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, 2022

OR

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

For the transition period from ___________ to ___________

Commission File Number: 1-11961

CARRIAGE SERVICES, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

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

The number of shares of the registrant's Common Stock, $.01 par value per share, outstanding as of October 28, 2022 was 14,714,808.

CARRIAGE SERVICES, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	December 31, 2021	September 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,148	$ 821
Accounts receivable, net	25,314	23,352
Inventories	7,346	7,675
Prepaid and other current assets	6,404	4,131
Total current assets	40,212	35,979
Preneed cemetery trust investments	100,903	87,030
Preneed funeral trust investments	113,658	98,638
Preneed cemetery receivables, net	23,150	25,873
Receivables from preneed funeral trusts, net	19,009	20,119
Property, plant and equipment, net	269,367	275,977
Cemetery property, net	100,701	101,691
Goodwill	391,972	393,765
Intangible and other non-current assets, net	29,378	30,451
Operating lease right-of-use assets	17,881	17,295
Cemetery perpetual care trust investments	72,400	60,569
Total assets	$ 1,178,631	$ 1,147,387
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and lease obligations	$ 2,809	$ 3,104
Accounts payable	14,205	9,325
Accrued and other liabilities	43,773	37,123
Total current liabilities	60,787	49,552
Acquisition debt, net of current portion	3,979	3,846
Credit facility	153,857	167,410
Senior notes	394,610	395,082
Obligations under finance leases, net of current portion	5,157	4,842
Obligations under operating leases, net of current portion	18,520	17,638
Deferred preneed cemetery revenue	50,202	52,173
Deferred preneed funeral revenue	30,584	32,006
Deferred tax liability	45,784	47,483
Other long-term liabilities	1,419	2,700
Deferred preneed cemetery receipts held in trust	100,903	87,030
Deferred preneed funeral receipts held in trust	113,658	98,638
Care trusts' corpus	71,156	60,067
Total liabilities	1,050,616	1,018,467
Commitments and contingencies:		
Stockholders' equity:		
Common stock, $0.01 par value; 80,000,000 shares authorized and 26,264,245 and 26,341,132 shares issued, respectively and 15,331,923 and 14,713,314 shares outstanding, respectively	263	263
Additional paid-in capital	236,809	238,787
Retained earnings	135,462	168,623
Treasury stock, at cost; 10,932,322 and 11,627,818 shares, respectively	(244,519)	(278,753)
Total stockholders' equity	128,015	128,920
Total liabilities and stockholders' equity	$ 1,178,631	$ 1,147,387

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,	
	2021	2022	2021	2022
Revenue:				
Service revenue	$ 46,210	$ 42,992	$ 134,086	$ 135,279
Property and merchandise revenue	42,043	37,607	125,545	120,495
Other revenue	6,788	6,898	20,324	20,484
	95,041	87,497	279,955	276,258
Field costs and expenses:				
Cost of service	20,523	22,317	61,073	65,805
Cost of merchandise	28,632	28,668	84,672	87,304
Cemetery property amortization	1,521	1,278	5,213	4,314
Field depreciation expense	3,154	3,281	9,432	9,831
Regional and unallocated funeral and cemetery costs	6,812	5,096	18,655	17,409
Other expenses	1,235	1,259	3,758	3,807
	61,877	61,899	182,803	188,470
Gross profit	33,164	25,598	97,152	87,788
Corporate costs and expenses:				
General, administrative and other	9,041	10,383	25,340	28,123
Net (gain) loss on divestitures, disposals and impairments charges	858	(7)	1,377	(433)
Operating income	23,265	15,222	70,435	60,098
Interest expense	(5,076)	(6,678)	(20,138)	(18,208)
Accretion of discount on convertible subordinated notes	—	—	(20)	—
Loss on extinguishment of debt	—	—	(23,807)	—
Gain on insurance reimbursements	—	—	—	3,275
Other, net	(21)	95	(87)	78
Income before income taxes	18,168	8,639	26,383	45,243
Expense for income taxes	(5,125)	(2,640)	(7,466)	(12,578)
Tax adjustment related to discrete items	3	(139)	895	496
Total expense for income taxes	(5,122)	(2,779)	(6,571)	(12,082)
Net income	$ 13,046	$ 5,860	$ 19,812	$ 33,161
Basic earnings per common share:	$ 0.74	$ 0.40	$ 1.11	$ 2.22
Diluted earnings per common share:	$ 0.71	$ 0.38	$ 1.08	$ 2.09
Dividends declared per common share:	$ 0.1000	$ 0.1125	$ 0.3000	$ 0.3375
Weighted average number of common and common equivalent shares outstanding:				
Basic	17,499	14,689	17,809	14,908
Diluted	18,246	15,537	18,365	15,849

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,	
	2021	**2022**
Cash flows from operating activities:		
Net income	$ 19,812	$ 33,161
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,486	14,611
Provision for credit losses	1,426	2,292
Stock-based compensation expense	3,832	4,577
Deferred income tax expense (benefit)	(3,433)	1,699
Amortization of intangibles	968	957
Amortization of debt issuance costs	459	397
Amortization and accretion of debt	319	368
Loss on extinguishment of debt	23,807	—
Net (gain) loss on divestitures, disposals and impairment charges	1,558	(433)
Gain on insurance reimbursements	—	(3,275)
Other	—	(153)
Changes in operating assets and liabilities that provided (used) cash:		
Accounts and preneed receivables	(4,387)	(3,053)
Inventories, prepaid and other current assets	(266)	2,785
Intangible and other non-current assets	(887)	(1,381)
Preneed funeral and cemetery trust investments	(23,355)	(12,585)
Accounts payable	(845)	(2,451)
Accrued and other liabilities	9,643	(3,080)
Deferred preneed funeral and cemetery revenue	3,587	2,852
Deferred preneed funeral and cemetery receipts held in trust	21,975	12,758
Net cash provided by operating activities	69,699	50,046
Cash flows from investing activities:		
Acquisitions of businesses and real estate	(3,285)	(8,876)
Proceeds from divestitures and sale of other assets	4,375	4,313
Proceeds from insurance reimbursements	2,946	2,209
Capital expenditures	(15,252)	(20,346)
Net cash used in investing activities	(11,216)	(22,700)
Cash flows from financing activities:		
Borrowings from the credit facility	154,968	114,600
Payments against the credit facility	(115,268)	(101,000)
Payment to redeem the 6.625% senior notes due 2026	(400,000)	—
Payment of call premium for the redemption of the 6.625% senior notes due 2026	(19,876)	—
Proceeds from the issuance of the 4.25% senior notes due 2029	395,500	—
Payment of debt issuance costs for the credit facility and the 4.25% senior notes due 2029	(2,054)	(339)
Conversions and maturity of the convertible notes	(3,980)	—
Payments on acquisition debt and obligations under finance leases	(658)	(314)
Payments on contingent consideration recorded at acquisition date	(461)	—
Proceeds from the exercise of stock options and employee stock purchase plan contributions	2,107	1,438
Taxes paid on restricted stock vestings and exercises of stock options	(1,433)	(287)
Dividends paid on common stock	(5,390)	(5,108)
Purchase of treasury stock	(61,739)	(36,663)
Net cash used in financing activities	(58,284)	(27,673)
Net increase (decrease) in cash and cash equivalents	199	(327)
Cash and cash equivalents at beginning of period	889	1,148
Cash and cash equivalents at end of period	$ 1,088	$ 821

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, 2021					
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance – June 30, 2021	17,826	$ 262	$ 237,891	$ 109,069	$ (114,351)	$ 232,871
Net income	—	—	—	13,046	—	13,046
Issuance of common stock from employee stock purchase plan	15	—	388	—	—	388
Issuance of common stock to directors and board advisor	3	—	147	—	—	147
Exercise of stock options	12	—	(82)	—	—	(82)
Cancellation and surrender of restricted common stock	(1)	—	(28)	—	—	(28)
Stock-based compensation expense	—	—	1,148	—	—	1,148
Dividends on common stock	—	—	(1,783)	—	—	(1,783)
Treasury stock acquired	(1,203)	—	—	—	(53,239)	(53,239)
Balance – September 30, 2021	16,652	$ 262	$ 237,681	$ 122,115	$ (167,590)	$ 192,468

	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 common 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

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

	Nine months ended September 30, 2021					
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance – December 31, 2020	17,995	$ 260	$ 239,989	$ 102,303	$ (102,050)	$ 240,502
Net income	—	—	—	19,812	—	19,812
Issuance of common stock from employee stock purchase plan	47	1	1,227	—	—	1,228
Issuance of common stock to directors and board advisor	13	—	495	—	—	495
Issuance of restricted common stock	9	—	—	—	—	—
Exercise of stock options	127	1	(178)	—	—	(177)
Cancellation and surrender of restricted common stock	(11)	—	(375)	—	—	(375)
Stock-based compensation expense	—	—	3,337	—	—	3,337
Dividends on common stock	—	—	(5,390)	—	—	(5,390)
Convertible notes conversions	—	—	(1,424)	—	—	(1,424)
Treasury stock acquired	(1,528)	—	—	—	(65,540)	(65,540)
Balance – September 30, 2021	16,652	$ 262	$ 237,681	$ 122,115	$ (167,590)	$ 192,468

	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 common 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

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

CARRIAGE SERVICES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Carriage Services, Inc. ("Carriage," the "Company," "we," "us," or "our") is a leading provider of funeral and cemetery services and merchandise in the United States. Our operations are reported in two business segments: Funeral Home Operations, which currently account for approximately 70% of our revenue and Cemetery Operations, which currently account for approximately 30% of our revenue. At September 30, 2022, we operated 169 funeral homes in 26 states and 31 cemeteries in 11 states.

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

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

Principles of Consolidation and Interim Condensed Disclosures

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

Use of Estimates

The preparation of our Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, we evaluate our critical estimates and judgments, which include those related to the impairment of goodwill and the fair value measurements used in business combinations. These policies are considered critical because they may result in fluctuations in our reported results from period to period due to the significant judgments, estimates and assumptions about complex and inherently uncertain matters and because the use of different judgments, assumptions or estimates could have a material impact on our financial condition or results of operations. Actual results may differ from these estimates and such estimates may change if the underlying conditions or assumptions change. Historical performance should not be viewed as indicative of future performance because there can be no assurance the margins, operating income and net earnings, as a percentage of revenue, will be consistent from period to period.

Cash and Cash Equivalents

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

Funeral and Cemetery Receivables

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

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

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

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

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

See Note 6 to the Consolidated Financial Statements herein for additional information related to our funeral and cemetery receivables.

Inventory

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

Business Combinations

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

During the three and nine months ended September 30, 2022, we acquired a business consisting of two funeral homes for $6.3 million. We did not acquire any businesses during the three and nine months ended September 30, 2021.

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

Divested Operations

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

See Notes 4 and 5 to the Consolidated Financial Statements herein for additional information related to our divestitures.

Goodwill

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

We performed our annual goodwill impairment test as of August 31, 2022. Our intent is to perform a quantitative impairment test at least once every three years and perform a qualitative assessment during the remaining two years. We conducted qualitative assessments in 2020 and 2021; however, we performed a quantitative assessment in 2022. 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.

Our 2022 quantitative assessment is not complete at the time of this filing, but we do not expect any impairment to goodwill as a result of our testing. For our 2020 and 2021 annual qualitative assessments, 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 annual intangible assets impairment test as of August 31, 2022. Our intent is to perform a quantitative impairment test at least once every three years and perform a qualitative assessment during the remaining two years. We conducted qualitative assessments in 2020 and 2021; however, we performed a quantitative assessment in 2022. 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.

Our 2022 quantitative assessment is not complete at the time of this filing, but we do not expect any impairment to intangible assets as a result of our testing. For our 2020 and 2021 qualitative assessments, there was no impairment to intangibles assets as the fair value of our intangible assets was greater than the carrying value.

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

Preneed and Perpetual Care Trust Funds

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

Our preneed and perpetual care trust funds are reported in accordance with the principles of consolidating Variable Interest Entities ("VIEs"). In the case of preneed trusts, the customers are the legal beneficiaries. In the case of perpetual care trusts, we do not have a right to access the corpus in the perpetual care trusts.

Our trust fund assets are reflected in our financial statements as *Preneed cemetery trust investments, Preneed funeral trust investments* and *Cemetery perpetual care trust investments.* We have recognized financial interests of third parties in the trust funds in our financial statements as *Deferred preneed funeral and cemetery receipts held in trust* and *Care trusts' corpus*.

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

In accordance with respective state laws, we are required to deposit a specified amount into perpetual and memorial care trust funds for each interment right and certain memorials sold. Income from the trust funds is distributed to us and used to provide for the care and maintenance of the cemeteries and mausoleums. Trust fund income is recognized as revenue when realized by the trust and distributable to us. We are restricted from withdrawing any of the principal balances of these funds.

We also have preneed funeral trust fund assets in trusts that are controlled and operated by third parties in which we do not have a controlling financial interest (less than 50%) in the trust assets. We account for these investments at cost, reflected in our financial statements as *Receivables from preneed funeral trusts, net.*

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

See Notes 7 and 8 to the Consolidated Financial Statements herein for additional information related to preneed and perpetual care trust funds.

Fair Value Measurements

We measure the securities held by our funeral merchandise and service, cemetery merchandise and service, and cemetery perpetual care trusts at fair value on a recurring basis in accordance with ASC Topic 820. This guidance defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

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

See Notes 7 and 9 to the Consolidated Financial Statements herein for additional required disclosures related to our fair value measurement of our financial assets and liabilities.

Capitalized Commissions on Preneed Contracts

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

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

See Note 10 to the Consolidated Financial Statements herein for additional information related to our capitalized commissions on preneed contracts.

Property, Plant and Equipment

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

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

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

	December 31, 2021	September 30, 2022
Land	$ 82,095	$ 83,757
Buildings and improvements	240,387	250,890
Furniture, equipment and automobiles	73,377	68,919
Property, plant and equipment, at cost	395,859	403,566
Less: accumulated depreciation	(126,492)	(127,589)
Property, plant and equipment, net	$ 269,367	$ 275,977

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* on our Consolidated Statements of Operations, described in Note 5 to the Consolidated Financial Statements included herein.

During the nine months ended September 30, 2021, we acquired real property for $3.3 million. Additionally, we divested three funeral homes that had a carrying value of property, plant and equipment of $2.4 million, which was included in the gain/loss on the sale of divestitures and recorded in *Net (gain) loss on divestitures, disposals and impairment charges.*

Our growth and maintenance capital expenditures totaled $5.0 million and $5.3 million for the three months ended September 30, 2021 and 2022, respectively, and $11.1 million and $15.1 million for the nine months ended September 30, 2021 and 2022, respectively, for property, plant and equipment. In addition, we recorded depreciation expense of $3.4 million for both the three months ended September 30, 2021 and 2022 and $10.2 million and $10.1 million, for the nine months ended September 30, 2021 and 2022, respectively.

Cemetery Property

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

Cemetery property was $100.7 million and $101.7 million, net of accumulated amortization of $53.1 million and $57.4 million at December 31, 2021 and September 30, 2022, respectively. When cemetery property is sold, the value of the cemetery property (interment right costs) is expensed as amortization using the specific identification method in the period in which the sale of the interment right is recognized as revenue. Our growth capital expenditures for cemetery property development totaled $1.5 million for both the three months ended September 30, 2021 and 2022 and $4.1 million and $5.2 million, for the nine months ended September 30, 2021 and 2022, respectively. We recorded amortization expense for cemetery interment rights of $1.5 million and $1.3 million for the three months ended September 30, 2021 and 2022, respectively, and $5.2 million and $4.3 million, for the nine months ended September 30, 2021 and 2022, respectively.

Leases

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

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

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

See Notes 13 to the Consolidated Financial Statements included herein for additional information related to our leases.

Equity Plans and Stock-Based Compensation

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

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

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

See Note 15 to the Consolidated Financial Statements included herein for additional information related to our equity plans and stock-based compensation.

Revenue Recognition

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

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

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

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

The earnings from our preneed trust investments, as well as trust management fees charged by our wholly-owned registered investment advisory firm ("CSV RIA") are recorded in *Other revenue*. As of September 30, 2022, CSV RIA provided investment management and advisory services to approximately 80% of our trust assets, for a fee based on the market value of trust assets. Under state trust laws, we are allowed to charge the trust a fee for advising on the investment of the trust assets and these fees are recognized as income in the period in which services are provided.

