7,270	$ 7,945

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Purchases	$ (233)	$ (4,625)	$ (644)	$ (11,336)
Sales	—	4,529	441	15,433

9. 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, 2022	September 30, 2023
Preneed funeral trust funds, at cost	$ 20,594	$ 21,954
Less: allowance for contract cancellation	(618)	(659)
Receivables from preneed funeral trusts, net	$ 19,976	$ 21,295

The following summary reflects the composition of the assets held in trust and controlled by third parties to satisfy our future obligations related to the underlying preneed funeral contracts at December 31, 2022 and September 30, 2023. 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 September 30, 2023 is as follows (in thousands):

	Historical Cost Basis	Fair Value
Cash and cash equivalents	$ 6,442	$ 6,442
Fixed income investments	12,661	12,661
Mutual funds and common stocks	2,847	2,519
Annuities	4	4
Total	$ 21,954	$ 21,626

The composition of the preneed funeral trust funds at December 31, 2022 is as follows (in thousands):

	Historical Cost Basis	Fair Value
Cash and cash equivalents	$ 6,071	$ 6,071
Fixed income investments	11,795	11,795
Mutual funds and common stocks	2,725	2,440
Annuities	3	3
Total	$ 20,594	$ 20,309

10. INTANGIBLE AND OTHER NON-CURRENT ASSETS

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

	December 31, 2022	September 30, 2023
Tradenames	$ 25,610	$ 28,863
Capitalized commissions on preneed contracts, net of accumulated amortization of $2,990 and $3,579, respectively	4,048	4,507
Prepaid agreements not-to-compete, net of accumulated amortization of $3,515 and $3,707, respectively	1,877	1,464
Internal-use software, net of accumulated amortization of $200 and $372, respectively	1,271	1,968
Other	124	419
Intangible and other non-current assets, net	$ 32,930	$ 37,221

Tradenames

During the nine months ended September 30, 2023, we increased the value of our tradenames by $3.5 million, with $1.3 million allocated to our funeral home segment and $2.2 million allocated to our cemetery segment, related to our acquisition of a business located in Bakersfield, CA, as more fully described in Note 3 to the Consolidated Financial Statements.

As a result of our 2023 qualitative assessment, we determined that there were factors that would indicate the need to perform an additional quantitative impairment test for certain funeral home businesses. As a result of this additional quantitative impairment test, we recorded an impairment to the tradenames for two of our funeral homes of $0.2 million, during the three and nine months ended September 30, 2023, as the carrying amount of these tradenames exceeded the fair value. For our 2022 assessment, there was no impairment to intangibles assets. See Note 1 to the Consolidated Financial Statements included herein for a discussion of the methodology used for our indefinite-lived intangible asset impairment test.

Capitalized Commissions

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.

Amortization expense was $181,000 and $204,000 for the three months ended September 30, 2022 and 2023, respectively and $525,000 and $589,000 for the nine months ended September 30, 2022 and 2023, respectively.

Prepaid Agreements

Prepaid agreements not-to-compete are amortized over the term of the respective agreements, generally ranging from one to ten years. Amortization expense was $142,000 and $131,000 for the three months ended September 30, 2022 and 2023, respectively and $432,000 and $393,000 for the nine months ended September 30, 2022 and 2023, respectively.

Internal-use Software

Internal-use software is amortized on a straight-line basis typically over three to five years. Amortization expense was $56,000 and $72,000 for the three months ended September 30, 2022 and 2023, respectively and $167,000 and $206,000 for the nine months ended September 30, 2022 and 2023, respectively.

The aggregate amortization expense for our capitalized commissions, prepaid agreements and internal-use software as of September 30, 2023 is as follows (in thousands):

	Capitalized Commissions	Prepaid Agreements	Internal-use Software
Years ending December 31,			
Remainder of 2023	$ 209	$ 129	$ 79
2024	800	424	305
2025	735	377	409
2026	668	262	396
2027	603	142	394
Thereafter	1,492	130	385
Total amortization expense	$ 4,507	$ 1,464	$ 1,968

11. CREDIT FACILITY AND ACQUISITION DEBT

At September 30, 2023, our senior secured revolving credit facility (the “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 aggregate 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 12) and certain of our subsequently acquired or organized domestic subsidiaries (collectively, the “Subsidiary Guarantors”).

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, among 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, pay dividends and make other restricted payments, and certain financial maintenance covenants. At September 30, 2023, we were subject to the following financial covenants under our Credit Facility: (A) a Total Leverage Ratio not to exceed 6.00 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 September 30, 2023.

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

	December 31, 2022	September 30, 2023
Credit Facility	$ 190,700	$ 187,300
Debt issuance costs, net of accumulated amortization of $1,926 and $2,340, respectively	(1,864)	(1,444)
Total Credit Facility	$ 188,836	$ 185,856
Acquisition debt	$ 3,993	$ 3,924
Less: current portion	(555)	(589)
Total acquisition debt, net of current portion	$ 3,438	$ 3,335

At September 30, 2023, we had outstanding borrowings under the Credit Facility of $187.3 million. We also had one letter of credit for $2.3 million under the Credit Facility, which was increased to $2.6 million on July 7, 2023. The letter of credit will expire on November 27, 2023 and is expected to automatically renew annually and secures our obligations under our various self-insured policies. At September 30, 2023, we had $60.1 million of availability under the Credit Facility.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Credit Facility interest expense	$ 1,971	$ 4,508	$ 4,132	$ 12,987
Credit Facility amortization of debt issuance costs	109	138	293	414

Outstanding borrowings under our Credit Facility bear interest at a prime rate or the Bloomberg Short-Term Bank Yield Index ("BSBY") rate, plus an applicable margin based on our leverage ratio. At September 30, 2023, the prime rate margin was equivalent to 2.375% and the BSBY rate margin was 3.375%. The weighted average interest rate on our Credit Facility was 4.3% and 9.0% for the three months ended September 30, 2022 and 2023, respectively and 3.1% and 8.5% for the nine months ended September 30, 2022 and 2023, respectively.

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 September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Acquisition debt imputed interest expense	$ 78	$ 70	$ 237	$ 212

12. 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, 2022	September 30, 2023
Long-term liabilities:		
Principal amount	$ 400,000	$ 400,000
Debt discount, net of accumulated amortization of $794 and $1,178, respectively	(3,706)	(3,322)
Debt issuance costs, net of accumulated amortization of $226 and $336, respectively	(1,051)	(941)
Carrying value of the Senior Notes	$ 395,243	$ 395,737

At September 30, 2023, the fair value of the Senior Notes, which are Level 2 measurements, was $342.6 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.

The Indenture contains restrictive covenants limiting our ability and the ability of 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 and debt issuance costs related to our Senior Notes are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Senior Notes interest expense	$ 4,250	$ 4,250	$ 12,730	$ 12,750
Senior Notes amortization of debt discount	125	129	368	384
Senior Notes amortization of debt issuance costs	35	37	104	110

The debt discount and the debt issuance costs are being amortized using the effective interest method over the remaining term of approximately 68 months of the Senior Notes. The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Senior Notes for both the three and nine months ended September 30, 2022 and 2023 was 4.42% and 4.30%, respectively.

13. LEASES

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

		Three months ended September 30,		Nine months ended September 30,	
	Income Statement Classification	2022	2023	2022	2023
Operating lease cost	Facilities and grounds expense(1)	$ 863	$ 887	$ 2,564	$ 2,638
Short-term lease cost	Facilities and grounds expense(1)	82	75	260	261
Variable lease cost	Facilities and grounds expense(1)	37	69	60	183
Finance lease cost:					
Depreciation of leased assets	Depreciation and amortization(2)	$ 111	$ 190	$ 328	$ 407
Interest on lease liabilities	*Interest expense*	110	137	335	345
Total finance lease cost		221	327	663	752
Total lease cost		$ 1,203	$ 1,358	$ 3,547	$ 3,834

(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* expense and *General, administrative and other* on our Consolidated Statements of Operations.