Balances due on undelivered preneed funeral trust contracts have been reclassified to reduce *Deferred preneed funeral revenue* on our Consolidated Balance Sheet of $8.0 million and $8.8 million at December 31, 2021 and September 30, 2022, respectively. As these performance obligations are to be completed after the date of death, we cannot quantify the recognition of revenue in future periods. However, we estimate an average maturity period of ten years for preneed funeral contracts.

Balances due from customers on delivered preneed cemetery contracts are included in *Accounts receivable, net* and *Preneed cemetery receivables, net* on our Consolidated Balance Sheet. Balances due on undelivered preneed cemetery contracts have been reclassified to reduce *Deferred preneed cemetery revenue* on our Consolidated Balance Sheet. The transaction price allocated to preneed merchandise and service performance obligations that were unfulfilled were $10.4 million and $10.5 million at December 31, 2021 and September 30, 2022, respectively. As these performance obligations are to be completed after the date of death, we cannot quantify the recognition of revenue in future periods. However, we estimate an average maturity period of eight years for preneed cemetery contracts.

See Note 17 to the Consolidated Financial Statements herein for additional information related to revenue.

Income Taxes

We and our subsidiaries file a consolidated U. S. federal income tax return, separate income tax returns in 15 states in which we operate and combined or unitary income tax returns in 14 states in which we operate. We record deferred taxes for temporary differences between the tax basis and financial reporting basis of assets and liabilities. We classify our deferred tax liabilities and assets as non-current on our Consolidated Balance Sheet.

We record a valuation allowance to reflect the estimated amount of deferred tax assets for which realization is uncertain. Management reviews the valuation allowance at the end of each quarter and makes adjustments if it is determined that it is more likely than not that the tax benefits will be realized.

We analyze tax benefits for uncertain tax positions and how they are to be recognized, measured, and derecognized in the financial statements; provide certain disclosures of uncertain tax matters; and specify how reserves for uncertain tax positions should be classified on our Consolidated Balance Sheet.

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

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

On March 2, 2022, we received approval from the IRS regarding our filed method change related to the revenue recognition of cemetery merchandise and services sales. As a result, we recorded a $0.5 million reduction to the reserve for uncertain tax positions, including interest, during the nine months ended September 30, 2022.

At December 31, 2021 and September 30, 2022, the reserve for uncertain tax positions was $3.8 million and $3.3 million, respectively, related to carrying back the net operating losses generated in the tax year ended December 31, 2018, filed under the CARES Act on June 30, 2020.

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

For the three months ended September 30, 2021 and 2022, we had an income tax expense of $5.1 million and $2.8 million, respectively, and for the nine months ended September 30, 2021 and 2022, we had an income tax expense of $6.6 million and $12.1 million, respectively. Our operating tax rate before discrete items was 28.2% and 30.6% for the three months ended September 30, 2021 and 2022, respectively, and 28.3% and 27.8% for the nine months ended September 30, 2021 and 2022, respectively.

Computation of Earnings Per Common Share

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

Share-based awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are recognized as participating securities and included in the computation of both basic and diluted earnings per share. Our grants of restricted stock awards to our employees are considered participating securities, and we have prepared our earnings per share calculations attributable to common stockholders to exclude outstanding unvested restricted stock awards, using the two-class method, in both the basic and diluted weighted average shares outstanding calculation.

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

See Note 16 to the Consolidated Financial Statements included herein related to the computation of earnings per share.

Subsequent Events

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

See Note 19 to the Consolidated Financial Statements included herein for additional information related to our subsequent events.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

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

On May 27, 2022, we amended our Credit Facility (defined in Note 11) to establish the Bloomberg Short-Term Bank Yield Index Rate ("BSBY") as a benchmark rate and removed LIBOR from our Credit Facility, among other things. We did not apply the optional expedients provided by the guidance in Topic 848. See Note 11 to the Consolidated Financial Statements herein for additional information related to the amended Credit Facility.

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

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

Credit Losses - Vintage Disclosures

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

3. ACQUISITIONS

On August 8, 2022, we acquired a business consisting of two funeral homes in Kissimmee, Florida for $6.3 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 measurement period to determine the fair values of acquired identifiable assets and assumed liabilities will end at the earlier of 12 months from the date of the acquisition or as soon as we receive the information we are seeking about facts and circumstances that existed as of the acquisition date. Provisional estimates for inventory, furniture and equipment and intangible assets have been recorded for the acquisition as independent valuations have not been finalized. We do not not expect any significant differences from estimated values upon completion of the valuations. Estimated fair values of the assets acquired and liabilities assumed in this transaction as of the closing date are as follows (in thousands):

	Estimated Fair Values
Current assets	$ 28
Property, plant & equipment	2,986
Goodwill	2,694
Intangible and other non-current assets	542
Purchase price	$ 6,250

The intangible and other non-current assets relate to the fair value of tradenames. For the nine months ended September 30, 2021, we did not acquire any businesses. At September 30, 2022, we did not estimate a fair value for preneed funeral trust assets and liabilities for this acquisition as this information was not yet available. However, the preneed funeral trust assets and liabilities offset in our Consolidated Balance Sheet.

4. GOODWILL

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

	December 31, 2021	September 30, 2022
Goodwill at the beginning of the period	$ 392,978	$ 391,972
Increase in goodwill related to acquisitions	—	2,694
Decrease in goodwill related to divestitures	(1,006)	(901)
Goodwill at the end of the period	$ 391,972	$ 393,765

During the three and nine months ended September 30, 2022, we recognized $2.7 million in goodwill related to our 2022 acquisition described in Note 3 to the Consolidated Financial Statements included herein. During the nine months ended September 30, 2021 and 2022, we allocated $1.0 million and $0.9 million of goodwill to the sale of one funeral home and two funeral homes, respectively, for a loss recorded in *Net (gain) loss on divestitures, disposals and impairments charges.*

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, 2021 and 2022, we did not sell any funeral homes or cemeteries. During the nine months ended September 30, 2022, we merged one funeral home with another business we own in an existing market and sold two funeral homes for an aggregate of $0.9 million. During the nine months ended September 30, 2021, we sold three funeral homes for an aggregate of $3.5 million.

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Revenue	$ (10)	$ —	$ 338	$ 296
Operating income (loss)	(41)	—	(54)	25
Gain (loss) on divestitures[1]	—	—	103	(703)
Income tax benefit (expense)	12	—	(14)	188
Net income (loss) from divested operations, after tax	$ (29)	$ —	$ 35	$ (490)

(1) Gain (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

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

	September 30, 2022			
	Funeral	Cemetery	Corporate	Total
Trade and financed receivables	$ 7,992	$ 14,524	$ —	$ 22,516
Other receivables	509	1,047	189	1,745
Allowance for credit losses	(255)	(654)	—	(909)
Accounts receivable, net	$ 8,246	$ 14,917	$ 189	$ 23,352

	December 31, 2021			
	Funeral	Cemetery	Corporate	Total
Trade and financed receivables	$ 10,728	$ 13,629	$ —	$ 24,357
Other receivables	329	1,433	185	1,947
Allowance for credit losses	(365)	(625)	—	(990)
Accounts receivable, net	$ 10,692	$ 14,437	$ 185	$ 25,314

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

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

	January 1, 2022	Provision for Credit Losses	Write Offs	Recoveries	September 30, 2022
Trade and financed receivables:					
Funeral	$ (365)	$ (1,104)	$ 2,150	$ (936)	$ (255)
Cemetery	(625)	(452)	423	—	(654)
Total allowance for credit losses on Trade and financed receivables	$ (990)	$ (1,556)	$ 2,573	$ (936)	$ (909)

Preneed Cemetery Receivables

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

	December 31, 2021	September 30, 2022
Interment rights	$ 40,863	$ 43,888
Merchandise and services	7,348	8,233
Unearned finance charges	4,644	4,778
Preneed cemetery receivables	$ 52,855	$ 56,899

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

	December 31, 2021	September 30, 2022
Preneed cemetery receivables	$ 52,855	$ 56,899
Less: unearned finance charges	(4,644)	(4,778)
Preneed cemetery receivables, at amortized cost	$ 48,211	$ 52,121
Less: allowance for credit losses	(1,704)	(1,832)
Less: balances due on undelivered cemetery preneed contracts	(10,353)	(10,546)
Less: amounts in accounts receivable	(13,004)	(13,870)
Preneed cemetery receivables, net	$ 23,150	$ 25,873

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

	January 1, 2022	Provision for Credit Losses	Write Offs	September 30, 2022
Total allowance for credit losses on *Preneed cemetery receivables, net*	$ (1,079)	$ (736)	$ 637	$ (1,178)

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

	2022	2021	2020	2019	2018	Prior	Total
Total preneed cemetery receivables, at amortized cost	$ 21,973	$ 14,838	$ 7,854	$ 4,376	$ 1,585	$ 1,495	$ 52,121

The aging of past due preneed cemetery receivables at September 30, 2022 is as follows (in thousands):

	31-60 Past Due	61-90 Past Due	91-120 Past Due	>120 Past Due	Total Past Due	Current	Total
Recognized revenue	$ 634	$ 357	$ 148	$ 2,042	$ 3,181	$ 38,394	$ 41,575
Deferred revenue	185	147	441	518	1,291	14,033	15,324
Total contracts	$ 819	$ 504	$ 589	$ 2,560	$ 4,472	$ 52,427	$ 56,899

7. TRUST INVESTMENTS

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

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

Where quoted prices are available in an active market, investments held by the trusts are classified as Level 1 investments pursuant to the three-level valuation hierarchy. Our Level 1 investments include cash, U.S. treasury debt, common stock and equity mutual funds. Where quoted market prices are not available for the specific security, then fair values are estimated by using quoted prices of similar securities in active markets or inputs other than quoted prices that can corroborate observable market data. These investments are fixed income securities, including U.S. agency obligations, foreign debt, corporate debt, preferred stocks, certificates of deposit and fixed income mutual funds and other investments, all of which are classified within Level 2 of the valuation hierarchy. We review and update our fair value hierarchy classifications quarterly. See Note 9 to the Consolidated Financial Statements included herein for further information of the fair value measurement.

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

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

Preneed Cemetery Trust Investments

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

	December 31, 2021	September 30, 2022
Preneed cemetery trust investments, at market value	$ 103,808	$ 90,130
Less: allowance for contract cancellation	(2,905)	(3,100)
Preneed cemetery trust investments	$ 100,903	$ 87,030

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

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 6,852	$ —	$ —	$ 6,852
Fixed income securities:					
U.S. agency obligations	2	803	—	(76)	727
Foreign debt	2	11,146	533	(1,024)	10,655
Corporate debt	2	14,073	37	(3,311)	10,799
Preferred stock	2	12,568	367	(1,665)	11,270
Certificates of deposit	2	79	—	(7)	72
Common stock	1	45,169	2,483	(7,816)	39,836
Mutual funds:					
Equity	1	309	—	(63)	246
Fixed income	2	12,324	8	(3,603)	8,729
Trust securities		$ 103,323	$ 3,428	$ (17,565)	$ 89,186
Accrued investment income		$ 944			$ 944
Preneed cemetery trust investments					$ 90,130
Market value as a percentage of cost					86.3%

The estimated maturities of the fixed income securities (excluding mutual funds) at September 30, 2022 included above are as follows (in thousands):

Due in one year or less	$ 1,515
Due in one to five years	6,815
Due in five to ten years	6,435
Thereafter	18,758
Total fixed income securities	$ 33,523

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

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

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

	September 30, 2022					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
U.S. agency obligations	$ 728	$ (76)	$ —	$ —	$ 728	$ (76)
Foreign debt	6,829	(528)	583	(496)	7,412	(1,024)
Corporate debt	7,886	(3,111)	580	(200)	8,466	(3,311)
Preferred stock	6,438	(1,088)	3,356	(577)	9,794	(1,665)
Certificates of deposit	72	(7)	—	—	72	(7)
Total fixed income securities with an unrealized loss	$ 21,953	$ (4,810)	$ 4,519	$ (1,273)	$ 26,472	$ (6,083)

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

	December 31, 2021					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
Foreign debt	$ 4,228	$ (517)	$ 629	$ (436)	$ 4,857	$ (953)
Corporate debt	1,037	(49)	—	—	1,037	(49)
Preferred stock	1,301	(63)	2,913	(281)	4,214	(344)
Total fixed income securities with an unrealized loss	$ 6,566	$ (629)	$ 3,542	$ (717)	$ 10,108	$ (1,346)

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Investment income	$ 441	$ 556	$ 1,570	$ 1,618
Realized gains	2,207	392	16,315	9,285
Realized losses	(214)	(105)	(6,563)	(2,488)
Unrealized gains (losses), net	(3,966)	(5,037)	4,893	(14,137)
Expenses and taxes	(546)	(482)	(1,308)	(1,353)
Net change in deferred preneed cemetery receipts held in trust	2,078	4,676	(14,907)	7,075
	$ —	$ —	$ —	$ —

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,	
	2021	2022	2021	2022
Purchases	$ (7,532)	$ (459)	$ (34,740)	$ (2,083)
Sales	6,446	—	33,847	661

Preneed Funeral Trust Investments

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

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

	December 31, 2021	September 30, 2022
Preneed funeral trust investments, at market value	$ 116,973	$ 102,028
Less: allowance for contract cancellation	(3,315)	(3,390)
Preneed funeral trust investments	$ 113,658	$ 98,638

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

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 26,473	$ —	$ —	$ 26,473
Fixed income securities:					
U.S treasury debt	1	551	—	(51)	500
Foreign debt	2	10,018	486	(897)	9,607
Corporate debt	2	12,024	32	(2,772)	9,284
Preferred stock	2	10,898	335	(1,477)	9,756
Common stock	1	39,081	2,234	(6,655)	34,660
Mutual funds:					
Equity	1	282	—	(57)	225
Fixed income	2	10,028	7	(2,979)	7,056
Other investments	2	3,635	—	—	3,635
Trust securities		$ 112,990	$ 3,094	$ (14,888)	$ 101,196
Accrued investment income		$ 832			$ 832
Preneed funeral trust investments					$ 102,028
Market value as a percentage of cost					89.6%

The estimated maturities of the fixed income securities (excluding mutual funds) at September 30, 2022 included above are as follows (in thousands):

Due in one year or less	$ 1,382
Due in one to five years	5,678
Due in five to ten years	5,623
Thereafter	16,464
Total fixed income securities	$ 29,147

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

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

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

	September 30, 2022					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
U.S. treasury debt	$ 500	$ (51)	$ —	$ —	$ 500	$ (51)
Foreign debt	6,151	(475)	498	(422)	6,649	(897)
Corporate debt	6,676	(2,589)	529	(183)	7,205	(2,772)
Preferred stock	5,436	(953)	2,973	(524)	8,409	(1,477)
Total fixed income securities with an unrealized loss	$ 18,763	$ (4,068)	$ 4,000	$ (1,129)	$ 22,763	$ (5,197)

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

	December 31, 2021					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
Foreign debt	$ 4,251	$ (509)	$ 548	$ (378)	$ 4,799	$ (887)
Corporate debt	965	(46)	—	—	965	(46)
Preferred stock	1,211	(58)	2,710	(261)	3,921	(319)
Total fixed income securities with an unrealized loss	$ 6,427	$ (613)	$ 3,258	$ (639)	$ 9,685	$ (1,252)

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Investment income	$ 357	$ 398	$ 1,261	$ 1,245
Realized gains	2,072	357	15,331	8,247
Realized losses	(201)	(96)	(6,097)	(2,242)
Unrealized gains (losses), net	(3,728)	(4,394)	4,478	(11,794)
Expenses and taxes	(409)	(214)	(1,041)	(751)
Net change in deferred preneed funeral receipts held in trust	1,909	3,949	(13,932)	5,295
	$ —	$ —	$ —	$ —

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,	
	2021	2022	2021	2022
Purchases	$ (6,729)	$ —	$ (32,219)	$ (590)
Sales	6,864	8	32,153	538

Cemetery Perpetual Care Trust Investments

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

	December 31, 2021	September 30, 2022
Cemetery perpetual care trust investments, at market value	$ 72,400	$ 60,569
Obligations due from trust	(1,244)	(502)
Care trusts' corpus	$ 71,156	$ 60,067

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

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	$ 3,889	$ —	$ —	$ 3,889
Fixed income securities:					
Foreign debt	2	7,872	344	(757)	7,459
Corporate debt	2	9,705	63	(2,349)	7,419
Preferred stock	2	9,673	237	(1,238)	8,672
Common stock	1	29,510	1,651	(5,289)	25,872
Mutual funds:					
Equity	1	199	—	(40)	159
Fixed Income	2	8,895	5	(2,473)	6,427
Trust securities		$ 69,743	$ 2,300	$ (12,146)	$ 59,897
Accrued investment income		$ 672			$ 672
Cemetery perpetual care investments					$ 60,569
Market value as a percentage of cost					85.9%

The estimated maturities of the fixed income securities (excluding mutual funds) at September 30, 2022 included above are as follows (in thousands):

Due in one year or less	$	978
Due in one to five years		4,038
Due in five to ten years		4,400
Thereafter		14,134
Total fixed income securities	$	23,550

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

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

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

	September 30, 2022					
	In Loss Position Less than 12 months		**In Loss Position Greater than 12 months**		**Total**	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
Foreign debt	$ 4,939	$ (393)	$ 427	$ (364)	$ 5,366	$ (757)
Corporate debt	5,237	(2,219)	374	(130)	5,611	(2,349)
Preferred stock	4,937	(814)	2,782	(424)	7,719	(1,238)
Total fixed income securities with an unrealized loss	$ 15,113	$ (3,426)	$ 3,583	$ (918)	$ 18,696	$ (4,344)

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

	December 31, 2021					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
Fixed income securities:						
Foreign debt	$ 2,649	$ (321)	$ 468	$ (326)	$ 3,117	$ (647)
Corporate debt	846	(32)	—	—	846	(32)
Preferred stock	856	(41)	1,917	(185)	2,773	(226)
Total fixed income securities with an unrealized loss	$ 4,351	$ (394)	$ 2,385	$ (511)	$ 6,736	$ (905)

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Realized gains	$ 275	$ 48	$ 2,224	$ 1,292
Realized losses	(26)	(13)	(942)	(302)
Unrealized gains (losses), net	(3,070)	(3,730)	3,747	(9,846)
Net change in Care trusts' corpus	2,821	3,695	(5,029)	8,856
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,	
	2021	2022	2021	2022
Investment income	$ 2,881	$ 3,075	$ 8,104	$ 8,613
Realized losses, net	(278)	(739)	(557)	(1,343)
Total	$ 2,603	$ 2,336	$ 7,547	$ 7,270

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,	
	2021	2022	2021	2022
Purchases	$ (5,049)	$ (233)	$ (24,105)	$ (644)
Sales	4,431	—	23,695	441

8. RECEIVABLES FROM PRENEED FUNERAL TRUSTS

Our receivables from preneed funeral trusts represent assets in trusts which are controlled and operated by third parties in which we do not have a controlling financial interest (less than 50%) in the trust assets. We account for these investments at cost. Receivables from preneed funeral trusts are as follows (in thousands):

	December 31, 2021	September 30, 2022
Preneed funeral trust funds, at cost	$ 19,597	$ 20,741
Less: allowance for contract cancellation	(588)	(622)
Receivables from preneed funeral trusts, net	$ 19,009	$ 20,119

The following summary reflects the composition of the assets held in trust and controlled by third parties to satisfy our future obligations under preneed arrangements related to the preceding contracts at December 31, 2021 and September 30, 2022. The cost basis includes reinvested interest and dividends that have been earned on the trust assets. Fair value includes unrealized gains and losses on trust assets.

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

	Historical Cost Basis	Fair Value
Cash and cash equivalents	$ 5,973	$ 5,973
Fixed income investments	12,078	12,078
Mutual funds and common stocks	2,687	2,363
Annuities	3	3
Total	$ 20,741	$ 20,417

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

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

9. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date applicable for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. We disclose the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date.

We evaluated our financial assets and liabilities for those that met the criteria of the disclosure requirements and fair value framework. The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate the fair values of those instruments due to the short-term nature of the instruments. The fair values of our receivables on preneed cemetery contracts are impracticable to estimate because of the lack of a trading market and the diverse number of individual contracts with varying terms. Our acquisition debt and Credit Facility (as defined in Note 11) and Senior Notes (as defined in Note 12) are classified within Level 2 of the Fair Value Measurements hierarchy.

At September 30, 2022, the carrying value and fair value of our Credit Facility was $169.0 million. We believe that our Credit Facility bears interest at a rate that approximates prevailing market rates for instruments with similar characteristics and therefore, the carrying value of our Credit Facility approximates fair value. At September 30, 2022, the carrying value of our acquisition debt was $4.5 million, which approximated its fair value. We estimate the fair value of our acquisition debt utilizing an income approach, which uses a present value calculation to discount payments based on current market rates as of the reporting date. At September 30, 2022, the fair value of our Senior Notes was $317.2 million based on the last traded or broker quoted price.

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

We identified investments in fixed income securities, common stock and mutual funds presented within the preneed and perpetual care trust investments categories on our Consolidated Balance Sheet as having met the criteria for fair value measurement. Our receivables from preneed funeral trusts represent assets in trusts which are controlled and operated by third parties in which we do not have a controlling financial interest (less than 50%) in the trust assets. We account for these investments at cost. See Notes 7 and 8 to our Consolidated Financial Statements herein for the fair value hierarchy levels of our trust investments.

10. INTANGIBLE AND OTHER NON-CURRENT ASSETS

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

	December 31, 2021	September 30, 2022
Tradenames	$ 23,565	$ 24,108
Prepaid agreements not-to-compete, net of accumulated amortization of $3,316 and $3,373, respectively	2,247	1,884
Capitalized commissions on preneed contracts, net of accumulated amortization of $2,278 and $2,803, respectively	3,560	3,963
Other	6	496
Intangible and other non-current assets, net	$ 29,378	$ 30,451

Tradenames

Our tradenames have indefinite lives and therefore are not amortized. During the three and nine months ended September 30, 2022, we increased the value of our tradenames by $0.5 million related to our 2022 acquisition described in Note 3 to the Consolidated Financial Statements included herein.

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.

Prepaid Agreements

Prepaid agreements not-to-compete are amortized over the term of the respective agreements, ranging generally from one to ten years. Amortization expense was $158,000 and $142,000 for the three months ended September 30, 2021 and 2022, respectively, and $495,000 and $432,000 for the nine months ended September 30, 2021 and 2022, respectively.

Capitalized Commissions

We capitalize our selling costs related to preneed cemetery merchandise and services and preneed funeral trust contracts. These costs are amortized on a straight-line basis over the average maturity period for our preneed cemetery merchandise and services contracts and preneed funeral trust contracts, of eight and ten years, respectively. Amortization expense was $165,000 and $181,000 for the three months ended September 30, 2021 and 2022, respectively, and $473,000 and $525,000 for the nine months ended September 30, 2021 and 2022, respectively.

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

	Prepaid Agreements	Capitalized Commissions
Years ending December 31,		
Remainder of 2022	$ 135	$ 186
2023	496	710
2024	381	650
2025	372	585
2026	257	518
Thereafter	243	1,314
Total amortization expense	$ 1,884	$ 3,963

11. CREDIT FACILITY AND ACQUISITION DEBT

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

At September 30, 2022, 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 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 allows for future increases in the facility size in the form of increased revolving commitments or new incremental term loans by an additional amount of up to $75.0 million in the aggregate.

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

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

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

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

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

	December 31, 2021	September 30, 2022
Credit Facility	$ 155,400	$ 169,000
Debt issuance costs, net of accumulated amortization of $1,324 and $1,617, respectively	(1,543)	(1,590)
Total Credit Facility	$ 153,857	$ 167,410
Acquisition debt	$ 4,500	$ 4,460
Less: current portion	(521)	(614)
Total acquisition debt, net of current portion	$ 3,979	$ 3,846

At September 30, 2022, we had outstanding borrowings under the Credit Facility of $169.0 million. We also had one letter of credit for $2.3 million under the Credit Facility. The letter of credit will expire on November 25, 2022 and is expected to automatically renew annually and secures our obligations under our various self-insured policies. At September 30, 2022, we had $78.7 million of availability under the Credit Facility.

As of the effective date of the Credit Facility Amendment, outstanding borrowings under our Credit Facility bear interest at a prime rate or a BSBY rate, plus an applicable margin based on our leverage ratio. At September 30, 2022, the prime rate margin was equivalent to 1.125% and the BSBY rate margin was 2.125%. The weighted average interest rate on our Credit Facility was 2.0% and 4.3% for the three months ended September 30, 2021 and 2022, respectively, and 2.5% and 3.1% for the nine months ended September 30, 2021 and 2022, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Credit Facility interest expense	$ 383	$ 1,971	$ 1,200	$ 4,132
Credit Facility amortization of debt issuance costs	80	109	297	293

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,	
	2021	2022	2021	2022
Acquisition debt imputed interest expense	$ 90	$ 78	$ 280	$ 237

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, 2021	September 30, 2022
Long-term liabilities:		
Principal amount	$ 400,000	$ 400,000
Debt discount, net of accumulated amortization of $301 and $669, respectively	(4,199)	(3,831)
Debt issuance costs, net of accumulated amortization of $86 and $190, respectively	(1,191)	(1,087)
Carrying value of the Senior Notes	$ 394,610	$ 395,082

At September 30, 2022, the fair value of the Senior Notes, which are Level 2 measurements, was $317.2 million.

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

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

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

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

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

	Three months ended September 30,				Nine months ended September 30,			
	2021		2022		2021		2022	
Senior Notes interest expense	$	4,250	$	4,250	$	17,517	$	12,730
Senior Notes amortization of debt discount		118		125		384		368
Senior Notes amortization of debt premium		—		—		85		—
Senior Notes amortization of debt issuance costs		34		35		161		104

The debt discount and the debt issuance costs are being amortized using the effective interest method over the remaining term of approximately 80 months of the Senior Notes. For both the three and nine months ended September 30, 2021 and 2022, the effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Senior Notes was 4.42% and 4.30%, respectively.

13. LEASES

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

	Income Statement Classification	Three months ended September 30, 2021		Three months ended September 30, 2022		Nine months ended September 30, 2021		Nine months ended September 30, 2022	
Operating lease cost	Facilities and grounds expense(1)	$	947	$	863	$	2,871	$	2,564
Short-term lease cost	Facilities and grounds expense(1)		39		82		145		260
Variable lease cost	Facilities and grounds expense(1)		43		37		100		60
Finance lease cost:									
Depreciation of leased assets	Depreciation and amortization(2)	$	111	$	111	$	328	$	328
Interest on lease liabilities	*Interest expense*		117		110		356		335
Total finance lease cost			228		221		684		663
Total lease cost		$	1,257	$	1,203	$	3,800	$	3,547

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

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

	Nine months ended September 30, 2021		Nine months ended September 30, 2022	
Cash paid for operating leases included in operating activities	$	2,891	$	2,698
Cash paid for finance leases included in financing activities		626		646

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

	Nine months ended September 30, 2021		Nine months ended September 30, 2022	
Right-of-use assets obtained in exchange for new operating lease liabilities	$	(1,358)	$	764
Right-of-use assets obtained in exchange for new finance lease liabilities		—		—

During the three and nine months ended September 30, 2021, we received a leasehold improvement allowance of $1.4 million for the renovation of our home office space in Houston, Texas from our lessor. We recorded a leasehold improvement asset as property plant and equipment and reduced our right-of-use asset by $1.4 million. The leasehold improvement allowance will be recognized prospectively by ratably reducing the lease expense over the remaining lease term.

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

Lease Type	Balance Sheet Classification	December 31, 2021	September 30, 2022
Operating lease right-of-use assets	*Operating lease right-of-use assets*	$ 17,881	$ 17,295
Finance lease right-of-use assets	*Property, plant and equipment, net*	$ 6,770	$ 6,770
Accumulated depreciation	*Property, plant and equipment, net*	(2,443)	(2,771)
Finance lease right-of-use assets, net		$ 4,327	$ 3,999
Operating lease current liabilities	*Current portion of operating lease obligations*	$ 1,913	$ 2,074
Finance lease current liabilities	*Current portion of finance lease obligations*	375	416
Total current lease liabilities		$ 2,288	$ 2,490
Operating lease non-current liabilities	*Obligations under operating leases, net of current portion*	$ 18,520	$ 17,638
Finance lease non-current liabilities	*Obligations under finance leases, net of current portion*	5,157	4,842
Total non-current lease liabilities		$ 23,677	$ 22,480
Total lease liabilities		$ 25,965	$ 24,970

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

	Weighted-average remaining lease term (years)	Weighted-average discount rate
Operating leases	9.1	8.0 %
Finance leases	11.8	8.2 %

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

	Operating	Finance
Lease payments due:		
Remainder of 2022	$ 899	$ 222
2023	3,557	860
2024	3,535	791
2025	3,306	736
2026	3,240	745
Thereafter	13,112	4,810
Total lease payments	27,649	8,164
Less: Interest	(7,937)	(2,906)
Present value of lease liabilities	$ 19,712	$ 5,258

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

14. COMMITMENTS AND CONTINGENCIES

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

On January 5, 2022, the parties to the litigation engaged in and executed a Memorandum of Understanding for class settlement in the amount of $1.0 million. The parties subsequently executed a Class Settlement Agreement, and the court granted preliminary approval of the Class Settlement Agreement on March 29, 2022. The court granted Final Approval on July 26, 2022, and we funded the final settlement in the amount of $1.2 million on August 8, 2022.

15. STOCKHOLDERS' EQUITY

Restricted Stock

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

	Three months ended September 30,				Nine months ended September 30,			
	2021		2022		2021		2022	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Granted[1]	—	$ —	—	$ —	9,300	$ 324	—	$ —
Returned for payroll taxes	711	$ 28	—	$ —	10,399	$ 375	4,136	$ 205
Cancelled	—	$ —	500	$ 16	966	$ 27	1,950	$ 63

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

We recorded stock-based compensation expense, which is included in *General, administrative and other expenses*, for restricted stock awards of $89,000 and $36,000 for the three months ended September 30, 2021 and 2022, respectively, and $308,000 and $133,000 for the nine months ended September 30, 2021 and 2022, 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,			
	2021		2022		2021		2022	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Granted[1]	—	$ —	—	$ —	701,400	$ 7,115	58,500	$ 959
Granted[2]	—	$ —	—	$ —	—	$ —	310,000	$ 5,388
Granted[3]	—	$ —	—	$ —	150,000	$ 1,684	—	$ —
Granted[4]	—	$ —	12,600	$ 143	—	$ —	12,600	$ 143
Cancelled	6,000	$ 61	3,652	$ 37	19,684	$ 181	28,790	$ 322

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

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

(4) 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.

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

	Three months ended September 30,				Nine months ended September 30,			
	2021		2022		2021		2022	
	Shares	Cash	Shares	Cash	Shares	Cash	Shares	Cash
Exercised[1]	32,665	[1]	—	—	314,294	[1]	18,736	[1]
Returned for option price[2]	17,790	$ —	—	$ —	166,359	$ 880	8,125	$ 60
Returned for payroll taxes[3]	2,192	$ 82	—	$ —	20,163	$ 1,058	1,601	$ 82

(1) Stock options exercised during the three months ended September 30, 2021 had a weighted average exercise price of $21.81, with an aggregate intrinsic value of $0.6 million. Stock options exercised during the nine months ended September 30, 2021 and 2022 had a weighted average exercise price of $21.78 and $25.88, respectively, with an aggregate intrinsic value of $5.0 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 $467,000 and $559,000 for the three months ended September 30, 2021 and 2022, respectively, and $1,507,000 and $1,747,000 for the nine months ended September 30, 2021 and 2022, respectively.

Performance Awards

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

	Three months ended September 30,				Nine months ended September 30,			
	2021		2022		2021		2022	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Granted	29,548	$ 1,062	—	$ —	39,802	$ 1,464	27,013	$ 1,262
Cancelled	6,987	$ 101	—	$ —	41,922	$ 598	20,961	$ 201

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

We recorded stock-based compensation expense, which is included in *General, administrative and other expenses*, for performance awards of $475,000 and $701,000 for the three months ended September 30, 2021 and 2022, respectively, and $1,064,000 and $1,904,000 for the nine months ended September 30, 2021 and 2022, respectively.