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

	Nine months ended September 30,	
	2022	2023
Cash paid for operating leases included in operating activities	$ 2,698	$ 2,840
Cash paid for finance leases included in financing activities	646	806

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

	Nine months ended September 30,	
	2022	2023
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 764	$ 412
Right-of-use assets obtained in exchange for new finance lease liabilities	—	2,703

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

Lease Type	Balance Sheet Classification	December 31, 2022	September 30, 2023
Operating lease right-of-use assets	*Operating lease right-of-use assets*	$ 17,060	$ 15,987
Finance lease right-of-use assets	*Property, plant and equipment, net*	$ 6,770	$ 9,165
Accumulated depreciation	*Property, plant and equipment, net*	(2,881)	(2,981)
Finance lease right-of-use assets, net		$ 3,889	$ 6,184
Operating lease current liabilities	*Current portion of operating lease obligations*	$ 2,203	$ 2,508
Finance lease current liabilities	*Current portion of finance lease obligations*	414	714
Total current lease liabilities		$ 2,617	$ 3,222
Operating lease non-current liabilities	*Obligations under operating leases, net of current portion*	$ 17,315	$ 15,736
Finance lease non-current liabilities	*Obligations under finance leases, net of current portion*	4,743	6,724
Total non-current lease liabilities		$ 22,058	$ 22,460
Total lease liabilities		$ 24,675	$ 25,682

The average lease terms and discount rates at September 30, 2023 are as follows:

	Weighted-average remaining lease term (years)	Weighted-average discount rate
Operating leases	8.2	8.1 %
Finance leases	9.7	8.3 %

The aggregate future lease payments for non-cancelable operating and finance leases at September 30, 2023 are as follows (in thousands):

	Operating	Finance
Lease payments due:		
Remainder of 2023	$ 947	$ 337
2024	3,781	1,304
2025	3,489	1,250
2026	3,382	1,301
2027	3,249	1,185
Thereafter	9,924	5,582
Total lease payments	24,772	10,959
Less: Interest	(6,528)	(3,521)
Present value of lease liabilities	$ 18,244	$ 7,438

At September 30, 2023, we had no significant operating or finance leases that had not yet commenced.

14. STOCKHOLDERS' EQUITY

Restricted Stock

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

	Three months ended September 30,				Nine months ended September 30,			
	2022		2023		2022		2023	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Granted[(1)]	—	$ —	—	$ —	—	$ —	142,020	$ 4,634
Returned for payroll taxes	—	$ —	—	$ —	4,136	$ 205	1,473	$ 50
Cancelled	500	$ 16	—	$ —	1,950	$ 63	1,826	$ 61

(1) Restricted stock granted during the nine months ended September 30 2023 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 $32.63.

We recorded stock-based compensation expense, which is included in *General, administrative and other expenses*, for restricted stock awards of $36,000 and $400,000, for the three months ended September 30, 2022 and 2023, respectively and $133,000 and $972,000 for the nine months ended September 30, 2022 and 2023, respectively.

Stock Options

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

	Three months ended September 30,				Nine months ended September 30,			
	2022		2023		2022		2023	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Granted(1)	—	$ —	—	$ —	58,500	$ 959	214,191	$ 2,506
Granted(2)	—	$ —	—	$ —	310,000	$ 5,388	—	$ —
Granted(3)	12,600	$ 143	—	$ —	12,600	$ 143	—	$ —
Cancelled	3,652	$ 37	1,700	$ 20	28,790	$ 322	103,550	$ 1,354

(1) Stock options granted during the nine months ended September 30, 2022 and 2023 had a weighted average price of $49.48 and $32.69, respectively. The fair value of these options was calculated using the Black-Scholes option pricing model. The options granted in 2022 vest over a five-year period and have a ten-year term. The options granted in 2023 vest over a three-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 nine months ended September 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) Stock options granted during the three and nine months ended September 30, 2022 had a weighted average price of $31.58. The fair value of these options was calculated using the Black-Scholes option pricing model and vest over a three-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.

The fair value of the options granted during the nine months ended September 30, 2023 was estimated using the Black-Scholes option pricing model with the following assumptions:

Grant Date	February 22, 2023
Expected holding period (years)	4.00
Awards granted	214,191
Dividend yield	1.38%
Expected volatility	43.68%
Risk-free interest rate	4.27%
Black-Scholes value	$11.70

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

	Three months ended September 30,				Nine months ended September 30,			
	2022		2023		2022		2023	
	Shares	Cash	Shares	Cash	Shares	Cash	Shares	Cash
Exercised(1)	—	N/A	44,900	N/A	18,736	N/A	74,200	N/A
Returned for option price(2)	—	$ —	34,160	$ —	8,125	$ 60	56,957	$ —
Returned for payroll taxes(3)	—	$ —	4,021	$ 133	1,601	$ 82	5,486	$ 174

(1) Stock options exercised during the three months ended September 30, 2023 had a weighted average exercise price of $25.1 with an aggregate intrinsic value of $0.4 million. Stock options exercised during the nine months ended September 30, 2022 and 2023 had a weighted average exercise price of $25.88 and $23.98, respectively, with an aggregate intrinsic value of $0.5 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 $559,000 and $735,000, for the three months ended September 30, 2022 and 2023, respectively and $1,747,000 and $2,180,000 for the nine months ended September 30, 2022 and 2023, respectively.

Performance Awards

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

	Three months ended September 30,				Nine months ended September 30,			
	2022		2023		2022		2023	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Granted	—	$ —	—	$ —	27,013	$ 1,262	—	$ —
Cancelled	—	$ —	—	$ —	20,961	$ 201	40,181	$ 1,012

We recorded stock-based compensation expense, which is included in *General, administrative and other expenses*, for performance awards of $701,000 and $622,000 for the three months ended September 30, 2022 and 2023, respectively and $1,904,000 and $1,350,000 for the nine months ended September 30, 2022 and 2023, respectively.

Employee Stock Purchase Plan

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

	Three months ended September 30,				Nine months ended September 30,			
	2022		2023		2022		2023	
	Shares	Price	Shares	Price	Shares	Price	Shares	Price
ESPP	13,795	$ 27.34	11,782	$ 24.01	38,884	$ 35.42	49,824	$ 24.21

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:

	2023
Dividend yield	1.30%
Expected volatility	53.51%
Risk-free interest rate	4.53%, 4.77%, 4.75%, 4.72%
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 $120,000 and $74,000 for the three months ended September 30, 2022 and 2023, respectively and $471,000 and $489,000 for the nine months ended September 30, 2022 and 2023, respectively.

Common Stock

Former Employee

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

	Three months ended September 30,				Nine months ended September 30,			
	2022		2023		2022		2023	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Granted[1]	—	$ —	—	$ —	—	$ —	30,000	$ 826
Returned for payroll taxes	—	$ —	—	$ —	—	$ —	1,001	$ 28

(1) During the nine months ended September 30, 2023, we issued 30,000 shares of common stock to a former executive at a stock price of $27.54, in accordance with his Separation and Release agreement pertaining to his resignation from his position as the Company's Executive Vice President, Chief Financial Officer & Treasurer effective January 2, 2023.

We recorded stock-based compensation expense, which is included in *General, administrative and other expenses*, for common stock awards of $826,000, for the nine months ended September 30, 2023.

Good To Great Incentive Program

During the nine months ended September 30, 2023, we issued 8,444 shares of our common stock to certain employees, which were valued at $0.3 million at a grant date stock price of $32.69. During the nine months ended September 30, 2022, we issued 27,448 shares of our common stock to certain employees, which were valued at $1.4 million at 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 September 30,				Nine months ended September 30,			
	2022		2023		2022		2023	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Board of Directors(1)	2,214	$ 71	3,747	$ 106	7,255	$ 307	8,342	$ 248
Advisor to the Board(1)	155	$ 5	176	$ 5	374	$ 15	492	$ 15

(1) Common stock granted during the three months ended September 30, 2022 and 2023 had a weighted average price of $32.16 and $28.25, respectively and $42.20 and $29.78 for nine months ended September 30, 2022 and 2023, respectively.