Employee Stock Purchase Plan

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

	Three months ended September 30,				Nine months ended September 30,			
	2021		2022		2021		2022	
	Shares	Price	Shares	Price	Shares	Price	Shares	Price
ESPP	14,734	$ 26.32	13,795	$ 27.34	46,622	$ 26.32	38,884	$ 35.42

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

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

We recorded stock-based compensation expense, which is included in *General, administrative and other expenses and Regional and unallocated funeral and cemetery costs*, for the ESPP totaling $117,000 and $120,000 for the three months ended September 30, 2021 and 2022, respectively, and $458,000 and $471,000 for the nine months ended September 30, 2021 and 2022, respectively.

Good To Great Incentive Program

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

Three months ended September 30,				Nine months ended September 30,			
2021		2022		2021		2022	
Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value [1]
—	$ —	—	$ —	—	$ —	27,448	$ 1,358

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

Non-Employee Director and Board Advisor Compensation

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

	Three months ended September 30,				Nine months ended September 30,			
	2021		2022		2021		2022	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Board of Directors [(1)]	3,192	$ 142	2,214	$ 71	12,565	$ 480	7,255	$ 307
Advisor to the Board [(1)]	112	$ 5	155	$ 5	389	$ 15	374	$ 15

(1) Common stock granted during the three months ended September 30, 2021 and 2022 had a weighted average price of $44.59 and $32.16, respectively, and $38.20 and $42.20 for the nine months ended September 30, 2021 and 2022.

We recorded compensation expense, which is included in *General, administrative and other expenses*, related to annual retainers, including the value of stock granted to non-employee Directors and an advisor to our Board of Directors (the "Board"), of $201,000 and $167,000 for the three months ended September 30, 2021 and 2022, respectively, and $656,000 and $552,000 for the nine months ended September 30, 2021 and 2022, respectively.

Share Repurchase

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Number of Shares Repurchased[(1)]	1,203,493	—	1,528,197	695,496
Average Price Paid Per Share	$ 44.24	$ —	$ 42.89	$ 49.22
Dollar Value of Shares Repurchased[(1)]	$ 53,239	$ —	$ 65,540	$ 34,234

(1) During the three and nine months ended September 30, 2021, 84,000 shares settled in October 2021, which had a cost of $3.8 million.

Our shares are purchased in the open market at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury shares. During the three months ended September 30, 2022, we did not repurchase any shares of our common stock pursuant to our share repurchase program. At September 30, 2022, our share repurchase program had $48.9 million authorized for additional repurchases.

Cash Dividend

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

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

2021	Per Share	Dollar Value
March 1st	$ 0.1000	$ 1,799
June 1st	$ 0.1000	$ 1,808
September 1st	$ 0.1000	$ 1,783

16. 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,			
	2021		2022		2021		2022	
Numerator for basic and diluted earnings per share:								
Net income	$	13,046	$	5,860	$	19,812	$	33,361
Less: Earnings allocated to unvested restricted stock		(18)		(3)		(33)		(21)
Income attributable to common stockholders	$	13,028	$	5,857	$	19,779	$	33,340
Denominator:								
Denominator for basic earnings per common share - weighted average shares outstanding		17,499		14,689		17,809		14,908
Effect of dilutive securities:								
Stock options		235		160		277		253
Performance awards		512		688		279		688
Denominator for diluted earnings per common share - weighted average shares outstanding		18,246		15,537		18,365		15,849
Basic earnings per common share:	$	0.74	$	0.40	$	1.11	$	2.22
Diluted earnings per common share:	$	0.71	$	0.38	$	1.08	$	2.09

For the three and nine months ended September 30, 2022, there were 363,073 and 294,310 stock options, respectively, excluded from the computation of diluted earnings per share because the inclusion of such stock option would result in an antidilutive effect. For the three and nine months ended September 30, 2021, no stock options were excluded from the computation of diluted earnings per share.

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

17. SEGMENT REPORTING

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

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

Three months ended September 30, 2021	Funeral	Cemetery	Total
Services	$ 41,987	$ 4,223	$ 46,210
Merchandise	23,532	3,305	26,837
Cemetery property	—	15,206	15,206
Other revenue	3,378	3,410	6,788
Total	$ 68,897	$ 26,144	$ 95,041

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

Nine months ended September 30, 2021	Funeral	Cemetery	Total
Services	$ 121,734	$ 12,352	$ 134,086
Merchandise	68,363	10,387	78,750
Cemetery property	—	46,795	46,795
Other revenue	10,406	9,918	20,324
Total	$ 200,503	$ 79,452	$ 279,955

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, 2022	$ 17,584	$ 8,023	$ (10,385)	$ 15,222
Three months ended September 30, 2021	22,924	9,471	(9,130)	23,265
Nine months ended September 30, 2022	$ 61,531	$ 26,662	$ (28,095)	$ 60,098
Nine months ended September 30, 2021	65,404	30,462	(25,431)	70,435
Income (loss) before income taxes:				
Three months ended September 30, 2022	$ 17,605	$ 7,985	$ (16,951)	$ 8,639
Three months ended September 30, 2021	22,777	9,508	(14,117)	18,168
Nine months ended September 30, 2022	$ 64,577	$ 26,671	$ (46,005)	$ 45,243
Nine months ended September 30, 2021	64,951	30,537	(69,105)	26,383
Total assets:				
September 30, 2022	$ 759,431	$ 371,441	$ 16,515	$ 1,147,387
December 31, 2021	769,539	390,344	18,748	1,178,631

18. SUPPLEMENTARY DATA

Balance Sheet

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

	December 31, 2021		September 30, 2022	
Prepaid and other current assets:				
Prepaid expenses	$	2,215	$	3,348
Federal income taxes receivable		4,064		—
State income taxes receivable		—		617
Other current assets		125		166
Total prepaid and other current assets	$	6,404	$	4,131
Current portion of debt and lease obligations:				
Acquisition debt	$	521	$	614
Finance lease obligations		375		416
Operating lease obligations		1,913		2,074
Total current portion of debt and lease obligations	$	2,809	$	3,104
Accrued and other liabilities:				
Incentive compensation	$	19,121	$	8,801
Insurance		4,089		3,882
Unrecognized tax benefit		3,761		3,272
Vacation		3,334		3,339
Natural disaster liability		2,628		43
Interest		2,250		6,473
Salaries and wages		2,193		3,909
Employer payroll tax deferral		1,773		1,773
Employee meetings and award trips		1,462		868
Commissions		684		798
Income tax payable		485		864
Ad valorem and franchise taxes		450		2,196
Perpetual care trust payable		389		97
Other accrued liabilities		1,154		808
Total accrued and other liabilities	$	43,773	$	37,123
Other long-term liabilities:				
Incentive compensation	$	1,291	$	2,038
Other long-term liabilities		128		662
Total other long-term liabilities	$	1,419	$	2,700

Cash Flow

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

	Nine months ended September 30,			
	2021		2022	
Cash paid for interest	$	14,817	$	12,981
Cash paid for taxes		9,974		7,046
Unsettled share repurchases		3,801		—
Fair value of donated real property		635		—

19. SUBSEQUENT EVENTS

On October 25, 2022, we acquired a business consisting of three funeral home businesses, one cemetery and one cremation focused business in the Charlotte, North Carolina area for $25 million in cash. The consideration for this acquisition was funded through a combination of cash on hand and borrowings under our Credit Facility.

On October 25, 2022, in conjunction with our acquisition described above, the Company obtained a limited consent under our Credit Facility from the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent, to consummate the acquisition notwithstanding the Company exceeding the allowed Total Leverage Ratio under the Credit Facility applicable to permitted acquisitions.

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

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

- our ability to find and retain skilled personnel;
- the effects of our talent recruitment efforts, incentive and compensation plans and programs, including such effects on our Standards Operating Model and the Company’s operational and financial performance;
- our ability to execute our growth strategy;
- the execution of our Standards Operating, 4E Leadership and Standard Acquisition Models;
- the effects of competition;
- changes in the number of deaths in our markets;
- changes in consumer preferences and our ability to adapt to or meet those changes;
- our ability to generate preneed sales, including implementing our cemetery portfolio sales strategy, product development and optimization plans;
- the investment performance of our funeral and cemetery trust funds;
- fluctuations in interest rates;
- the effects of inflation to our business and financial condition and performance, including increased overall costs to 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 metrics to our rolling four quarter outlook, if at all;
- the timely and full payment of death benefits related to preneed funeral contracts funded through life insurance contracts;
- the financial condition of third-party insurance companies that fund our preneed funeral contracts;
- increased or unanticipated costs, such as merchandise, goods, insurance or taxes, and our ability to mitigate or minimize such costs, if at all;
- our level of indebtedness and the cash required to service our indebtedness;
- changes in federal income tax laws and regulations and the implementation and interpretation of these laws and regulations by the Internal Revenue Service;
- effects of the application of other applicable laws and regulations, including changes in such regulations or the interpretation thereof;
- the potential impact of epidemics and pandemics, including the COVID-19 coronavirus, including new variants of COVID-19, such as the Delta and Omicron variants, on customer preferences and on our business;

- government, social, business and other actions that have been and will be taken in response to pandemics, including potential responses to new variants of COVID-19, its variants and any sub-variants;
- effects and expense of litigation;
- consolidation of the funeral and cemetery industry;
- our ability to identify and consummate strategic acquisitions, if at all, and successfully integrate acquired businesses with our existing businesses, including expected performance and financial improvements related thereto;
- economic, financial and stock market fluctuations,
- interruptions or security lapses of our information technology, including any cybersecurity or ransomware incidents,
- acts of war or terrorists acts and the governmental or military response to such acts;
- our failure to maintain effective control over financial reporting; and
- other factors and uncertainties inherent in the funeral and cemetery industry.

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

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

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

OVERVIEW

General

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

At September 30, 2022, we operated 169 funeral homes in 26 states and 31 cemeteries in 11 states. We compete with other publicly held and independent operators of funeral and cemetery companies. We believe we are a market leader in most of our markets.

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

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

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

Recent Developments

Executive Leadership Changes

On September 27, 2022, C. Benjamin Brink informed the Company of his plans to resign from his position as Executive Vice President, Chief Financial Officer and Treasurer effective January 2, 2023. Mr. Brink will remain in his role through January 2, 2023 and will serve as a consultant for the Company for six months thereafter. The planned resignation was not the result of any disagreement Mr. Brink had with the Company on any matter related to the Company's operations, policies, and practices, including any matters concerning the Company's controls or any financial or accounting-related matters or disclosures.

Acquisitions

During the nine months ended September 30, 2022, we acquired a business consisting of two funeral homes for $6.3 million in cash.

Divestitures

During the nine months ended September 30, 2022, we sold real property for $3.3 million and two funeral homes for $0.9 million for a net gain of $0.7 million.

Business Impacts of COVID-19

On March 11, 2020, COVID-19 was deemed a global pandemic and since then, the Company has continued to proactively monitor and assess the pandemic's current and potential impact to the Company's operations. Since that time, the Company's senior leadership team has taken steps to assist our businesses throughout each phase of the COVID-19 pandemic, including updating our processes and procedures to comply with all regulatory mandates, along with keeping the health and safety of our employees and the families we serve our top priority. While we believe the country has begun to transition to a post-pandemic phase, we continue to monitor the situation and may make appropriate adjustments to our operations as necessary.

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

Within our financial reporting environment, we have considered the impact of COVID-19 on the assumptions and estimates used in preparing our consolidated financial statements. In the opinion of management, all material adjustments necessary for a fair presentation of the Company's financial results for the quarter have been made but are complicated by the continued uncertainty surrounding the normalization of the death rate and the scope, severity and duration of the COVID-19 pandemic and its ultimate impact. This includes the potential impacts of new variants of COVID-19, its sub-variants and any other new variants, and any resulting impacts from such variants. We do not believe we are particularly vulnerable to concentrations, with respect to geographic area, revenue for specific products or our relationships with our vendors. To date, we have not experienced any material supply chain impacts or disruptions from our vendors attributable to COVID-19 and we continue to receive reliable service.

We believe our access to capital, the cost of our capital, or the sources and uses of our cash should be relatively consistent in the near term. While the expected duration and potential future impacts of the pandemic are unknown, we have not currently experienced any material negative impacts to our liquidity position, access to capital, or cash flows as a result of COVID-19. See "Liquidity and Capital Resources" below for additional information related to our liquidity position.

During the third quarter of 2022, we continued to see a decrease in COVID-19-related deaths and an accelerated normalization of the death rate to pre-COVID-19 levels. The normalization of the death rate to pre-COVID-19 levels during the third quarter of 2022 resulted in lower volumes, revenues, earnings and margins when compared to the third quarter of 2021, but overall financial performance remains at or above prior reporting periods during and prior to the COVID-19 pandemic. Although we expect these trends to continue, we will continue to assess these impacts, including the potential impacts of new variants of COVID-19, its sub-variants and any other new variants, and implement appropriate procedures, plans, strategy, and issue any disclosures that may be required, as the situation surrounding the pandemic and related regulatory mandates and restrictions, if any, evolves.

Inflationary Trends

Beginning in the second quarter of 2022, we began to experience modest cost increases and surcharges from our vendors and suppliers on merchandise and goods due to broader inflationary, raw material cost increases, and global supply chain impacts. This trend in modest cost increases continued during the third quarter of 2022, with the Company experiencing, for example, higher costs related to full-time hourly base rates, utilities, funeral supplies, merchandise costs and insurance. Although we have taken steps to mitigate these cost increases and we expect these impacts to continue through the end of the 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 consumers or discretionary spending, including the amount that consumers are able to spend on our services, although we have not experienced such impacts to date and our industry has been largely resilient to similar adverse economic and market environments in the past. Although we expect these trends to continue through the end of the year, we will continue to assess these impacts and take the appropriate steps, if necessary, to mitigate these cost increases, if possible.

Funeral Home Operations

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

Cemetery Operations

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

Business Strategy

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

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

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

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

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

Standards Operating Model

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

4E Leadership Model

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

Strategic Acquisition Model

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

We generate cash in our operations primarily from atneed sales and delivery of preneed sales. We also generate cash from earnings on our cemetery perpetual care trusts. Based on our recent operating results, current cash position and anticipated future cash flows, we do not anticipate any significant liquidity constraints in the foreseeable future. We have the ability to draw on our Credit Facility, subject to its customary terms and conditions. At September 30, 2022, we had $78.7 million of availability under the Credit Facility. 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, 2021.

Our plan is to use cash on hand and borrowings under our Credit Facility primarily for general corporate purposes, payment of dividends and debt obligations, strategic acquisitions, internal growth capital expenditures, and further debt repayments. From time to time we may also use available cash resources (including borrowings under our Credit Facility) to repurchase shares of our common stock, subject to satisfying certain financial covenants in our Credit Facility and in the Indenture (defined below) governing our Senior Notes (defined below). We believe that our existing and anticipated cash resources, 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 2022 with $1.1 million in cash and ended the third quarter with $0.8 million in cash. At September 30, 2022, we had borrowings of $169.0 million outstanding on our Credit Facility compared to $155.4 million at December 31, 2021.

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

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
Cash at beginning of the year	$ 889	$ 1,148
Net cash provided by operating activities	69,699	50,046
Acquisitions of businesses and real estate	(3,285)	(8,876)
Proceeds from divestitures and sale of other assets	4,375	4,313
Proceeds from insurance reimbursements	2,946	2,209
Capital expenditures	(15,252)	(20,346)
Net cash used in investing activities	(11,216)	(22,700)
Net borrowings on our Credit Facility, acquisition debt and finance lease obligations	39,042	13,286
Payment to redeem the 6.625% senior notes due 2026	(400,000)	—
Payment of call premium for the redemption of the 6.625% senior notes due 2026	(19,876)	—
Payment of debt issuance costs for the Credit Facility and the Senior Notes	(2,054)	(339)
Proceeds from the issuance of the Senior Notes	395,500	—
Conversions and maturity of the Convertibles Notes	(3,980)	—
Net proceeds related to employee equity plans	674	1,151
Dividends paid on common stock	(5,390)	(5,108)
Purchase of treasury stock	(61,739)	(36,663)
Other financing costs	(461)	—
Net cash used in financing activities	(58,284)	(27,673)
Cash at end of the period	$ 1,088	$ 821

Operating Activities

For the nine months ended September 30, 2022, cash provided by operating activities was $50.0 million compared to $69.7 million for the nine months ended September 30, 2021. The decrease of $19.7 million is primarily due to unfavorable working capital changes in accrued liabilities, which were partially offset by favorable changes in income tax receivables.

Investing Activities

Our investing activities resulted in a net cash outflow of $22.7 million for the nine months ended September 30, 2022 compared to $11.2 million for the nine months ended September 30, 2021, a decrease of $11.5 million.

Acquisition and Divestiture Activity

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.

During the nine months ended September 30, 2022, we sold real property for $3.3 million and two funeral homes for $0.9 million.

During the nine months ended September 30, 2021, we sold three funeral homes for $3.5 million, sold real property for $0.7 million and purchased real property for $3.3 million. We also received proceeds of $2.8 million from our property insurance policy for the reimbursement of renovation costs for our funeral and cemetery businesses that were damaged by Hurricane Ida.

Capital Expenditures

For the nine months ended September 30, 2022, capital expenditures (comprised of growth and maintenance spend) totaled $20.3 million compared to $15.3 million for the nine months ended September 30, 2021, an increase of $5.0 million.

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

	Nine months ended September 30,	
	2021	2022
Growth		
Cemetery development	$ 4,120	$ 5,215
Renovations at certain businesses(1)	2,030	4,974
Other	142	447
Total Growth	$ 6,292	$ 10,636

(1) During the nine months ended September 30, 2022, we spent $2.4 million for renovations on two businesses that were affected by Hurricane Ida, all of which was reimbursed by our property insurance.

	Nine months ended September 30,	
	2021	2022
Maintenance		
Facility repairs and improvements	$ 2,172	$ 3,131
Vehicles	1,481	1,770
General equipment and furniture	4,167	3,744
Paving roads and parking lots	1,140	1,065
Total Maintenance	$ 8,960	$ 9,710

Financing Activities

Our financing activities resulted in a net cash outflow of $27.7 million for the nine months ended September 30, 2022 compared to $58.3 million for the nine months ended September 30, 2021, a decrease of $30.6 million.

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.

During the nine months ended September 30, 2021, we had net borrowings on our Credit Facility, acquisition debt and finance leases of $39.0 million, offset by the following payments: i) $19.9 million for the call premium to redeem our 6.625% senior notes due 2026; ii) $61.7 million for the purchase of treasury stock; iii) $6.6 million for debt issuance and transactions costs related to our Senior Notes and Credit Facility; iv) $4.0 million for the conversions and maturity of our 2.75% convertible subordinated notes due 2021 (the "Convertible Notes"); and v) $5.4 million in dividends.

Share Repurchase

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

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

	Nine months ended September 30,	
	2021	2022
Number of Shares Repurchased(1)	1,528,197	695,496
Average Price Paid Per Share	$ 42.89	$ 49.22
Dollar Value of Shares Repurchased(1)	$ 65,540	$ 34,234

(1) During the nine months ended September 30, 2021, 84,000 shares settled in October 2021, which had a cost of $3.8 million.

Our shares are purchased in the open market at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury shares. During the three months ended September 30, 2022, we did not repurchase any shares of our common stock pursuant to our share repurchase program. At September 30, 2022, our share repurchase program had $48.9 million authorized for additional repurchases.

Cash Dividends

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

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

2021	Per Share	Dollar Value
March 1st	$ 0.1000	$ 1,799
June 1st	$ 0.1000	$ 1,808
September 1st	$ 0.1000	$ 1,783

Credit Facility, Lease Obligations and Acquisition Debt

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

	September 30, 2022
Credit Facility	$ 169,000
Finance leases	5,258
Operating leases	19,712
Acquisition debt	4,460
Total	$ 198,430

Credit Facility

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

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

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

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

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

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

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

At September 30, 2022, we had outstanding borrowings under the Credit Facility of $169.0 million. We also had one letter of credit for $2.3 million under the Credit Facility. The letter of credit will expire on November 25, 2022 and is expected to automatically renew annually and secures our obligations under our various self-insured policies. At September 30, 2022, we had $78.7 million of availability under the Credit Facility.

As of the effective date of the Credit Facility Amendment, outstanding borrowings under our Credit Facility bear interest at a prime rate or a BSBY rate, plus an applicable margin based on our leverage ratio. At September 30, 2022, the prime rate margin was equivalent to 1.125% and the BSBY rate margin was 2.125%. The weighted average interest rate on our Credit Facility was 2.0% and 4.3% for the three months ended September 30, 2021 and 2022, respectively, and 2.5% and 3.1% for the nine months ended September 30, 2021 and 2022, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Credit Facility interest expense	$ 383	$ 1,971	$ 1,200	$ 4,132
Credit Facility amortization of debt issuance costs	80	109	297	293

Lease Obligations

Our lease obligations consist of operating and finance leases. We lease certain office facilities, certain funeral homes and equipment under operating leases with original terms ranging from one to twenty years. Many leases include one or more options to renew, some of which include options to extend the leases for up to forty years. We lease certain funeral homes under finance leases with original terms ranging from ten to forty years. At September 30, 2022, operating and finance lease obligations were $35.8 million, with $4.5 million payable within 12 months.

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Operating lease cost	$ 947	$ 863	$ 2,871	$ 2,564
Short-term lease cost	39	82	145	260
Variable lease cost	43	37	100	60
Finance lease cost:				
Depreciation of leased assets	$ 111	$ 111	$ 328	$ 328
Interest on lease liabilities	117	110	356	335
Total finance lease cost	228	221	684	663
Total lease cost	$ 1,257	$ 1,203	$ 3,800	$ 3,547

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, 2022, acquisition debt obligations were $6.3 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,	
	2021	2022	2021	2022
Acquisition debt imputed interest expense	$ 90	$ 78	$ 280	$ 237

Senior Notes

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

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

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

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

The debt discount and the debt issuance costs are being amortized using the effective interest method over the remaining term of approximately 80 months of the Senior Notes. For both the three and nine months ended September 30, 2021 and 2022, the effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Senior Notes was 4.42% and 4.30%, respectively.

At September 30, 2022, the fair value of the Senior Notes, which are Level 2 measurements, was $317.2 million.

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Senior Notes interest expense	$ 4,250	$ 4,250	$ 17,517	$ 12,730
Senior Notes amortization of debt discount	118	125	384	368
Senior Notes amortization of debt premium	—	—	85	—
Senior Notes amortization of debt issuance costs	34	35	161	104

At September 30, 2022, our future interest payments on our outstanding balance were $112.5 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,	
	2021	2022	2021	2022
Revenue	$ 95,041	$ 87,497	$ 279,955	$ 276,258
Funeral contracts	12,566	11,109	36,704	35,630
Average revenue per funeral contract	$ 5,358	$ 5,516	$ 5,336	$ 5,463
Preneed interment rights (property) sold	2,841	2,455	8,775	8,344
Average price per preneed interment right sold	$ 4,763	$ 4,569	$ 4,635	$ 4,449
Gross profit	$ 33,164	$ 25,598	$ 97,152	$ 87,788
Net income	$ 13,046	$ 5,860	$ 19,812	$ 33,161

Revenue for the three months ended September 30, 2022 decreased $7.5 million compared to the three months ended September 30, 2021, as we experienced an 11.6% decrease in funeral contract volume, which was slightly offset by a 2.9% increase in average revenue per funeral contract, as well as a 13.6% decrease in the number of preneed interment rights (property) sold and a 4.1% decrease in the average price per interment right sold. The decreases in funeral contract volume and the number of interment rights sold primarily correspond to the significant decline in COVID-19 related cases as compared to the third quarter of 2021, as the death rate normalized to pre-COVID-19 levels.

Gross profit for the three months ended September 30, 2022 decreased $7.6 million compared to the three months ended September 30, 2021, primarily due to the decrease in revenue.

Net income for the three months ended September 30, 2022 decreased $7.2 million compared to the three months ended September 30, 2021, primarily due to the $7.6 million decrease in gross profit, a $1.6 million increase in interest expense, a $1.3 million increase in general and administrative expense, offset by a $2.3 million decrease in income tax expense and a $0.9 million decrease in net gain on divestitures, disposals and impairments charges.

Revenue for the nine months ended September 30, 2022 decreased $3.7 million compared to the nine months ended September 30, 2021, as we experienced a 2.9% decrease in funeral contract volume, which was slightly offset by a 2.4% increase in average revenue per funeral contract, as well as a 4.9% decrease in the number of preneed interment rights (property) sold and a 4.0% decrease in the average price per interment right sold. The decreases in funeral contract volume and the number of interment rights sold primarily correspond to the decline in COVID-19 related cases in 2022 compared to 2021, as the death rate normalized to pre-COVID-19 levels.

Gross profit for the nine months ended September 30, 2022 decreased $9.4 million compared to the nine months ended September 30, 2021, due to the decrease in revenue, as well as the increase in operating expenses in both our funeral and cemetery segments. The increase in operating expenses is partially due to higher costs from inflationary impacts concentrated in our full-time hourly base rates, utilities, funeral supplies, merchandise costs and insurance.

Net income for the nine months ended September 30, 2022 increased $13.3 million compared to the nine months ended September 30, 2021, due to a $23.8 million loss on extinguishment of debt in 2021, a $3.3 million gain on insurance reimbursements in 2022, a $1.9 million decrease in interest expense, and a $1.8 million decrease in net gain on divestitures, disposals and impairments charges, offset by a $9.4 million decrease in gross profit, a $5.5 million increase in income tax expense and a $2.8 million increase in general and administrative expense.

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

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

REPORTING AND NON-GAAP FINANCIAL MEASURES

We also present our financial performance in our "Operating and Financial Trend Report" ("Trend Report") as reported in our earnings release for the three months ended September 30, 2022 issued on October 26, 2022 and discussed in the corresponding earnings conference call. The Trend Report is used as a supplemental financial statement by management and investors to compare our current financial performance with our previous results and with the performance of other companies. We do not intend for this information to be considered in isolation or as a substitute for other measures of performance prepared in accordance with United States generally accepted accounting principles ("GAAP"). The Trend Report contains non-GAAP financial measures that we believe provides insight into underlying trends in our business.

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Net income	$ 13,046	$ 5,860	$ 19,812	$ 33,161
Special items[1]				
Severance and separation costs[2]	—	1,431	1,575	1,431
Accretion of discount on Convertible Notes[1]	—	—	20	—
Loss on extinguishment of debt[3]	—	—	23,807	—
Net (gain) loss on divestitures	282	—	179	(575)
Net impact of impairment of goodwill and other	500	—	500	—
Litigation reserve[4]	—	—	—	200
Net gain on insurance reimbursements[5]	—	—	—	(3,275)
Disaster recovery and pandemic costs[6]	1,002	—	2,041	168
Change in uncertain tax reserves and other[1]	—	—	—	(533)
Other special items[7]	1,020	—	2,354	—
Sum of special items	$ 2,804	$ 1,431	$ 30,476	$ (2,584)
Tax effect on special items[1]	738	356	8,619	(570)
Adjusted net income[8]	$ 15,112	$ 6,935	$ 41,669	$ 31,147

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

(2) Costs related to the departure of certain key members of leadership in the first quarter of 2021 and in the third quarter of 2022.

(3) Loss on the redemption of our 6.625% senior notes due 2026 during the second quarter of 2021.

(4) Costs related to litigation matters.

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

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

(7) Relates to the write-off of certain fixed assets and interest paid on our 6.625% senior notes due 2026 for the two-week period during which our Senior Notes were issued prior to the redemption of our 6.625% senior notes due 2026.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Gross profit	$ 33,164	$ 25,598	$ 97,152	$ 87,788
Cemetery property amortization	1,521	1,278	5,213	4,314
Field depreciation expense	3,154	3,281	9,432	9,831
Regional and unallocated funeral and cemetery costs	6,812	5,096	18,655	17,409
Operating profit[1]	$ 44,651	$ 35,253	$ 130,452	$ 119,342

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Funeral Home	$ 31,355	$ 24,173	$ 88,445	$ 82,060
Cemetery	13,296	11,080	42,007	37,282
Operating profit	$ 44,651	$ 35,253	$ 130,452	$ 119,342
Operating profit margin(1)	47.0%	40.3%	46.6%	43.2%

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

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

RESULTS OF OPERATIONS

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

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

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

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

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

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

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

Funeral Home Segment

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

	Three months ended September 30,	
	2021	2022
Revenue:		
Same store operating revenue	$ 57,321	$ 51,258
Acquired operating revenue	7,651	7,813
Divested/planned divested revenue	564	186
Ancillary revenue	1,096	1,049
Preneed funeral insurance commissions	375	357
Preneed funeral trust and insurance	1,890	2,117
Total	$ 68,897	$ 62,780
Operating profit:		
Same store operating profit	$ 25,644	$ 18,717
Acquired operating profit	3,371	3,036
Divested/planned divested operating profit	92	16
Ancillary operating profit	274	188
Preneed funeral insurance commissions	121	142
Preneed funeral trust and insurance	1,853	2,074
Total	$ 31,355	$ 24,173

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

	Three months ended September 30,	
	2021	2022
Same store:		
Contract volume	10,889	9,499
Average revenue per contract, excluding preneed funeral trust earnings	$ 5,264	$ 5,396
Average revenue per contract, including preneed funeral trust earnings	$ 5,419	$ 5,594
Burial rate	34.1%	33.7%
Cremation rate	57.2%	58.2%
Acquired:		
Contract volume	1,555	1,570
Average revenue per contract, excluding preneed funeral trust earnings	$ 4,920	$ 4,977
Average revenue per contract, including preneed funeral trust earnings	$ 4,988	$ 5,066
Burial rate	35.9%	33.9%
Cremation rate	55.9%	58.2%

Funeral home same store operating revenue decreased $6.1 million for the three months ended September 30, 2022 compared to the same period in 2021. The decrease in operating revenue is primarily due to a 12.8% decrease in same store contract volume, which was slightly offset by a 2.5% increase in the average revenue per contract excluding preneed interest. The same store contract volume decrease is primarily a result of the significant decline in COVID-19 related cases as compared to the third quarter of 2021, as the death rate normalized to pre-COVID-19 levels. The increase in average revenue per contract in the third quarter of 2022 reflects a 1.4% increase in cremations with memorial services. This increase is primarily due to our continued focus to welcome and educate families on the many products and service options that are available with cremation.

Funeral home same store operating profit for the three months ended September 30, 2022 decreased $6.9 million when compared to the same period in 2021, primarily due to the decrease in operating revenue, with increased operating expenses as a percentage of revenue also contributing to the decline. The comparable operating profit margin decreased 820 basis points to 36.5%. Operating expenses as a percentage of operating revenue increased 8.2% with the largest increases in salaries and benefits expenses of 3.7%, facilities and grounds expenses of 0.8%, general and administrative expenses of 0.8%, general liability insurance of 0.7% and transportation costs of 0.4%. The increase in operating expenses is partially due to higher costs from inflationary impacts concentrated in our full-time hourly base rates, utilities, funeral supplies and insurance.

Funeral home acquired operating revenue for the three months ended September 30, 2022 increased $0.2 million compared to the same period in 2021, due to the addition of two funeral home businesses added to our funeral home acquired portfolio during the third quarter of 2022, which contributed $0.4 million of operating revenue. Excluding these two businesses, acquired operating revenue decreased $0.2 million, due to a 6.0% decrease in acquired contract volume, offset by a 3.7% increase in average revenue per contract excluding preneed interest.

Funeral home acquired operating profit for the three months ended September 30, 2022 decreased $0.3 million when compared to the same period in 2021, primarily due to an increase in operating expenses as a percentage of revenue. The two funeral homes added to our acquired portfolio during the third quarter of 2022 contributed almost $0.2 million of operating profit. Excluding these two businesses, acquired operating profit decreased $0.5 million. The comparable operating profit margin decreased 520 basis points to 38.9%. Operating expenses as a percentage of operating revenue increased 5.2% with the largest increase in salaries and benefits expenses of 2.3%, facilities and grounds expenses of 0.7%, general liability insurance of 0.7%, other funeral costs of 0.6% and general and administrative expenses of 0.5%, offset by a decrease in promotional expenses of 0.5%. The increase in operating expenses is partially due to higher costs from inflationary impacts concentrated in our full-time hourly base rates, utilities, funeral supplies and insurance.