On July 5, 2023, our Board of Directors (the "Board") elected Somer Webb to serve as a Class I Director until our 2024 annual meeting of shareholders. Ms. Webb was appointed to serve as the Chair of the Compensation Committee and a member of the Audit and Corporate Governance Committees. Concurrently with her appointment, the Board granted Ms. Webb 769 shares of our common stock under our Director Compensation Policy, which were valued at approximately $25,000 based on the closing price of our common stock on the grant date.

On July 25, 2023, the Board elected Julie Sanders to serve as a Class II Director until our 2025 annual meeting of shareholders. Ms. Sanders was appointed to serve as a member of the Corporate Governance, Audit and Compensation Committees. Concurrently with her appointment, the Board granted Ms. Sanders 743 shares of our common stock under our Director Compensation Policy, which were valued at approximately $25,000 based on the closing price of our common stock on the grant date.

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 $167,000 and $250,000 for the three months ended September 30, 2022 and 2023, respectively and $552,000 and $605,000 for the nine months ended September 30, 2022 and 2023, respectively.

Share Repurchase

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Number of Shares Repurchased	—	—	695,496	—
Average Price Paid Per Share	$ —	$ —	$ 49.22	$ —
Dollar Value of Shares Repurchased	$ —	$ —	$ 34,234	$ —

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 stock. At September 30, 2023, 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):

2023	Per Share	Dollar Value
March 1st	$ 0.1125	$ 1,661
June 1st	$ 0.1125	$ 1,679
September 1st	$ 0.1125	$ 1,683

2022	Per Share	Dollar Value
March 1st	$ 0.1125	$ 1,725
June 1st	$ 0.1125	$ 1,730
September 1st	$ 0.1125	$ 1,653

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 September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Numerator for basic and diluted earnings per share:				
Net income	$ 5,860	$ 4,645	$ 33,361	$ 21,775
Less: Earnings allocated to unvested restricted stock	(3)	(44)	(21)	(194)
Income attributable to common stockholders	$ 5,857	$ 4,601	33,340	21,581
Denominator:				
Denominator for basic earnings per common share – weighted average shares outstanding	14,689	14,820	14,908	14,791
Effect of dilutive securities:				
Stock options	160	83	253	78
Performance awards	688	611	688	611
Denominator for diluted earnings per common share – weighted average shares outstanding	15,537	15,514	15,849	15,480
Basic earnings per common share:	$ 0.40	$ 0.31	$ 2.22	$ 1.46
Diluted earnings per common share:	$ 0.38	$ 0.30	$ 2.09	$ 1.39

Stock options excluded from the computation of diluted earnings per share because the inclusion of such stock options would result in an antidilutive effect are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Antidilutive stock options	363,073	1,233,784	294,310	1,200,211

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 September 30, 2023, 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 September 30, 2023

	Funeral	Cemetery	To
Services	$ 39,090	$ 4,618	$ 43,7
Merchandise	20,325	4,067	24,3
Cemetery property	—	15,895	15,8
Other revenue	3,211	3,288	6,4
Total	$ 62,626	$ 27,868	$ 90,4

Three months ended September 30, 2022

	Funeral	Cemetery	Total
Services	$ 38,477	$ 4,515	$ 42,992
Merchandise	20,777	3,651	24,428
Cemetery property	—	13,179	13,179
Other revenue	3,526	3,372	6,898
Total	$ 62,780	$ 24,717	$ 87,497

Nine months ended September 30, 2023	Funeral	Cemetery	Total
Services	$ 122,491	$ 13,946	$ 136,437
Merchandise	64,505	12,245	76,750
Cemetery property	—	49,178	49,178
Other revenue	10,220	11,101	21,321
Total	$ 197,216	$ 86,470	$ 283,686

Nine months ended September 30, 2022	Funeral	Cemetery	Total
Services	$ 122,133	$ 13,146	$ 135,279
Merchandise	66,587	10,529	77,116
Cemetery property	—	43,379	43,379
Other revenue	10,353	10,131	20,484
Total	$ 199,073	$ 77,185	$ 276,258

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 September 30, 2023	$ 18,145	$ 8,844	$ (11,303)	$ 15,686
Three months ended September 30, 2022	17,584	8,023	(10,385)	15,222
Nine months ended September 30, 2023	$ 58,236	$ 30,496	$ (31,674)	$ 57,058
Nine months ended September 30, 2022	61,531	26,662	(28,095)	60,098
Income (loss) before income taxes:				
Three months ended September 30, 2023	$ 18,377	$ 8,902	$ (20,503)	$ 6,776
Three months ended September 30, 2022	17,605	7,985	(16,951)	8,639
Nine months ended September 30, 2023	$ 58,824	$ 30,757	$ (58,757)	$ 30,824
Nine months ended September 30, 2022	64,577	26,671	(46,005)	45,243
Total assets:				
September 30, 2023	$ 799,740	$ 439,175	$ 16,544	$ 1,255,459
December 31, 2022	779,500	396,389	17,061	1,192,950

17. SUPPLEMENTARY DATA

Balance Sheet

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

	December 31, 2022		September 30, 2023	
Prepaid and other current assets:				
Prepaid expenses	$	4,077	$	3,350
Federal income taxes receivable		507		540
Other current assets		149		140
Total prepaid and other current assets	$	4,733	$	4,030
Current portion of debt and lease obligations:				
Acquisition debt	$	555	$	589
Finance lease obligations		414		714
Operating lease obligations		2,203		2,508
Total current portion of debt and lease obligations	$	3,172	$	3,811
Accrued and other liabilities:				
Incentive compensation	$	12,140	$	11,165
Insurance		3,051		3,685
Unrecognized tax benefit		3,294		3,360
Vacation		3,430		3,635
Interest		2,329		6,667
Salaries and wages		2,263		3,983
Employee meetings and award trips		746		966
Commissions		743		918
Income tax payable		459		—
Ad valorem and franchise taxes		455		2,188
Perpetual care trust payable		222		493
Other accrued liabilities		1,489		917
Total accrued and other liabilities	$	30,621	$	37,977
Other long-term liabilities:				
Incentive compensation	$	2,541	$	1,357
Other long-term liabilities		524		147
Total other long-term liabilities	$	3,065	$	1,504

Cash Flow

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

	Nine months ended September 30,			
		2022		2
Cash paid for interest	$	12,981	$	21,7
Cash paid for taxes		7,046		9,3

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. Words such as “may”, “will”, “estimate”, “intend”, “believe”, “expect”, “seek”, “project”, “forecast”, “foresee”, “should”, “would”, “could”, “plan”, “anticipate” and other similar words or expressions may be used to identify forward-looking statements; however, the absence of these words does not mean that the statements are not forward-looking. These forward-looking statements include, but are not limited to, statements regarding any projections of earnings, revenue, cash flow, investment returns, capital allocation, debt levels, equity performance, death rates, market share growth, cost inflation, overhead, including talent recruitment, field and corporate incentive compensation, preneed sales or other financial items; any statements of the plans, strategies and objectives of management for future operations or financing activities, including, but not limited to, capital allocation, the ability to obtain credit or financing, organizational performance, anticipated integration, performance and other benefits of recently completed and anticipated acquisitions, and cost management and debt reductions; any statements of the plans, timing and objectives of management for acquisition and divestiture activities; any statements regarding future economic and market conditions or performance; any statements regarding the timing of the strategic alternatives review; the outcome of the strategic alternatives review, including whether any transaction occurs, if at all; 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 we believe these assumptions concerning future events 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:

- 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, if at all;
- our ability to execute and meet the objectives of our High Performance and Credit Profile Restoration Plan, if at all;
- the execution of our Standards Operating, 4E Leadership and Strategic Acquisition Models;
- the effects of competition;
- changes in the number of deaths in our markets, which are not predictable from market to market or over the short term;
- 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, including, but not limited to, the effects of increased borrowing costs under our Credit Facility and our ability to minimize such costs, if at all;
- the effects of inflation on our operational and financial performance, including the increased overall costs for our goods and services, the impact on customer preferences as a result of changes in discretionary income, and our ability, if at all, to mitigate such effects;
- 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 goals to our updated full year 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, such as the COVID-19 coronavirus, including any new or emerging public health threats, on customer preferences and on our business;
- government, social, business and other actions that have been and will be taken in response to pandemics and epidemics, such as those that were taken with the COVID-19 coronavirus, including potential responses to any new or emerging public health threats;
- effects and expense of litigation;
- consolidation in 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;
- potential adverse impacts resulting from our recent announcement regarding our Board’s review of potential strategic alternatives for the Company;
- economic, financial and stock market fluctuations;
- interruptions or security lapses of our information technology, including any cybersecurity or ransomware incidents;
- adverse developments affecting the financial services industry;
- 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, 2022.

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 provider of funeral and cemetery services and merchandise in the United States. We operate in two business segments: Funeral Home operations, which currently accounts for approximately 70% of our total revenue, and Cemetery operations, which currently accounts for approximately 30% of our total revenue.

At September 30, 2023, we operated 171 funeral homes in 26 states and 32 cemeteries in 11 states. We compete with other publicly held, privately held and independent operators of funeral and cemetery companies.

Funeral Home and Cemetery Operations

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 sale of caskets and related funeral merchandise, 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.

Recent Developments

Board of Directors - Resignation and Election

On July 5, 2023, the Board of Directors (the “Board”) elected Somer Webb to serve as a Class I Director until the Company’s 2024 annual meeting of shareholders. Ms. Webb was appointed to serve as the Chair of the Compensation Committee and a member of the Audit and Corporate Governance Committees.

On July 24, 2023, Barry Fingerhut, a member of the Board, provided notice of his resignation from the Board, effective on that date. Mr. Fingerhut’s resignation was not a result of any disagreement with the Company on any matter related to its operations, policies or practices.

On July 25, 2023, our Board elected Julie Sanders to serve as a Class II Director until the Company’s 2025 annual meeting of shareholders. Ms. Sanders was appointed to serve on each of the Audit, Compensation and Corporate Governance Committees.

Inflationary and Macroeconomic Trends

During the third quarter of 2023, we continued to experience cost increases and surcharges from our vendors and suppliers on merchandise and goods due to increases in the cost of raw materials, as well as inflationary impacts and rising interest rates. For example, we experienced higher costs related to full-time hourly base rates, utilities, funeral supplies, merchandise costs, insurance, and increased borrowing costs due to higher variable interest rates under our Credit Facility. Although we have taken steps to mitigate these cost increases and we expect these impacts to continue throughout the current year, the ultimate scope and duration of these impacts are unknown at this time. More broadly, the U.S. economy continues to experience higher rates of inflation, which has impacted a wide variety of industries and sectors, with consumers facing rising prices. Such inflation may negatively impact consumer discretionary spending, including the amount that consumers are able to spend on our services, although we have not experienced any material 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 throughout the current year, we will continue to assess these impacts and take the appropriate steps, if necessary, to mitigate these cost increases, if possible.

During the third quarter of 2023, we experienced lower volumes as compared to prior quarters due to fluctuations in the death rate, although overall financial performance remains at or above prior reporting periods. Although we expect fluctuations in the death rate to continue, we are unable to predict or forecast the duration or variation of the death rate with any certainty. Regardless of these fluctuations in the death rate, we continue to focus on expanding market share, cost management and executing on our strategic operational plans.

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. However, if our capital expenditures or acquisition plans change, we may need to access the capital markets or seek further borrowing capacity from our lenders 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, 2022.

Our plan remains focused on integrating our recently acquired businesses and prioritizing our capital allocation for debt repayments, the payment of dividends and debt obligations and internal growth capital expenditures, which we expect to fund using cash on hand and borrowings under our Credit Facility, along with general corporate purposes, as allowed under our Credit Facility. We believe that our existing and anticipated cash resources, including, as needed, additional borrowings or other financings that we may be able to obtain, 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 2023 with $1.2 million in cash and ended the third quarter with $1.7 million in cash. At September 30, 2023, we had borrowings of $187.3 million outstanding on our Credit Facility compared to $190.7 million at December 31, 2022.

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

	Nine months ended September 30,	
	2022	**2023**
Cash at beginning of the year	$ 1,148	$ 1,170
Net cash provided by operating activities	50,046	61,849
Acquisitions of businesses and real property	(8,876)	(44,000)
Proceeds from divestitures and sale of other assets	4,313	2,296
Proceeds from insurance claims	2,209	1,388
Capital expenditures	(20,346)	(13,069)
Net cash used in investing activities	(22,700)	(53,385)
Net borrowings (payments) on our Credit Facility, acquisition debt and finance lease obligations	13,286	(3,891)
Payment of debt issuance costs for the Credit Facility and Senior Notes	(339)	—
Net proceeds from employee equity plans	1,151	955
Dividends paid on common stock	(5,108)	(5,023)
Purchase of treasury stock	(36,663)	—
Net cash used in financing activities	(27,673)	(7,959)
Cash at end of the period	$ 821	$ 1,675

Operating Activities

For the nine months ended September 30, 2023, cash provided by operating activities was $61.8 million compared to $50.0 million for the nine months ended September 30, 2022. The increase of $11.8 million is primarily due to an $8.6 million withdrawal of realized capital gains and earnings from our preneed funeral and cemetery trust investments and receiving a $6.0 million incentive payment from a vendor related to a strategic partnership agreement to market and sell prearranged funeral services, partially offset by unfavorable working capital changes in income tax receivables.

Investing Activities

Our investing activities, resulted in a net cash outflow of $53.4 million for the nine months ended September 30, 2023 compared to $22.7 million for the nine months ended September 30, 2022, an increase of $30.7 million.

Acquisition and Divestiture Activity

During the nine months ended September 30, 2023, we acquired a business consisting of three funeral homes, two cemeteries and one cremation focused business for $44.0 million. In addition, we sold two funeral homes and two cemeteries for an aggregate of $1.1 million and real property for $1.2 million.

We also received proceeds of $1.4 million from our property insurance policy for the reimbursement of renovation costs for certain of our funeral businesses damaged by Hurricane Ian that occurred during the third quarter of 2022 and a fire that occurred during the first quarter of 2023.

During the nine months ended September 30, 2022, we acquired a business consisting of two funeral homes for $6.3 million in cash and we purchased real property for $2.6 million. In addition, we sold two funeral homes for an aggregate of $0.9 million and real property for $3.3 million.

Capital Expenditures

For the nine months ended September 30, 2023, capital expenditures (comprised of growth and maintenance spend) totaled $13.1 million compared to $20.3 million for the nine months ended September 30, 2022, a decrease of $7.2 million.

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

	Nine months ended September 30,	
	2022	**2023**
Growth		
Cemetery development	$ 5,215	$ 5,128
Renovations at certain businesses[(1)]	4,974	1,905
Other	447	110
Total Growth	$ 10,636	$ 7,143

(1) During the nine months ended September 30, 2023, we spent $0.8 million for renovations to two businesses that were affected by Hurricane Ian, which occurred during the third quarter of 2022 and $0.4 million for renovations to one business that was damaged by a fire, which occurred during the first quarter of 2023, all of which was reimbursed by our property insurance. During the nine months ended September 30, 2022, we spent $2.4 million for renovations to two businesses that were affected by Hurricane Ida, which occurred during the third quarter of 2021, all of which was reimbursed by our property insurance.