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

Preneed funeral insurance commissions and preneed funeral trust and insurance revenue (recorded in *Other revenue*), on a combined basis, increased $0.2 million for the three months ended September 30, 2022 compared to the same period in 2021. The increase is primarily due to a 14.3% increase in earnings on preneed contracts for the three months ended September 30, 2022 compared to the same period in 2021, as recognition is triggered at the time a preneed contract matures to atneed. Operating profit for preneed funeral insurance commissions and preneed trust and insurance, on a combined basis, increased $0.2 million for the same comparative period, primarily due to the increase in preneed funeral trust and insurance revenue.

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

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
Revenue:		
Same store operating revenue	$ 165,481	$ 163,776
Acquired operating revenue	22,575	24,064
Divested/planned divested revenue	2,120	907
Ancillary revenue	3,391	3,099
Preneed funeral insurance commissions	968	1,029
Preneed funeral trust and insurance	5,968	6,198
Total	$ 200,503	$ 199,073
Operating profit:		
Same store operating profit	$ 71,520	$ 65,313
Acquired operating profit	9,784	9,845
Divested/planned divested operating profit (loss)	205	(32)
Ancillary operating profit	790	560
Preneed funeral insurance commissions	288	300
Preneed funeral trust and insurance	5,858	6,074
Total	$ 88,445	$ 82,060

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

	Nine months ended September 30,	
	2021	2022
Same store:		
Contract volume	31,503	30,686
Average revenue per contract, excluding preneed funeral trust earnings	$ 5,253	$ 5,337
Average revenue per contract, including preneed funeral trust earnings	$ 5,422	$ 5,516
Burial rate	35.6%	34.3%
Cremation rate	56.8%	57.5%
Acquired:		
Contract volume	4,749	4,765
Average revenue per contract, excluding preneed funeral trust earnings	$ 4,754	$ 5,050
Average revenue per contract, including preneed funeral trust earnings	$ 4,826	$ 5,140
Burial rate	37.6%	36.2%
Cremation rate	56.3%	57.6%

Funeral home same store operating revenue decreased $1.7 million for the nine months ended September 30, 2022 compared to the same period in 2021. The decrease in operating revenue is primarily due to a 2.6% decrease in same store contract volume, offset by a 1.6% increase in the average revenue per contract excluding preneed interest. The same store contract volume decrease is primarily a result of the decline in COVID-19 related cases in 2022 compared to 2021, as the death rate normalized to pre-COVID-19 levels. The increase in average revenue per contract for the nine months ended September 30, 2022 reflects increases of 2.1% and 0.9% in cremations and burials with memorial services, respectively. These increases are 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 same store operating profit for the nine months ended September 30, 2022 decreased $6.2 million when compared to the same period in 2021, due to the decrease in operating revenue and an increase in operating expenses as a percentage of revenue. The comparable operating profit margin decreased 330 basis points to 39.9%. Operating expenses as a percentage of revenue increased 3.3% with the largest increase in salaries and benefits expenses of 1.0%, general and administrative expenses of 0.6%, transportation expenses of 0.3%, general liability insurance of 0.3% and facilities and grounds expenses of 0.3%. The increase in operating expenses is partially due to higher costs from inflationary impacts concentrated in our full-time hourly base rates, utilities, funeral supplies and insurance.

Funeral home acquired operating revenue for the nine months ended September 30, 2022 increased $1.5 million compared to the same period in 2021. The increase was due, in part, to the addition of two funeral home businesses added to our funeral home acquired portfolio during the third quarter of 2022, which contributed $0.4 million of operating revenue. Excluding these two businesses, acquired operating revenue increased $1.1 million due to a 7.1% increase in the average revenue per contract excluding preneed interest, slightly offset by a 2.0% decrease in acquired contract volume. The acquired contract volume decrease is primarily a result of the decline in COVID-19 related cases in 2022 compared to 2021, as the death rate normalized to pre-COVID-19 levels. The increase in average revenue per contract for the nine months ended September 30, 2022 reflects increases of 2.4% and 0.7% in cremations and burials with memorial services, respectively. These increases are 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 acquired operating profit for the nine months ended September 30, 2022 increased $0.1 million when compared to the same period in 2021, primarily due to the two funeral homes added to our acquired portfolio during the third quarter of 2022, which contributed almost $0.2 million of operating profit. Excluding these two businesses, acquired operating profit decreased $0.1 million. The comparable operating profit margin decreased 240 basis points to 40.9%. Operating expenses as a percentage of operating revenue increased 2.4% with the largest increases in general and administrative expenses of 0.8%, salaries and benefits expenses of 0.6%, other funeral expenses of 0.6% and facilities and grounds expenses of 0.4%, offset by a decrease in promotional expenses of 0.5%. The increase in operating expenses is partially due to higher costs from inflationary impacts concentrated in our full-time hourly base rates, utilities, funeral supplies and insurance.

Ancillary revenue, which is recorded in *Other revenue*, represents revenue from our flower shop, pet cremation and online cremation businesses, decreased $0.3 million and Ancillary operating profit decreased $0.2 million for the nine months ended September 30, 2022 compared to the same period in 2021.

Preneed funeral insurance commissions and preneed funeral trust and insurance revenue (recorded in *Other revenue*), on a combined basis, increased $0.3 million for the nine months ended September 30, 2022 compared to the same period in 2021. The increase is due to an increase in the number of preneed contracts that matured to atneed, as well as an increase in the earnings on these preneed contracts, as recognition is triggered at the time a preneed contract matures to atneed. The number of contracts increased 2.2% and the average earnings per preneed contract increased 1.9% for the nine months ended September 30, 2022 compared to the same period in 2021. Operating profit for preneed funeral insurance commissions and preneed trust and insurance, on a combined basis, increased $0.2 million for the same comparative period, primarily due to the increase in preneed funeral trust and insurance revenue.

Cemetery Segment

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

	Three months ended September 30,			
		2021		2022
Revenue:				
Same store operating revenue	$	16,342	$	15,396
Acquired operating revenue		6,362		5,947
Divested revenue		52		—
Preneed cemetery trust revenue		3,136		3,065
Preneed cemetery finance charges		252		309
Total	$	26,144	$	24,717
Operating profit:				
Same store operating profit	$	6,465	$	5,020
Acquired operating profit		3,547		2,827
Divested operating profit		19		—
Preneed cemetery trust operating profit		3,013		2,924
Preneed cemetery finance charges		252		309
Total	$	13,296	$	11,080

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

	Three months ended September 30,			
		2021		2022
Same store:				
Preneed revenue as a percentage of operating revenue		61%		60%
Preneed revenue (in thousands)	$	9,909	$	9,309
Atneed revenue (in thousands)	$	6,433	$	6,087
Number of preneed interment rights sold		2,223		1,917
Average price per interment right sold	$	4,130	$	4,181
Acquired:				
Preneed revenue as a percentage of operating revenue		66%		61%
Preneed revenue (in thousands)	$	4,194	$	3,610
Atneed revenue (in thousands)	$	2,168	$	2,337
Number of preneed interment rights sold		606		538
Average price per interment right sold	$	7,159	$	5,951

Cemetery same store preneed revenue decreased $0.6 million for the three months ended September 30, 2022 compared to the same period in 2021, as we experienced a 13.8% decrease in the number of interment rights sold, slightly offset by a 1.2% increase in the average price per interment right sold. Cemetery same store atneed revenue, which represents 40% of our same store operating revenue decreased $0.3 million for the three months ended September 30, 2022 compared to the same period in 2021, as we experienced a 13.2% decrease in the number of interment rights sold, which was offset by a 9.0% increase in the average price per interment right sold. The decrease in the number of interment rights sold is primarily a result of the decline in COVID-19 related cases as compared to the third quarter of 2021, as the death rate normalized to pre-COVID-19 levels.

Cemetery same store operating profit for the three months ended September 30, 2022 decreased $1.4 million from the same period in 2021, due to the decrease in operating revenue and an increase in operating expenses as a percentage of revenue. The comparable operating profit margin decreased 700 basis points to 32.6%. Operating expenses as a percentage of operating revenue increased 7.0% with the largest increases in facilities and grounds expenses of 3.2%, salaries and benefits expenses of 1.1%, merchandise costs of 1.0%, general liability insurance of 0.7% and general and administrative expenses of 0.8%. The increase in operating expenses is partially due to higher costs from inflationary impacts concentrated in our full-time hourly base rates, utilities, merchandise costs and insurance.

Cemetery acquired preneed revenue decreased $0.6 million for the three months ended September 30, 2022 compared to the same period in 2021, as we experienced a 16.9% decrease in the average price per interment right sold, as well as an 11.2% decrease in the number of interment rights sold. Cemetery acquired atneed revenue, which represents 39% of our acquired operating revenue, increased $0.2 million for the three months ended September 30, 2022 compared to the same period in 2021, as we experienced a 12.9% increase in the average price per interment right sold, offset by a 4.5% decrease in the number of interment rights sold. The decrease in the number of interment rights sold is primarily a result of the decline in COVID-19 related cases as compared to the third quarter of 2021, as the death rate normalized to pre-COVID-19 levels.

Cemetery acquired operating profit decreased $0.7 million for the three months ended September 30, 2022 from the same period in 2021, due to the decrease in revenue and an increase in operating expenses as a percentage of revenue. The comparable operating profit margin decreased 830 basis points to 47.5%. Operating expenses as a percentage of operating revenue increased 8.2% with the largest increases in salaries and benefits expenses of 2.1%, general liability insurance of 1.1%, facilities and grounds expenses of 0.9%, general and administrative expenses of 0.6%, merchandise costs of 0.6% and atneed commissions expense of 0.6%. The increase in operating expenses is partially due to higher costs from inflationary impacts concentrated in our full-time hourly base rates, utilities, merchandise costs and insurance.

Preneed cemetery trust revenue and preneed cemetery finance charges (recorded in *Other revenue*), as well as their respective operating profit remained flat for the three months ended September 30, 2022 compared to the same period in 2021.

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

	Nine months ended September 30,	
	2021	**2022**
Revenue:		
Same store operating revenue	$ 47,883	$ 46,616
Acquired operating revenue	21,517	20,437
Divested revenue	202	—
Preneed cemetery trust revenue	9,079	9,262
Preneed cemetery finance charges	771	870
Total	$ 79,452	$ 77,185
Operating profit:		
Same store operating profit	$ 20,076	$ 16,799
Acquired operating profit	12,386	10,766
Divested operating profit	66	—
Preneed cemetery trust operating profit	8,708	8,847
Preneed cemetery finance charges	771	870
Total	$ 42,007	$ 37,282

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

	Nine months ended September 30,	
	2021	2022
Same store:		
Preneed revenue as a percentage of operating revenue	61%	61%
Preneed revenue (in thousands)	$ 29,044	$ 28,509
Atneed revenue (in thousands)	$ 18,839	$ 18,107
Number of preneed interment rights sold	6,375	6,088
Average price per interment right sold	$ 4,106	$ 4,095
Acquired:		
Preneed revenue as a percentage of operating revenue	68%	64%
Preneed revenue (in thousands)	$ 14,692	$ 12,996
Atneed revenue (in thousands)	$ 6,825	$ 7,441
Number of preneed interment rights sold	2,369	2,256
Average price per interment right sold	$ 6,107	$ 5,403

Cemetery same store preneed revenue decreased $0.5 million for the nine months ended September 30, 2022 compared to the same period in 2021, as we experienced a 4.5% decrease in the number of interment rights sold, while the average price per interment right sold remained flat. Cemetery same store atneed revenue, which represents 39% of our same store operating revenue, decreased $0.7 million for the nine months ended September 30, 2022 compared to the same period in 2021, as we experienced a 6.9% decrease in the number of interment rights sold, offset by a 3.1% increase in the average price per interment right sold. The decrease in the number of interment rights sold is primarily a result of the decline in COVID-19 related cases in 2022 compared to 2021, as the death rate normalized to pre-COVID-19 levels.

Cemetery same store operating profit decreased $3.3 million for the nine months ended September 30, 2022 from the same period in 2021, due to the decrease in revenue and an increase in operating expenses as a percentage of revenue. The comparable operating profit margin decreased 590 basis points to 36.0%. Operating expenses as a percentage of operating revenue increased 5.9% with the largest increases in facilities and grounds expenses of 1.4%, promotional expenses of 1.0%, allowance for credit losses of 0.9%, due to a change in estimate in the second quarter of the prior year, which resulted in lower credit loss expense in the prior period, general liability insurance of 0.6% and general and administrative expenses of 0.6%. The increase in operating expenses is partially due to higher costs from inflationary impacts concentrated in our full-time hourly base rates, utilities, merchandise costs and insurance.

Cemetery acquired preneed revenue decreased $1.7 million for the nine months ended September 30, 2022 compared to the same period in 2021, as we experienced an 11.5% decrease in the average price per interment right sold, as well as a 4.8% decrease in the number of interment rights sold. Cemetery acquired atneed revenue, which represents 36% of our acquired operating revenue, increased $0.6 million for the nine months ended September 30, 2022 compared to the same period in 2021, as we experienced a 14.5% increase in the average price per interment right sold, while the number of interment rights sold decreased 4.8%. The decrease in the number of interment rights sold is primarily a result of the decline in COVID-19 related cases in 2022 compared to 2021, as the death rate normalized to pre-COVID-19 levels.

Cemetery acquired operating profit decreased $1.6 million for the nine months ended September 30, 2022 from the same period in 2021, due to the decrease in revenue and an increase in operating expenses as a percentage of revenue. The comparable operating profit margin decreased 490 basis points to 52.7%. Operating expenses as a percentage of operating revenue increased 4.9% with the largest increases in facilities and grounds expenses of 0.9%, salaries and benefits expenses increased 0.9%, general liability insurance of 0.8% and merchandise costs of 0.7%. The increase in operating expenses is partially due to higher costs from inflationary impacts concentrated in our full-time hourly base rates, utilities, merchandise costs and insurance.

Preneed cemetery trust revenue and preneed cemetery finance charges (recorded in *Other revenue*) on a combined basis increased $0.3 million for the nine months ended September 30, 2022 compared to the same period in 2021. The increase in trust revenue is primarily due to an increase in realized gains on delivered merchandise and services contracts. Operating profit for the two categories of *Other Revenue*, on a combined basis, increased $0.2 million for the nine months ended September 30, 2022 compared to the same period in 2021, primarily due to the increase in revenue.

Cemetery property amortization. Cemetery property amortization totaled $1.3 million and $4.3 million for the three and nine months ended September 30, 2022, respectively, a decrease of $0.2 million and $0.9 million, respectively, compared to the same periods in 2021, primarily due to the decrease in property sold across our cemetery portfolio.

Field depreciation. Depreciation expense for our field businesses totaled $3.3 million and $9.8 million for the three and nine months ended September 30, 2022, respectively, an increase of $0.1 million and $0.4 million, respectively, compared to the same periods in 2021, primarily due to depreciation from computer and hardware equipment added in the last twelve months, as well as from assets added as a result of our acquisition during the third quarter of 2022.

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 $5.1 million for the three months ended September 30, 2022, a decrease of $1.7 million compared to the same period in 2021, primarily due to the following: (1) a $1.1 million decrease in cash incentives and equity compensation; (2) a $0.5 million decrease in health and safety expenses related to COVID-19; (3) a $0.2 million decrease in salary and benefits expenses; (4) a $0.1 million decrease in other general administrative costs; offset by (5) a $0.2 million increase in incentive award trips and annual managing partner meetings, which were postponed in the prior year due to COVID-19.

Regional and unallocated funeral and cemetery costs totaled $17.4 million for the nine months ended September 30, 2022, a decrease of $1.2 million compared to the same period in 2021, primarily due to the following: (1) a $1.7 million decrease in cash incentives and equity compensation; (2) a $1.3 million decrease in health and safety expenses related to COVID-19; (3) a $0.3 million decrease in salary and benefits expenses; offset by (4) a $1.3 million increase in incentive award trips and annual managing partner meetings, which were postponed in the prior year due to COVID-19; and (5) a $0.2 million increase in other general administrative costs.