	Nine months ended September 30,	
	2022	**2023**
Maintenance		
General equipment and furniture	$ 3,744	$ 3,584
Facility repairs and improvements	3,131	1,380
Vehicles	1,770	568
Paving roads and parking lots	1,065	394
Total Maintenance	$ 9,710	$ 5,926

Financing Activities

Our financing activities resulted in a net cash outflow of $8.0 million for the nine months ended September 30, 2023 compared to a net cash outflow of $27.7 million for the nine months ended September 30, 2022, a decrease of $19.7 million.

During the nine months ended September 30, 2023, we had net payments on our Credit Facility, acquisition debt and finance leases of $3.9 million and we paid $5.0 million in dividends.

During the nine months ended September 30, 2022, we had net borrowings on our Credit Facility, acquisition debt and finance leases of $13.3 million, offset by $36.7 million for the purchase of treasury stock and $5.1 million in dividends.

Share Repurchase

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Number of Shares Repurchased	—	—	695,496	—
Average Price Paid Per Share	$ —	$ —	$ 49.22	$ —
Dollar Value of Shares Repurchased	$ —	$ —	$ 34,234	$ —

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 stock. At September 30, 2023, 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):

2023	Per Share	Dollar Value
March 1st	$ 0.1125	$ 1,661
June 1st	$ 0.1125	$ 1,679
September 1st	$ 0.1125	$ 1,683

2022	Per Share	Dollar Value
March 1st	$ 0.1125	$ 1,725
June 1st	$ 0.1125	$ 1,730
September 1st	$ 0.1125	$ 1,653

Credit Facility, Lease Obligations and Acquisition Debt

The outstanding principal of our Credit Facility, lease obligations and acquisition debt at September 30, 2023 is as follows (in thousands):

	September 30, 2023
Credit Facility	$ 187,300
Operating leases	18,244
Finance leases	7,438
Acquisition debt	3,924
Total	$ 216,906

Credit Facility

At September 30, 2023, our senior secured revolving credit facility (the "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 aggregate 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 12) and certain of our subsequently acquired or organized domestic subsidiaries (collectively, the "Subsidiary Guarantors").

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, among 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, pay dividends and make other restricted payments, and certain financial maintenance covenants. At September 30, 2023, we were subject to the following financial covenants under our Credit Facility: (A) a Total Leverage Ratio not to exceed 6.00 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 September 30, 2023.

At September 30, 2023, we had outstanding borrowings under the Credit Facility of $187.3 million. We also had one letter of credit for $2.3 million under the Credit Facility, which was increased to $2.6 million on July 7, 2023. The letter of credit will expire on November 27, 2023 and is expected to automatically renew annually and secures our obligations under our various self-insured policies. At September 30, 2023, we had $60.1 million of availability under the Credit Facility.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Credit Facility interest expense	$ 1,971	$ 4,508	$ 4,132	$ 12,987
Credit Facility amortization of debt issuance costs	109	138	293	414

Outstanding borrowings under our Credit Facility bear interest at a prime rate or the Bloomberg Short-Term Bank Yield Index (“BSBY”) rate, plus an applicable margin based on our leverage ratio. At September 30, 2023, the prime rate margin was equivalent to 2.375% and the BSBY rate margin was 3.375%. The weighted average interest rate on our Credit Facility was 4.3% and 9.0% for the three months ended September 30, 2022 and 2023, respectively and 3.1% and 8.5% for the nine months ended September 30, 2022 and 2023, respectively.

The interest payments on our remaining borrowings under the Credit Facility will be determined based on the average outstanding balance of our borrowings and the prevailing interest rate during that time.

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, equipment and vehicles under finance leases with original terms ranging from three to forty years. At September 30, 2023, operating and finance lease obligations were $37.0 million, with $5.4 million payable within 12 months.

The components of lease cost are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Operating lease cost	$ 863	$ 887	$ 2,564	$ 2,638
Short-term lease cost	82	75	260	261
Variable lease cost	37	69	60	183
Finance lease cost:				
Depreciation of leased assets	$ 111	$ 190	$ 328	$ 407
Interest on lease liabilities	110	137	335	345
Total finance lease cost	221	327	663	752
Total lease cost	$ 1,203	$ 1,358	$ 3,547	$ 3,834

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 September 30, 2023, acquisition debt obligations were $5.4 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 September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Acquisition debt imputed interest expense	$ 78	$ 70	$ 237	$ 212

Senior Notes

At September 30, 2023, 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.

The Indenture contains restrictive covenants limiting our ability and the ability of 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 68 months of the Senior Notes. The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Senior Notes for both the three and nine months ended September 30, 2022 and 2023 was 4.42% and 4.30%, respectively.

At September 30, 2023, the fair value of the Senior Notes, which are Level 2 measurements, was $342.6 million.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Senior Notes interest expense	$ 4,250	$ 4,250	$ 12,730	$ 12,750
Senior Notes amortization of debt discount	125	129	368	384
Senior Notes amortization of debt issuance costs	35	37	104	110

At September 30, 2023, our future interest payments on our outstanding balance were $102.0 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 September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Revenue	$ 87,497	$ 90,494	$ 276,258	$ 283,686
Funeral contracts	11,109	11,058	35,630	34,904
Average revenue per funeral contract	$ 5,516	$ 5,522	$ 5,463	$ 5,514
Preneed interment rights (property) sold	2,455	2,785	8,344	8,680
Average price per preneed interment right sold	$ 4,569	$ 5,134	$ 4,449	$ 4,990
Gross profit	$ 25,598	$ 27,412	$ 87,788	$ 89,669
Net income	$ 5,860	$ 4,645	$ 33,161	$ 21,775

Revenue for the three months ended September 30, 2023 increased $3.0 million compared to the three months ended September 30, 2022, as we experienced a 13.4% increase in the number of preneed interment rights (property) sold and a 12.4% increase in the average price per interment right sold, while the funeral contract volume and the average revenue per funeral contract remained flat.

Gross profit for the three months ended September 30, 2023 increased $1.8 million compared to the three months ended September 30, 2022, primarily due to the increase in revenue from our cemetery segment, as well as improved cost management within our funeral segment.

Net income for the three months ended September 30, 2023 decreased $1.2 million compared to the three months ended September 30, 2022, primarily due to a $2.6 million increase in interest expense and a $0.9 million increase in general and administrative expenses, offset by the $1.8 million increase in gross profit.

Revenue for the nine months ended September 30, 2023 increased $7.4 million compared to the nine months ended September 30, 2022, as we experienced a 12.2% increase in the average price per preneed interment right sold, a 4.0% increase in the number of preneed interment rights (property) sold and a 0.9% increase in the average revenue per funeral contract, offset by a 2.0% decrease in the funeral contract volume. The funeral contract volume decrease is primarily a result of the lower impact of COVID-19 related deaths in the first quarter of 2023 as compared to the same period in 2022.

Gross profit for the nine months ended September 30, 2023 increased $1.9 million compared to the nine months ended September 30, 2022, due to the increase in revenue from our cemetery segment, offset by increases in operating expenses in both our funeral home and cemetery segments.

Net income for the nine months ended September 30, 2023 decreased $11.4 million compared to the nine months ended September 30, 2022, primarily due to a $9.0 million increase in interest expense and a $3.7 million impact from divestitures, disposals and insurance reimbursements.

Further discussion of revenue and the components of gross profit for our Funeral Home and Cemetery segments is presented 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 under "– Other Financial Statement Items."