Other Financial Statement Items

General, administrative and other. General, administrative and other expenses totaled $10.4 million for the three months ended September 30, 2022, an increase of $1.3 million compared to the same period in 2021, primarily due to the following: (1) a $1.4 million increase in separation expenses related to the departure of a key member of leadership; (2) a $0.8 million increase in salary and benefits expenses, which includes talent additions to our recently developed marketing department, as well as a Chief Information Officer; (3) a $0.5 million increase in other general administrative costs, which includes higher online marketing and advertising costs and software license fees for new technology; offset by (4) a $1.0 million decrease in insurance claims expense, which included a one-time $1.0 million payment for residual insurance claims in 2021; and (3) a $0.3 million decrease in cash incentives and equity compensation.

General, administrative and other expenses totaled $28.1 million for the nine months ended September 30, 2022, an increase of $2.8 million compared to the same period in 2021, primarily due to the following: (1) a $2.4 million increase in salary and benefits expenses, which includes talent additions to our recently developed marketing department, as well as a Chief Information Officer; (2) a $1.8 million increase in other general administrative costs, which includes higher online marketing and advertising costs and software license fees for new technology; (3) a $0.1 million increase in cash incentives and equity compensation; offset by (4) a $1.3 million decrease in insurance claims expense, which included a one-time $1.0 million payment for residual insurance claims in 2021; (5) a $0.1 million decrease in separation expense related to the departure of certain key members of leadership, and (6) a $0.1 million decrease in divestiture expenses.

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Assets held for sale impairment	$ 500	$ —	$ 500	$ —
Net (gain) loss on divestitures and real property	282	—	179	(575)
Net (gain) loss on disposals of fixed assets	76	(7)	698	142
Total	$ 858	$ (7)	$ 1,377	$ (433)

During the nine months ended September 30, 2022, we sold real property for $3.3 million and two funeral homes for $0.9 million for a net gain of $0.7 million, of which $0.1 million is recorded in *Other, net* related to the sale of assets not used in operating activities. During the nine months ended September 30, 2021, we sold three funeral homes and real property for $4.2 million for a net loss of $0.2 million and disposed of fixed assets for a net loss of $0.7 million. In addition, we recognized an impairment loss of $0.5 million for property, plant and equipment assets held for sale at September 30, 2021.

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2022	2021	2022
Senior Notes	$ 4,403	$ 4,410	$ 17,977	$ 13,203
Credit Facility	464	2,081	1,497	4,425
Finance leases	117	110	356	335
Acquisition debt	90	78	280	237
Convertible Notes	—	—	20	—
Other	2	(1)	7	8
Total	$ 5,076	$ 6,678	$ 20,137	$ 18,208

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

Income taxes. We had an income tax expense of $2.8 million and $5.1 million for the three months ended September 30, 2022 and 2021, respectively, and income tax expense of $12.1 million and $6.6 million for the nine months ended September 30, 2022 and 2021, respectively. Our operating tax rate before discrete items was 30.6% and 28.2% for the three months ended September 30, 2022 and 2021, respectively, and 27.8% and 28.3% for the nine months ended September 30, 2022 and 2021, respectively.

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

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

On March 2, 2022, we received approval from the IRS regarding our method change filed related to the revenue recognition of cemetery merchandise and services sales. As a result, we recorded a $0.5 million reduction to the reserve for uncertain tax positions, including interest, during the nine months ended September 30, 2022.

At December 31, 2021 and September 30, 2022, the reserve for uncertain tax positions was $3.8 million and $3.3 million, respectively, related to carrying back the net operating losses generated in the tax year ended December 31, 2018 filed under the CARES Act on June 30, 2020.

OVERVIEW OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We have identified Business Combinations and Goodwill as those accounting policies that require significant judgments, assumptions and estimates and that have a significant impact on our financial condition and results of operations. These policies are considered critical because they may result in fluctuations in our reported results from period to period due to the significant judgments, estimates and assumptions about complex and inherently uncertain matters and because the use of different judgments, assumptions or estimates could have a material impact on our financial condition or results of operations. Actual results may differ from these estimates and such estimates may change if the underlying conditions or assumptions change. Historical performance should not be viewed as indicative of future performance because there can be no assurance the margins, operating income and net earnings, as a percentage of revenue, will be consistent from period to period. We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as appropriate based on changing conditions.

SEASONALITY

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In the ordinary course of business, we are typically exposed to a variety of market risks. Currently, these are primarily related to interest rate risk and changes in the values of securities associated with the preneed and perpetual care trusts. Management is actively involved in monitoring exposure to market risk and developing and utilizing appropriate risk management techniques when appropriate and when available for a reasonable price. We are not exposed to any other significant market risks other than those related to COVID-19 which are described in more detail in Part 1, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021.

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

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

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

In connection with our preneed funeral operations and preneed cemetery merchandise and service sales, the related funeral and cemetery trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices. Cost and market values of such investments at September 30, 2022 are presented in Part 1, Item 1, Financial Statements, Note 7 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 1.19% 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, 2022, we had outstanding borrowings under the Credit Facility of $169.0 million. Any further borrowings or voluntary prepayments against the Credit Facility or any change in the floating rate would cause a change in interest expense. We have the option to pay interest under the Credit Facility at either prime rate or a BSBY rate, plus an applicable margin based our leverage ratio. At September 30, 2022, the prime rate margin was equivalent to 1.125% and the BSBY rate margin was 2.125%. Assuming the outstanding balance remains unchanged, a change of 100 basis points in our borrowing rate would result in a change in income before taxes of $1.7 million. We have not entered into interest rate hedging arrangements in the past. Management continually evaluates the cost and potential benefits of interest rate hedging arrangements.

Our Senior Notes bear interest at the fixed annual rate of 4.25%. We may redeem the Senior Notes, in whole or in part, at the redemption price of 102.13% on or after May 15, 2024, 101.06% on or after May 15, 2025 and 100% on or after May 15, 2026, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. At any time before May 15, 2024, we may also redeem all or part of the Senior Notes at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to (but excluding) the date of redemption. At September 30, 2022, the carrying value of the Senior Notes on our Consolidated Balance Sheet was $395.1 million and the fair value of the Senior Notes was $317.2 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, 2022 and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations, and cash flows for the periods presented in conformity with US GAAP.

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

For more information regarding legal proceedings see Part I, Item 1, Financial Statements, Note 14.

Item 1A. Risk Factors.

Risk Factor Update

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

GENERAL RISKS

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

We may be adversely affected by the effects of inflation.

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

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

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Dollar Value of Shares That May Yet Be Purchased Under the Program(1)
July 1, 2022 - July 31, 2022	—	$ —	—	$ 48,898,769
August 1, 2022 - August 31, 2022	—	$ —	—	$ 48,898,769
September 1, 2022 - September 30, 2022	—	$ —	—	$ 48,898,769
Total for quarter ended September 30, 2022	—		—	

(1) See Part I, Item 1, Financial Statements, Note 15 for additional information on our publicly announced share repurchase program.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

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

SIGNATURE

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

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

CARRIAGE SERVICES, INC.

INDEX OF EXHIBITS

Exhibit No.	Description
*10.1	Release and Separation Agreement by and between the Company and Carl Benjamin Brink, dated September 27, 2022 and effective January 2, 2023. †
*10.2	Second Amendment to Employment Agreement dated September 30, 2022, by and between the Company and Steven D. Metzger.†
*10.3	Second Amendment to Employment Agreement dated September 30, 2022, by and between the Company and Carlos Quezada.†
*10.4	Second Amendment to Employment Agreement dated September 30, 2022, by and between the Company and Shawn Phillips.†
*31.1	Certification of Periodic Financial Reports by Melvin C. Payne in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Periodic Financial Reports by C. Benjamin Brink in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
**32	Certification of Periodic Financial Reports by Melvin C. Payne and C. Benjamin Brink in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. Section 1350.
*101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
*101.SCH	Inline XBRL Taxonomy Extension Schema Documents.
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
*101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
*101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
*104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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

RELEASE AND SEPARATION AGREEMENT

This **RELEASE AND SEPARATION AGREEMENT** (the "**Agreement**") is made and entered into by Carl Benjamin Brink ("**Employee**") and Carriage Services, Inc., its past, present and future subsidiaries, parents, and affiliates and their respective past, present, and future employees, officers, directors, agents and insurers (hereinafter collectively referred to as the "**Company**").

WHEREAS, Employee and Company entered into an Employment Agreement dated November 5, 2019 (hereinafter referred to as the "**Employment Agreement**");

WHEREAS, Employee has advised Company of his intent to resign his employment, effective as of January 2, 2023 (the "**Separation Date**"), and terminate the Employment Agreement concurrently; and

WHEREAS, both Employee and Company wish to settle any and all issues and potential issues which relate, or may relate to, Employee's employment with, and departure from, the Company, including but not limited to, those arising under the Employment Agreement.

NOW, THEREFORE, Company and Employee agree as follows, in consideration of the mutual covenants and obligations contained herein, and intending to be legally held bound:

1. EMPLOYEE'S RESIGNATION. Employee hereby irrevocably resigns his employment and will cease to be employed by the Company effective as of the Separation Date. In addition, Employee hereby resigns his positions as Executive Vice President, Chief Financial Officer and Treasurer for Carriage Services, Inc. and any Officer or Director position Employee may hold for the Company's subsidiaries and affiliates, in each case as of the Separation Date, or earlier if effectuated by a separate action. As of the Separation Date, Employee specifically waives all rights to any additional bonus and/or awards, vesting or payment under the Company's 2017 Omnibus Incentive Plan, the First Amended and Restated 2006 Long-Term Incentive Plan, or any other current or past plan or policy of the Company, except as may otherwise be expressly set out in this Agreement. As of the Separation Date, all of Employee's rights under the Employment Agreement are terminated and Employee hereby waives any and all such rights he may have had under the Employment Agreement prior to the Separation Date.

2. CONSIDERATION. In consideration for the releases and other covenants set forth in this Agreement, after this Agreement becomes effective, the Company agrees to provide Employee the following:

a. Company will continue to pay Employee's base salary at the biweekly rate of Nineteen Thousand Two Hundred Thirty Dollars and Seventy-Seven Cents, ($19,230.77) for fifty-two (52) bi-weekly pay periods following the Separation Date (the "**Continued Salary**"). The Continued Salary shall total $1,000,000.00. The first payment will be paid on the first regular, bi-weekly Company payroll date following the Separation Date. The Company shall have the right to deduct from any payment of compensation to the Employee hereunder any federal, state or local taxes required by law to be withheld with respect to such payments, and any other amounts specifically authorized to be withheld or deducted by the Employee.

b. Company will pay Employee a lump sum amount of Three Hundred Seventy-Five Thousand Dollars and No Cents ($375,000.00) upon the execution of this Agreement by both Employee and Company.

c. Company will grant Employee 30,000 shares of Carriage Services, Inc. stock on Employee's final date of employment.

d. If Employee becomes eligible to elect continuation coverage under the Consolidated Omnibus Budget Reconciliation Act ("**COBRA**") and properly elects such coverage, the Company shall reimburse the Employee, or pay on the Employee's behalf, 100% of applicable medical continuation premiums for the benefit of the Employee (and his covered dependents as of the date of his Separation, if any) under the Employee's then-current plan election, with such coverage to be provided under the closest comparable plan as offered by the Company from time to time, for so long during the 18-month period following the Separation Date as Employee remains eligible for, and elects, COBRA coverage.

e. Employee shall retain all vested equity awards. All unvested equity awards will be cancelled as of the Separation Date and Employee shall have no rights or claims with respect to any unvested equity awards.

f. If Employee dies at any time while the Company is paying consideration pursuant to Section 2, the Company shall continue making the remaining payments under Section 2 to the Employee's estate. Such payments to the Employee's estate shall be made in the same manner and at the same times as they would have been paid to the Employee had he not died.

Employee acknowledges and agrees that the consideration outlined above constitutes fair and adequate compensation for the promises and covenants of Employee set forth in this Agreement.

3. EMPLOYEE'S RELEASE OF CLAIMS. For and in consideration of the Consideration as described in Section 2 of this Agreement, Employee hereby irrevocably and unconditionally releases, forever discharges, and covenants not to sue, or bring any other legal action against the Company with respect to any and all claims and causes of action of any nature, both past and present, known and unknown, foreseen and unforeseen, which Employee has, or which could be asserted on his behalf by any other person or entity, resulting from or relating to any act or omission of any kind occurring on or before the date of the execution of this Agreement. Employee understands and agrees that this Release includes, but is not limited to, the following:

a. All claims and causes of action arising under contract, tort or other common law, including, without limitation, breach of contract, fraud, estoppel, misrepresentation, express or implied duties of good faith and fair dealing, wrongful discharge, discrimination, retaliation, harassment, negligence, gross negligence, false imprisonment, assault and battery, conspiracy, intentional or negligent infliction of emotional distress, slander, libel, defamation, refusal to perform an illegal act and invasion of privacy;

b. All claims and causes of action arising under any federal, state, or local law, regulation, or ordinance, including without limitation, the Civil Rights Act of 1964, as amended, the Americans With Disabilities Act, the Fair Labor Standards Act, the Family and Medical Leave Act, the Employee Retirement Income Security Act, and relevant state laws, as well as any claims for wages, employee benefits, vacation pay, severance pay, pension or profit sharing benefits, health or welfare benefits, bonus compensation, vesting of stock options, restricted stock, commissions, deferred compensation or other remuneration, or employment benefits or compensation;

c. All claims and causes of action for past or future loss of pay or benefits, expenses, damages for pain and suffering, mental anguish or emotional distress damages, liquidated damages, punitive damages, compensatory damages, attorney's fees, interest, court costs, physical or mental injury, damage to reputation, and any other injury, loss, damage or expense or any other legal or equitable remedy of any kind whatsoever; and

d. All claims and causes of action arising out of or in any way connected with, directly or indirectly, Employee's employment with the Company, or any incident thereof, including, without limitation, Employee's treatment by the Company; the terms and conditions of the Employee's employment; and the separation of Employee's employment.

4. RETURN OF COMPANY PROPERTY. Employee shall return, in good working order, any and all property of the Company that is in his possession, custody or control on or before January 2, 2023. Such property includes, but is not limited to, keys, computers, cell phones, software, calculators, equipment, credit cards, forms, files, manuals, correspondence, business cards, personnel data, lists of or other information regarding customers, contacts and/or employees, contracts, contract information, agreements, leases, plans, brochures, catalogues, training materials, computer tapes and diskettes or other portable media.

5. TAX ISSUES. The Company may withhold from any benefits and payments made pursuant to this Agreement all federal, state, city and other taxes as may be required pursuant to any law or governmental regulation or ruling and all other normal employee deductions made with respect to the Company's employees generally. All determinations required to be made under this Section 5 shall be made by the Company.

6. NON-ADMISSION. Employee and Company agree that this Agreement and the consideration provided to Employee by the Company is not an admission by either party of any violation of the other party's rights or of any violation of contract or statutory or common law.

7. NON-DISPARAGEMENT. Employee specifically covenants and agrees not to, directly or indirectly, make, publish or communicate or cause to be made, published or communicated, to anyone any remark, statement or comment, orally or in writing, criticizing or disparaging the Company.

8. NON-COMPETITITON AND NON-SOLICITATION. Employee hereby agrees that for a period of two (2) years following the Separation Date, Employee shall not, directly or indirectly,

(a) alone or for his own account, or as an officer, director, shareholder, partner, member, trustee, employee, consultant, advisor, agent or any other capacity of any corporation, partnership, joint venture, trust, or other business organization or entity, encourage, support, finance, be engaged in, interested in, or concerned with, any business within the deathcare industry having a funeral home, cemetery, crematory, or office within a radius of fifty (50) miles of any funeral home, cemetery, or other deathcare business owned or operated by the Company or any of its affiliates;

(b) induce or assist anyone in inducing in any way, any employee of the Company or any of its affiliates who he had contact with during his employment or knew of by virtue of his employment with the Company, to resign or sever his or her employment or to breach an employment contract with the Company or any affiliate; or

(c) own, manage, advise, operate, join, control, or participate in the ownership, management, operation, or control of, or be connected in any manner with, any business which is or may be in the funeral, mortuary, crematory, cemetery, or burial insurance business or in any business related thereto within a radius of fifty (50) miles of any funeral home, cemetery, or other deathcare business owned or operated by the Company or any of its affiliates.