REPORTING AND NON-GAAP FINANCIAL MEASURES

We also present our financial performance in our "Condensed Operating and Financial Trend Report" ("Trend Report") as reported in our earnings release for the three months ended September 30, 2023 issued on November 8, 2023, 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 is a non-GAAP statement that also provides insight into underlying trends in our business.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Gross profit	$ 25,598	$ 27,412	$ 87,788	$ 89,669
Cemetery property amortization	1,278	1,318	4,314	4,411
Field depreciation expense	3,281	3,634	9,831	10,546
Regional and unallocated funeral and cemetery costs	5,096	3,771	17,409	13,339
Operating profit(1)	$ 35,253	$ 36,135	$ 119,342	$ 117,965

(1) Operating profit is defined as gross profit plus 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-financial GAAP measure) by segment (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2023	2022	2023
Funeral Home	$ 24,173	$ 23,962	$ 82,060	$ 76,875
Cemetery	11,080	12,173	37,282	41,090
Operating profit	$ 35,253	$ 36,135	$ 119,342	$ 117,965
Operating profit margin(1)	40.3%	39.9%	43.2%	41.6%

(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 under "– Results of Operations."

RESULTS OF OPERATIONS

The following is a discussion of our results of operations for the three and nine months ended September 30, 2023 and 2022.

The term “operating” in the Funeral Home and Cemetery segments refers to all funeral homes and cemeteries that we owned and operated in the current reporting period, excluding certain funeral home and cemetery businesses that we have divested in such period.

The term “divested” when discussed in the Funeral Home segment, refers to two funeral home we sold in the nine months ended September 30, 2023 and two funeral homes we sold in the nine months ended September 30, 2022. The term “divested” when discussed in the Cemetery segment, refers to two cemeteries we sold during the nine months ended September 30, 2023.

The term “ancillary” in the Funeral Home segment represents our flower shop, monument company, pet cremation business and online cremation businesses.

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 for our funeral home operations (in thousands):

	Three months ended September 30,	
	2022	2023
Revenue:		
Operating	$ 58,919	$ 59,397
Divested	335	18
Ancillary	1,049	1,156
Other	2,477	2,055
Total	$ 62,780	$ 62,626
Operating profit:		
Operating	$ 21,707	$ 22,025
Divested	59	11
Ancillary	188	147
Other	2,219	1,779
Total	$ 24,173	$ 23,962
The following operating measures reflect the significant metrics over this comparative period:		
Contract volume	11,039	11,055
Average revenue per contract, excluding preneed funeral trust earnings	$ 5,338	$ 5,373
Average revenue per contract, including preneed funeral trust earnings	$ 5,517	$ 5,522
Cremation rate	58.3%	59.5%

Funeral home operating revenue increased $0.5 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. The increase in operating revenue is primarily driven by our newly acquired funeral home businesses, which were not present in the comparative quarter of 2022, as the funeral contract volume and the average revenue per contract excluding preneed interest remained flat.

Funeral home operating profit for the three months ended September 30, 2023 increased $0.3 million when compared to the same period in 2022. The comparable operating profit margin increased 30 basis points to 37.1%. The increase in operating profit is primarily due to the increase in operating revenue, as well as improved cost management across our businesses. Operating expenses as a percentage of revenue remained flat for the comparable period.

Ancillary revenue, which represents revenue from our flower shop, monument company, pet cremation business and online cremation businesses, increased $0.1 million, while ancillary operating profit remained flat for the three months ended September 30, 2023 compared to the three months ended September 30, 2022.

Other revenue and other operating profit, which consists of preneed funeral insurance commissions and preneed funeral trust and insurance, both decreased $0.4 million, for the three months ended September 30, 2023, compared to the same period in 2022. The decreases are primarily due to a decline in realized earnings on preneed funeral trust and insurance contracts that matured to atneed during the period.

The following table sets forth certain information regarding our revenue and operating profit for our funeral home operations (in thousands):

	Nine months ended September 30,	
	2022	**2023**
Revenue:		
Operating	$ 187,433	$ 186,779
Divested	1,287	217
Ancillary	3,099	3,445
Other	7,254	6,775
Total	$ 199,073	$ 197,216
Operating profit:		
Operating	$ 75,078	$ 70,578
Divested	22	(20)
Ancillary	560	366
Other	6,400	5,951
Total	$ 82,060	$ 76,875
The following operating measures reflect the significant metrics over this comparative period:		
Contract volume	35,373	34,852
Average revenue per contract, excluding preneed funeral trust earnings	$ 5,299	$ 5,359
Average revenue per contract, including preneed funeral trust earnings	$ 5,464	$ 5,516
Cremation rate	57.6%	59.0%

Funeral home operating revenue decreased $0.7 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The decrease in operating revenue is primarily driven by a 1.5% decrease in contract volume, which was not fully offset by a 1.1% increase in the average revenue per contract excluding preneed interest. The contract volume decrease is primarily a result of the significant decline in COVID-19 related deaths in the first quarter of 2023 as compared to the same period in 2022, as these deaths now have a minimal impact on the overall death rate. The increase in average revenue per contract is primarily due to a combination of price increases and our continued focus on educating families on the many products and service options that are available with burials and cremations.

Funeral home operating profit for the nine months ended September 30, 2023 decreased $4.5 million when compared to the same period in 2022, primarily due to an increase in operating expenses as a percentage of revenue. The comparable operating profit margin decreased 230 basis points to 37.8%. Operating expenses as a percentage of revenue increased 2.3%, with the largest increases in salary and benefits expenses of 1.3%, general and administrative expenses of 0.4%, other funeral costs of 0.3%, and facilities and grounds expenses of 0.2%. The increase in operating expenses is partially due to higher costs from inflationary impacts concentrated in our full-time hourly base rates, utilities and funeral supplies.

Ancillary revenue, which represents revenue from our flower shop, monument company, pet cremation business and online cremation businesses, increased $0.3 million, while ancillary operating profit decreased $0.2 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The increase in revenue is primarily due to our Bakersfield, CA business acquired during the first quarter of 2023, as it was not present in the comparative period of 2022. Similarly, the decrease in operating profit is primarily due to this same business, as its operating profit margins were lower compared to our other ancillary businesses, particularly with regard to higher salaries and benefits expenses.

Other revenue, which consists of preneed funeral insurance commissions and preneed funeral trust decreased $0.5 million and other operating profit decreased $0.4 million, for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The decreases are primarily due to a decline in realized earnings on preneed funeral trust and insurance contracts that matured to atneed during the period.

Cemetery Segment

The following table sets forth certain information regarding our revenue and operating profit for our cemetery operations (in thousands):

	Three months ended September 30,	
	2022	**2023**
Revenue:		
Operating	$ 21,285	$ 24,577
Divested	60	3
Other	3,372	3,288
Total	$ 24,717	$ 27,868
Operating profit (loss):		
Operating	$ 7,869	$ 9,005
Divested	(21)	2
Other	3,232	3,166
Total	$ 11,080	$ 12,173
The following operating measures reflect the significant metrics over this comparative period:		
Preneed revenue as a percentage of operating revenue	61.0%	62.0%
Preneed revenue (in thousands)	$ 12,905	$ 15,166
Atneed revenue (in thousands)	$ 8,380	$ 9,411
Number of preneed interment rights sold	2,444	2,785
Average price per interment right sold	$ 4,585	$ 5,134

Cemetery operating revenue increased $3.3 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, as we experienced a 12.0% increase in the average price per preneed interment right sold, and a 14.0% increase in preneed interment rights sold. Cemetery atneed revenue, which represents 38.0% of our total operating revenue, increased $1.0 million for the three months ended September 30, 2023, compared to the same period of the prior year, primarily due to an increase in sales of merchandise and services from our newly acquired cemetery businesses, not present in the comparative quarter of 2022.

Cemetery operating profit increased $1.1 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. The comparable operating profit margin decreased 40 basis points to 36.6%. The increase in operating profit is primarily due to the increase in operating revenue, as well as improved cost management across our businesses. Operating expenses as a percentage of revenue remained flat for the comparable period.