The foregoing covenants shall not be held invalid or unenforceable because of the scope of the territory or actions subject hereto or restricted hereby, or the period of time within which such covenants respectively are operative, but the maximum territory, the action subject to such covenants and the period of time they are enforceable are subject to any determination by a final judgment of any court which has jurisdiction over the parties and subject matter. Employee acknowledges that these provisions were contained in his Employment Agreement and that the consideration for these provisions includes consideration provided in connection with his execution of the Employment Agreement and during his employment with the Company, in addition to the additional consideration provided for in this Agreement. Employee agrees not to challenge the enforceability of these restrictions for any reason, including that they are overly broad or that he received insufficient consideration. Employee acknowledges the enforceability of these restrictions and agrees to comply with them.

9. CONTINUING OBLIGATIONS. Employee acknowledges that in the course of his employment with the Company he has obtained confidential and proprietary information including, but not limited to, financial, accounting, business, product, customer and marketing information, plans, lists, agreements, forecasts, trade secrets, management methods, operating techniques, strategies, prospective acquisitions, reports, studies, analyses, this Agreement, and other confidential information and knowledge concerning the business of the Company (collectively "**Confidential Information**"). Employee acknowledges and agrees that he has a continuing obligation to maintain the confidentiality of all such non-public information, even after the Separation Date. Employee understands and acknowledges that the Employee's obligations under this Agreement regarding Confidential Information begin immediately and shall continue until the Confidential Information has become public knowledge other than as a result of the Employee's breach of this Agreement or a breach by those acting in concert with the Employee or on the Employee's behalf.

10. CONSULTANT SERVICES. Employee agrees to serve as a consultant for the Company, as requested and directed by the Company, for six months following the Separation Date (the "**Consultant Period**"). The Consultant Period shall include, but not be limited to, Employee providing assistance to, and cooperation with, the Company as it relates to the successful onboarding of a new Chief Financial Officer and other transition related requests.

11. COOPERATION. Employee acknowledges and agrees that from and after the Separation Date, he will cooperate fully with the Company, its officers, employees, agents, affiliates and attorneys in the defense or prosecution of, or in preparation for the defense or prosecution of any lawsuit, dispute, investigation or other legal proceedings ("**Proceedings**"). Employee further acknowledges and agrees that he will cooperate fully with the Company, its officers, employees, agents, affiliates and attorneys on any matter related to Company business ("**Matters**") that occurred during the period of Employee's employment or were otherwise impacted by Employee's employment.

Such cooperation shall include providing true and accurate information or documents concerning, or affidavits or testimony about, all or any matters at issue in any Proceedings/Matters as shall from time to time be requested by the Company, and shall be with the knowledge of Employee. Such cooperation shall be provided by Employee without remuneration, but Employee shall be entitled to reimbursement for all reasonable and appropriate out of pocket expenses incurred by him in so cooperating, including, by way of example and not by way of limitation, airplane fares, hotel accommodations, meal charges and other similar expenses to attend Proceedings/Matters outside of the city of Employee's residence. The reasonable fees and expenses of Employee shall be reimbursed by the Company on a regular, periodic basis upon presentation by Employee of a statement and receipts in accordance with the Company's customary practices and policies; provided, however, that such reimbursement will be paid no later than December 31st of the calendar year following the calendar year in which Employee incurred the expense. In the event Employee is asked by a third party to provide information regarding the Company, or is called other than by the Company to testify in any Proceeding/Matter related to the Company, he will notify the Company as soon as possible in order to give the Company a reasonable opportunity to respond and/or participate in such Proceeding/Matter.

11. REMEDIES. In the event of a breach or threatened breach by the Employee of any of the provisions of this Agreement, the Employee hereby consents and agrees that the Company shall be entitled to seek, in addition to all other available remedies, a temporary restraining order, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy. Any equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages, or other available relief.

If Employee fails to comply with any of the terms of this Agreement or post-employment obligations contained in it, the Company may, in addition to any other remedies it may have, reclaim any amounts paid to the Employee under the provisions of this Agreement or terminate any benefits or payments that are later due under this Agreement, without waiving the releases provided herein.

Company and Employee acknowledge and agree that the prevailing party shall be entitled to payment of its attorneys' fees and other costs and expenses incurred in enforcing this provision of the Agreement and/or in prosecuting any counterclaim or cross-claim based on this provision of the Agreement.

12. FEES AND COSTS. Except as otherwise set forth in this Agreement, the parties shall bear their own attorneys' fees and costs.

13. CHOICE OF LAW/VENUE. This Agreement and any action, cause of action, claim, controversy or dispute of any kind (whether at law, in equity, in contract, in tort or otherwise) that may be based upon, arise out of, or relate to this Agreement, or the negotiation, execution or performance of this Agreement or the rights, duties and relationship of the parties hereto, shall be governed by, construed, and enforced in accordance with, and subject to, the laws of the State of Texas or federal law, where applicable, without regard to the conflict of law principles of any jurisdiction. In the event there shall be any dispute arising out of the terms and conditions of, or in connection with, this Agreement, the party seeking relief shall submit such dispute to the United States District Court for the Southern District of Texas or, if federal jurisdiction is lacking or the court declines or abstains from taking jurisdiction, the District Courts of Harris County, Texas.

14. ENTIRE AGREEMENT. It is expressly understood and agreed that this Agreement embodies the entire agreement between the Parties relating to Employee's employment by the Company and all other matters arising between Company and Employee prior to the date and time of execution hereof, and supersedes any and all prior agreements, including the Employment Agreement, arrangements, or understandings between and among the Parties.

No oral understandings, statements, promises, terms, conditions, obligations, or agreements contrary or in addition to the terms of this Agreement exist. This Agreement may not be changed by oral representations, and may only be amended by written instrument executed by a duly authorized representative of each of the Parties, or their respective successors or assigns. If any part of this Agreement is found to be illegal or unenforceable by any agency or court, the remaining provisions shall continue in full force and effect.

15. COUNTERPARTS. This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

16. OTHER REPRESENTATIONS: EMPLOYEE HEREBY REPRESENTS AND CERTIFIES THAT HE: (1) HAS CAREFULLY READ ALL OF THIS AGREEMENT; (2) HAS BEEN GIVEN A FAIR OPPORTUNITY TO DISCUSS AND NEGOTIATE THE TERMS OF THIS AGREEMENT; (3) UNDERSTANDS ITS PROVISIONS; (4) HAS BEEN ADVISED IN WRITING AND GIVEN THE OPPORTUNITY TO SEEK ADVICE AND CONSULTATION WITH ATTORNEYS REGARDING THIS AGREEMENT; (5) HAS DETERMINED THAT IT IS IN HIS BEST INTERESTS TO ENTER INTO THIS AGREEMENT; (6) HAS NOT BEEN INFLUENCED TO SIGN THIS AGREEMENT BY ANY STATEMENT OR REPRESENTATION BY THE COMPANY NOT CONTAINED IN THIS AGREEMENT; AND (7) ENTERS INTO THIS AGREEMENT KNOWINGLY AND VOLUNTARILY.

We the undersigned do hereby sign and agree to the terms set forth in the Release and Separation Agreement, on the dates set forth below:

COMPANY:

Melvin C. Payne
Carriage Services, Inc.
Chief Executive Officer

09/27/2022
Date signed

EMPLOYEE:

Carl Benjamin Brink

9.27.22
Date signed

SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

This SECOND AMENDMENT TO EMPLOYMENT AGREEMENT (this "Second Amendment") is executed and agreed to by and between Carriage Services, Inc., a Delaware corporation (the "Company"), and Steven D. Metzger ("Executive"), effective as of September 30, 2022 (the "Amendment Effective Date").

WHEREAS, Executive and the Company entered into an Employment Agreement dated November 5, 2019, along with a First Amendment to the Employment Agreement dated June 1, 2021 (collectively, the "Employment Agreement");

WHEREAS, Executive and the Company desire Executive's continued employment with the Company under certain amended terms and conditions as set forth herein; and

WHEREAS, the parties now desire to further amend the Employment Agreement accordingly.

NOW, THEREFORE, in consideration of the premises above, as well as consideration to be granted by the Company to the Executive in the following form, the parties hereto agree as follows:

1. Section 2(a) of the Employment Agreement is hereby amended by replacing "Four Hundred Thousand Dollars ($400,000)" with "Five Hundred Thousand Dollars ($500,000)" where such figure appears in Section 2(a).

2. Section 4(a) of the Employment Agreement is hereby amended by deleting this section in its entirety and replacing it with the following language:

> "(a) ***Term.*** Executive's term of Employment with the Company under this Agreement shall be for the period from the Effective Date through the date that is six (6) years from the Effective date (the 'Initial Term').
>
> On the sixth (6th) anniversary of the Effective Date, and on each subsequent anniversary thereafter, this Agreement shall automatically renew and extend for a period of 12 months (each such 12-month period being a "Renewal Term"), unless written notice of non-renewal is delivered from either Party to the other not less than sixty (60) days prior to the expiration of the then-existing Initial Term or Renewal Term, as applicable. Notwithstanding the foregoing, Executive's Employment pursuant to this Agreement may be terminated prior to the expiration of the then-existing Initial Term or Renewal Term in accordance with this Agreement.
>
> The period from the Effective Date through the Executive's Termination Date (for whatever reason) shall be referred to herein as the 'Employment Period.'"

3. Except as otherwise provided herein, all other provisions of the Employment Agreement shall remain in effect.

4. This Second Amendment and the Employment Agreement (other than as amended above) constitute the entire agreement between the parties on the subject of Executive's employment with the Company.

5. This Second Amendment shall be governed by and construed in accordance with the laws of the State of Texas, without regard to conflicts of laws principles thereof.

6. This Second Amendment may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Second Amendment as of the date set forth above.

COMPANY:
Carriage Services, Inc.

Melvin C Payne

By: Melvin C. Payne
Chairman of the Board and Chief Executive Officer

EXECUTIVE:
Steven D. Metzger

SD Met

SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

This SECOND AMENDMENT TO EMPLOYMENT AGREEMENT (this "Second Amendment") is executed and agreed to by and between Carriage Services, Inc., a Delaware corporation (the "Company"), and Carlos Quezada ("Executive"), effective as of September 30, 2022 (the "Amendment Effective Date").

WHEREAS, Executive and the Company entered into an Employment Agreement dated June 25, 2020, along with a First Amendment to the Employment Agreement dated June 1, 2021 (collectively, the "Employment Agreement"); and

WHEREAS, Executive and the Company desire Executive's continued employment with the Company under certain amended terms and conditions as set forth herein; and

WHEREAS, the parties now desire to further amend the Employment Agreement accordingly.

NOW, THEREFORE, in consideration of the premises above, as well as consideration to be granted by the Company to the Executive in the following form, the parties hereto agree as follows:

1. Section 1 of the Employment Agreement is hereby amended by replacing "Executive Vice President and Chief Operating Officer" with "President and Chief Operating Officer" where such figure appears in Section 1.

2. Section 2(a) of the Employment Agreement is hereby amended by replacing "Four Hundred Thousand Dollars ($400,000)" with "Six Hundred Thousand Dollars ($600,000)" where such figure appears in Section 2(a).

3. Section 2(b) of the Employment Agreement is hereby amended by replacing "75%" with "100%" where such figure appears in Section 2(b).

4. Section 4(a) of the Employment Agreement is hereby amended by deleting this section in its entirety and replacing it with the following language:

> "(a) ***Term.*** Executive's term of Employment with the Company under this Agreement shall be for the period from the Effective Date through the date that is six (6) years from the Effective date (the 'Initial Term').
>
> On the sixth (6^{th}) anniversary of the Effective Date, and on each subsequent anniversary thereafter, this Agreement shall automatically renew and extend for a period of 12 months (each such 12-month period being a "Renewal Term"), unless written notice of non-renewal is delivered from either Party to the other not less than sixty (60) days prior to the expiration of the then-existing Initial Term or Renewal Term, as applicable. Notwithstanding the foregoing, Executive's Employment pursuant to this

Agreement may be terminated prior to the expiration of the then-existing Initial Term or Renewal Term in accordance with this Agreement.

The period from the Effective Date through the Executive's Termination Date (for whatever reason) shall be referred to herein as the '<u>Employment Period</u>.'"

5. Except as otherwise provided herein, all other provisions of the Employment Agreement shall remain in effect.

6. This Second Amendment and the Employment Agreement (other than as amended above) constitute the entire agreement between the parties on the subject of Executive's employment with the Company.

7. This Second Amendment shall be governed by and construed in accordance with the laws of the State of Texas, without regard to conflicts of laws principles thereof.

8. This Second Amendment may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Second Amendment as of the date set forth above.

COMPANY:
Carriage Services, Inc.

Melvin C Payne
____
By: Melvin C. Payne
Chairman of the Board and Chief Executive Officer

EXECUTIVE:
Carlos Quezada

____

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This FIRST AMENDMENT TO EMPLOYMENT AGREEMENT (this "First Amendment") is executed and agreed to by and between Carriage Services, Inc., a Delaware corporation (the "Company"), and Shawn R Phillips ("Executive"), effective as of September 30, 2022 (the "Amendment Effective Date").

WHEREAS, Executive and the Company entered into an Employment Agreement dated November 5, 2019 (the "Employment Agreement");

WHEREAS, Executive and the Company desire Executive's continued employment with the Company under certain amended terms and conditions as set forth herein; and

WHEREAS, the parties now desire to amend the Employment Agreement accordingly.

NOW, THEREFORE, in consideration of the premises above, as well as consideration to be granted by the Company to the Executive in the following form, the parties hereto agree as follows:

1. Section 1 of the Employment Agreement is hereby amended by replacing "Senior Vice President and Regional Partner and Head of Strategic and Corporate Development" with "Senior Vice President and Regional Partner" where such language appears in Section 1.

2. Section 2(a) of the Employment Agreement is hereby amended by replacing "Three Hundred Ten Thousand Dollars ($310,000)" with "Three Hundred Sixty Thousand Dollars ($360,000)" where such figure appears in Section 2(a).

3. Section 4(a) of the Employment Agreement is hereby amended by deleting this section in its entirety and replacing it with the following language:

> "(a) ***Term.*** Executive's term of Employment with the Company under this Agreement shall be for the period from the Effective Date through the date that is six (6) years from the Effective date (the 'Initial Term').
>
> On the sixth (6^{th}) anniversary of the Effective Date, and on each subsequent anniversary thereafter, this Agreement shall automatically renew and extend for a period of 12 months (each such 12-month period being a "Renewal Term"), unless written notice of non-renewal is delivered from either Party to the other not less than sixty (60) days prior to the expiration of the then-existing Initial Term or Renewal Term, as applicable. Notwithstanding the foregoing, Executive's Employment pursuant to this Agreement may be terminated prior to the expiration of the then-existing Initial Term or Renewal Term in accordance with this Agreement.
>
> The period from the Effective Date through the Executive's Termination Date (for whatever reason) shall be referred to herein as the 'Employment Period.'"

4. Except as otherwise provided herein, all other provisions of the Employment Agreement shall remain in effect.

5. This First Amendment and the Employment Agreement (other than as amended above) constitute the entire agreement between the parties on the subject of Executive's employment with the Company.

6. This First Amendment shall be governed by and construed in accordance with the laws of the State of Texas, without regard to conflicts of laws principles thereof.

7. This First Amendment may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this First Amendment as of the date set forth above.

COMPANY:
Carriage Services, Inc.

Melvin C Payne

By: Melvin C. Payne
Chairman of the Board and Chief Executive Officer

EXECUTIVE:
Shawn R. Phillips

EXHIBIT 31.1

I, Melvin C. Payne, certify that:

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

Dated: November 2, 2022

/s/ Melvin C. Payne

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

EXHIBIT 31.2

I, C. Benjamin Brink, certify that:

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

Dated: November 2, 2022

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

EXHIBIT 32

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

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

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

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

Dated: November 2, 2022

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

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