Other revenue and other operating profit, which consist of preneed cemetery trust revenue and preneed cemetery finance charges, both decreased $0.1 million for the three months ended September 30, 2023, compared to the three months ended September 30, 2022. The decreases are primarily due to realized capital gains in the current year compared to the prior year in our merchandise and service fund.

The following table sets forth certain information regarding our revenue and operating profit for our cemetery operations (in thousands):

	Nine months ended September 30,	
	2022	2023
Revenue:		
Operating	$ 66,864	$ 75,324
Divested	190	45
Other	10,131	11,101
Total	$ 77,185	$ 86,470
Operating profit (loss):		
Operating	$ 27,600	$ 30,338
Divested	(35)	12
Other	9,717	10,740
Total	$ 37,282	$ 41,090
The following operating measures reflect the significant metrics over this comparative period:		
Preneed revenue as a percentage of operating revenue	62.0%	62.0%
Preneed revenue (in thousands)	$ 41,461	$ 46,999
Atneed revenue (in thousands)	$ 25,403	$ 28,325
Number of preneed interment rights sold	8,315	8,675
Average price per interment right sold	$ 4,461	$ 4,992

Cemetery operating revenue increased $8.5 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, as we experienced an 11.9% increase in the average price per preneed interment right sold, as well as a 4.3% increase in the number of preneed interment rights sold. Cemetery atneed revenue, which represents 38.0% of our total operating revenue, increased $2.9 million for the nine months ended September 30, 2023, compared to the same period of the prior year, primarily due to an increase in sales of merchandise and services from our newly acquired cemetery businesses, which were not present in the comparative period of 2022.

Cemetery operating profit increased $2.7 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The increase in operating profit is primarily due to the increase in operating revenue, offset by an increase in operating expenses as a percentage of revenue. The comparable operating profit margin decreased 100 basis point to 40.3%. Operating expenses as a percent of operating revenue increased 1.0% primarily due to an increase in salary and benefits expenses.

Other revenue and other operating profit, which consist of preneed cemetery trust revenue and preneed cemetery finance charges, both increased $1.0 million for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The increases are primarily due to an increase in income in our perpetual care trust fund and an increase in finance charges on preneed sales.

Cemetery property amortization. Cemetery property amortization totaled $1.3 million for both the three months ended September 30, 2023 and 2022. Cemetery property amortization totaled $4.4 million for the nine months ended September 30, 2023, an increase of $0.1 million, compared to the same period in 2022, primarily due to the increase in property sold across our cemetery portfolio.

Field depreciation. Depreciation expense for our field businesses totaled $3.6 million and $10.5 million for the three and nine months ended September 30, 2023, respectively, an increase of $0.4 million and $0.7 million, respectively, compared to the same period in 2022, primarily due to the business acquisitions made in the latter half of 2022 and the first quarter of 2023.

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 $3.8 million for the three months ended September 30, 2023, a decrease of $1.3 million compared to the same period in 2022, primarily due to the following: (1) a $1.0 million decrease in cash incentives and equity compensation; (2) a $0.2 million decrease in incentive award trips and annual managing partner meetings and (3) a $0.1 million decrease in other expenses.

Regional and unallocated funeral and cemetery costs totaled $13.3 million for the nine months ended September 30, 2023, a decrease of $4.1 million compared to the same period in 2022, primarily due to the following: (1) a $2.2 million decrease in cash incentives and equity compensation; (2) a $1.2 million decrease in incentive award trips and annual managing partner meetings; (3) $0.4 million decrease in travel expense and (3) a $0.3 million decrease in other expenses.

Other Financial Statement Items

General, administrative and other. General, administrative and other expenses, which includes salaries and benefits, cash and equity incentive compensation for the Houston support office totaled $11.3 million for the three months ended September 30, 2023, an increase of $0.9 million compared to the same period in 2022, which is primarily due to a $0.9 million increase in consulting fees related to our review of strategic alternatives.

General, administrative and other expenses totaled $31.7 million for the nine months ended September 30, 2023, an increase of $3.6 million compared to the same period in 2022, primarily due to the following: (1) a $3.1 million increase in salary and benefits expense and cash and equity incentive compensation, as a result of changes to our senior leadership team, including current year executive promotions and (2) a $1.0 million increase in consulting fees related to our review of strategic alternatives, offset by (3) a $0.5 million decrease in other expenses, including lower online marketing costs and travel costs.

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 September 30,		Nine months ended September 30,	
	2022	**2023**	**2022**	**2023**
Impairment of goodwill, intangibles and PPE	$ —	$ 211	$ —	$ 454
Net (gain) loss on divestitures	—	24	(575)	106
Net (gain) loss on disposals of fixed assets	(7)	188	142	369
Total	$ (7)	$ 423	$ (433)	$ 929

During the nine months ended September 30, 2023, we sold two funeral homes and two cemeteries for a loss of $0.1 million. We also recognized an impairment of $0.2 million as a result of our 2023 qualitative assessment of tradenames and an impairment of $0.2 million related to property, plant and equipment for assets held for sale.

During the nine months ended September 30, 2022, we sold real property and two funeral homes for a net gain of $0.7 million, of which $0.1 million was recorded in *Other, net* related to the sale of assets not used in operating activities.

Interest expense. Interest expense related to its respective debt arrangement is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2023**	**2022**	**2023**
Senior Notes	$ 4,410	$ 4,416	$ 13,203	$ 13,244
Credit Facility	2,081	4,647	4,425	13,402
Finance leases	110	137	335	345
Acquisition debt	78	70	237	212
Other	(1)	8	8	10
Total	$ 6,678	$ 9,278	$ 18,208	$ 27,213

Net gain on property damage, net of insurance claims. The components of *Net gain on property damage, net of insurance claims* are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2023**	**2022**	**2023**
(Gain) on property damaged by Hurricane Ida	$ —	$ —	$ (3,275)	$ (28)
(Gain) on property damaged by Hurricane Ian	—	(379)	—	(379)
Loss on property damaged by a fire in Q1 2023	—	—	—	64
Total	$ —	$ (379)	$ (3,275)	$ (343)

Other, net. During the nine months ended September 30, 2023, we recorded a $0.6 million gain on the sale of other real property not used in business operations. We did not record any gain or loss activity during the three months ended September 30, 2023.

Income taxes. Income tax expense totaled $2.1 million for the three months ended September 30, 2023, a decrease of $0.6 million compared to the same period in 2022, primarily due to lower pre-tax income in the current period. Our operating tax rate before discrete items was 30.4% and 30.6% for the three months ended September 30, 2023 and 2022, respectively.

Income tax expense totaled $9.0 million for the nine months ended September 30, 2023, a decrease of $3.0 million compared to the same period in 2022, primarily due to lower pre-tax income in the current period. Our operating tax rate before discrete items was 28.9% and 27.8% for nine months ended September 30, 2023 and 2022, respectively.

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 II, Item 8 “Financial Statements and Supplementary Data” in Note 1 in our Annual Report on Form 10-K for the year ended December 31, 2022.

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, with number of deaths generally higher during the winter months due to the higher incidences of death from influenza and pneumonia as compared to other periods of the year. Seasonal fluctuations in the death rate may be further affected by epidemics and pandemics, like COVID-19, including any new or emerging public health threats. These unexpected fluctuations may not only increase death rates during the affected period, but also may subsequently decrease death rates following the affected period as a result of an acceleration of death rates. As a result, we are unable to predict or forecast the duration or variation of the current death rate with any certainty.

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 the impact of health and safety concerns from epidemics and pandemics and inflation, 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, 2022.

The following quantitative and qualitative information is provided about financial instruments to which we are a party at September 30, 2023 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 September 30, 2023 are presented in Part 1, Item 1, Financial Statements, Note 8 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 1.25% 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 September 30, 2023, we had outstanding borrowings under the Credit Facility of

$187.3 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 the BSBY rate plus a margin. At September 30, 2023, the prime rate margin was equivalent to 2.375% and the BSBY rate margin was 3.375%. 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 $1.9 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 September 30, 2023, the carrying value of the Senior Notes on our Consolidated Balance Sheet was $395.7 million and the fair value of the Senior Notes was $342.6 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 September 30, 2023 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.

Item 1A. Risk Factors.

Risk Factor Update

The risk factors 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, 2022, which could materially affect our business, financial condition or future results. The risks described in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2022, and our Quarterly Report on Form 10-Q for the quarter ending March 31, 2023 and June 30, 2023, respectively, 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.

RISKS RELATED TO OUR BUSINESS

Risks Related to Review of Strategic Alternatives Process and a Potential Strategic Transaction

We are reviewing strategic alternatives and there can be no assurance that we will be successful in identifying or completing any strategic transaction, that any such strategic transaction will result in additional value for our stockholders or that the process will not have an adverse impact on our business.

On June 29, 2023, we announced our Board had initiated a process to explore potential strategic alternatives, possibly including, but not limited to, a sale, merger or other potential strategic or financial transaction, aimed at increasing stockholder value. There can be no assurance that the review of strategic alternatives will result in the identification or consummation of any transaction. Our Board may also determine that our most effective strategy is to continue to execute on our current strategy.

The process of reviewing strategic alternatives may be costly, time consuming and disruptive to our business operations and, if we are unable to effectively manage the process, our business, financial condition and results of operations could be adversely affected. We have incurred, and may in the future incur, significant costs associated with identifying, evaluating and negotiating potential strategic alternatives, such as legal, financial advisor and accounting fees and expenses and other related charges. We may also incur additional unanticipated expenses in connection with this process. A considerable portion of these costs will be incurred regardless of whether any such course of action is implemented or transaction is completed, decreasing cash available for use in our business.

There can be no assurance that any potential transaction, or series of transactions, or other strategic alternative, if consummated, will provide greater value to our stockholders than that reflected in the current price of our common stock. Until the review process is concluded, perceived uncertainties related to our future may impact our business performance and volatility in the market price of our common stock and may make it more difficult for us to attract and retain qualified personnel and key employees. Our Board has not set a timetable for the conclusion of this review, nor has it made any definitive decisions related to taking any further actions or potential strategic options at this time or at all.

Even if we are successful in completing a strategic alternative, we may be exposed to other operational and financial risks.

Although there can be no assurance that a strategic alternative will result from the process we have undertaken to explore potential strategic alternatives, the negotiation and consummation of any such transaction, if completed, will require significant time on the part of our management, which could result in disruption to our business.

The negotiation and consummation of any such transaction may also require more time or greater cash resources than we anticipate and expose us to other operational and financial risks, including, but not limited to:

- increased near-term and long-term expenditures;

- exposure to unknown liabilities;
- higher than expected acquisition or integration costs;
- incurrence of substantial debt or dilutive issuances of equity securities to fund future operations;
- write-downs of assets or goodwill or incurrence of non-recurring, impairment or other charges;
- increased amortization expenses;
- difficulty and cost in combining the operations and personnel of any acquiring or acquired business with our operations and personnel;
- impairment of relationships with key suppliers or customers of any acquired business due to changes in management and ownership;
- inability to retain key employees of our Company or any acquired or merged business; and
- possibility of future litigation.

Any of the foregoing risks could have a material adverse effect on our business, financial condition and prospects.

GENERAL RISKS

Economic Conditions and Natural Disasters

Adverse developments affecting the financial services industry, including events or concerns involving liquidity, defaults, or non-performance by financial institutions, could adversely affect our business, financial condition, or results of operations.

We currently maintain cash balances in accounts at U.S. financial institutions that we believe are high quality. These accounts, held by us and our affiliated companies, are in non-interest-bearing and interest-bearing operating accounts and may, from time to time, exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. If such banking institutions were to fail, we could lose all or a portion of those amounts held in excess of such insurance limitations. In addition, actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, our third-party vendors and counterparties or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future lead to market-wide liquidity problems, which could adversely affect our business, financial condition, results of operations and liquidity.

Although we assess our banking relationships as we believe necessary or appropriate, our access to funding sources and other credit arrangements in amounts adequate to finance or capitalize our respective current and projected future business operations could be significantly impaired by factors that affect us, the financial institutions with which we have arrangements directly, or the financial services industry or economy in general. These factors could include, among others, events such as liquidity constraints or failures, the ability to perform obligations under various types of financial, credit or liquidity agreements or arrangements, disruptions or instability in the financial services industry or financial markets, or concerns or negative expectations about the prospects for companies in the financial services industry. These factors could involve financial institutions or financial services industry companies with which we, have financial or business relationships, but could also include factors involving financial markets or the financial services industry generally.

In addition, investor concerns regarding the U.S. or international financial systems could result in less favorable commercial financing terms, including higher interest rates or costs and tighter financial and operating covenants, or systemic limitations on access to credit and liquidity sources, thereby making it more difficult for us to acquire future financing or access to capital on acceptable terms or at all. As availability under our Credit Facility and/or the ability to access capital has historically been, and is expected to continue to be, one of our primary sources of liquidity, any adverse impacts on our ability to access such credit and liquidity sources as a result of adverse developments affecting the financial services industry could adversely affect our business, financial condition, results of operations.

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 September 30, 2023:

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)]
July 1, 2023 - July 31, 2023	—	$ —	—	$ 48,898,769
August 1, 2023 - August 31, 2023	—	$ —	—	$ 48,898,769
September 1, 2023 - September 30, 2023	—	$ —	—	$ 48,898,769
Total for quarter ended September 30, 2023	—		—	

(1) 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.

Rule 10b5-1 Trading Plans

On August 31, 2023, Melvin C. Payne, Executive Chairman of the Board of the Company, terminated a pre-arranged stock trading plan pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which was adopted on March 13, 2023 and provided for the potential sale of up to 50,000 shares of the Company’s common stock on a specified date every three months beginning on June 13, 2023 and continuing through December 31, 2024 (the “Plan”). The Plan was terminated as a result of the Company’s June 29, 2023 announcement regarding the Board’s review of potential strategic alternatives for the Company.

Other than Mr. Payne’s Plan discussed above, no director or “officer” (as defined in Rule 16a-1(f) under the Exchange Act) of the Company informed the Company of the adoption, modification or termination of a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K under the Exchange Act.

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: November 9, 2023

/s/ L. Kian Granmayeh

L. Kian Granmayeh
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

CARRIAGE SERVICES, INC.

INDEX OF EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation, as amended, of the Company. Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996, filed on March 20, 1997.
3.2	Certificate of Amendment dated May 7, 1997. Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997, filed on November 14, 1997.
3.3	Certificate of Amendment dated May 7, 2002. Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended June 30, 2002, filed on August 13, 2002.
3.4	Amended and Restated By-Laws of Carriage Services, Inc. dated June 21, 2023. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 22, 2023.
*31.1	Certification of Periodic Financial Reports by Carlos R. Quezada in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Periodic Financial Reports by L. Kian Granmayeh in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
**32	Certification of Periodic Financial Reports by Carlos R. Quezada and L. Kian Granmayeh 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, Carlos R. Quezada, 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: November 9, 2023

/s/ Carlos R. Quezada

Carlos R. Quezada
Chief Executive Officer and Vice Chairman of the Board
(Principal Executive Officer)

EXHIBIT 31.2

I, L. Kian Granmayeh, 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: November 9, 2023

/s/ L. Kian Granmayeh

L. Kian Granmayeh
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”), Carlos R. Quezada, Chief Executive Officer of the Company, and L. Kian Granmayeh, Executive Vice President, Chief Financial Officer and Treasurer, 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: November 9, 2023

/s/ Carlos R. Quezada
Carlos R. Quezada
Chief Executive Officer and Vice Chairman of the Board
(Principal Executive Officer)

/s/ L. Kian Granmayeh
L. Kian Granmayeh
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)