

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

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

For the fiscal year ended, December 31, 2021

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
(State or other jurisdiction of
incorporation or organization)

76-0423828
(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:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, Par Value \$.01 Per Share	CSV	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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 or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Securities Exchange Act of 1934. Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2021 was approximately \$597.5 million based on the closing price of \$36.97 per share on the New York Stock Exchange.

The number of shares of the registrant's Common Stock, \$.01 par value per share, outstanding as of February 25, 2022 was 15,326,738.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required to be disclosed in Part III of this report is incorporated by reference from the registrant's definitive proxy statement or an amendment to this report, which will be filed with the SEC not later than 120 days after the end of the fiscal year covered by this report.

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CAUTIONARY NOTE

Certain statements and information in this Annual Report on Form 10-K (this “Form 10-K”) 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, asset sales, cash flow, debt levels or other financial items; any statements of the plans, strategies and objectives of management for future operations; including, but not limited to, technology innovations; any statements of the plans, timing and objectives of management for acquisition and divestiture activities; any statements of the plans, timing, expectations and objectives of management for future financing activities; 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 incentive and compensation plans and programs, including such effects on our Standards Operating Model and our operational and financial performance;
- our ability to execute our growth strategy;
- the execution of our Standards Operating, 4E Leadership and Strategic Acquisition Models;
- the effects of competition;
- changes in the number of deaths in our markets;
- 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;
- our ability to implement our technology innovation strategy;
- the investment performance of our funeral and cemetery trust funds;
- fluctuations in interest rates;
- 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, internal growth projects, potential strategic acquisitions, dividend increases, or debt repayment plans;
- the timely and full payment of death benefits related to preneed funeral contracts funded through life insurance contracts;
- 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 insurance or taxes;
- 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, such as the Delta and Omicron variants;
- effects and expense of litigation;
- consolidation of the funeral and cemetery industry;

- our ability to consummate the divestiture of low performing businesses as currently expected, if at all, including expected use of proceeds related thereto;
- our ability to 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;
- 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 Part I, Item 1A, Risk Factors.

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.

PART I

ITEM 1. BUSINESS.

GENERAL

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

At December 31, 2021, we operated 170 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.

CURRENT YEAR DEVELOPMENTS

Executive Team

On June 1, 2021, C. Benjamin Brink, Steven D. Metzger and Carlos R. Quezada were each promoted to Executive Vice President. Our Board of Directors (our “Board”) also appointed Carlos R. Quezada to serve as the Company’s Chief Operating Officer and Steven D. Metzger to serve as the Company’s Chief Administrative Officer.

On February 23, 2022, our Board appointed Carlos R. Quezada to serve as the Company’s President and Chief Operating Officer.

Share Repurchase Program

During 2021, our Board increased our share repurchase program authorization by an additional \$125.0 million that, including the addition of amounts previously authorized and outstanding, totaled up to \$190.0 million in share repurchase authorizations. During the year ended December 31, 2021, we repurchased 2,906,983 shares of common stock for a total cost of \$142.5 million at an average cost of \$49.01 per share pursuant to the share repurchase program. At December 31, 2021, we had \$8.1 million remaining available for repurchase under our approved program.

Dividends

On October 27, 2021, our Board approved an increase of \$0.05 per share for a total annual dividend of \$0.45 per share beginning with the dividend declaration in the fourth quarter. During 2021, we paid \$7.3 million in dividends.

Senior Notes and Credit Facility

On May 13, 2021, we completed the issuance of \$400.0 million in aggregate principal amount of 4.25% Senior Notes due 2029 (the “Senior Notes”). In connection with the issuance of the Senior Notes, we entered into an amended and restated \$150.0 million senior secured revolving credit facility (the “Credit Facility”).

We used the proceeds of \$395.5 million from the offering of the Senior Notes, which are net of a 1.125% debt discount of \$4.5 million, together with cash on hand and borrowings under the Credit Facility, to redeem all of our existing \$400.0 million in aggregate principal amount of 6.625% senior notes due 2026 (the “Original Senior Notes”).

On November 22, 2021, we entered into a first amendment and commitment increase to the Credit Facility with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. Pursuant to this amendment, the revolving credit commitment was increased from \$150.0 million to \$200.0 million.

Divestitures

During 2021, we sold two funeral homes and one cemetery for \$2.5 million and real property for \$5.2 million, for a total net gain of \$0.9 million.

Litigation

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. Plaintiff, a former employee, seeks monetary damages on behalf of himself and other similarly situated current and former non-exempt employees. Plaintiff claims 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 mediated the matter and executed a Memorandum of Understanding for class settlement in the amount of \$1.0 million. The parties will seek preliminary approval of the class settlement after executing a long-form class settlement agreement. At December 31, 2021, we accrued \$1.1 million for the expected settlement amount and associated legal fees.

Business Impact under the Macroeconomic Environment 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. Throughout the pandemic, the Company's senior leadership team has taken steps to assist our businesses in appropriately adjusting and adapting to the conditions resulting from the COVID-19 pandemic.

Our businesses remain open and ready to provide service to their communities in this time of need. While our businesses provide an essential public function, along with a critical responsibility to the communities and families they serve, the health and safety of our employees and the families we serve remain our top priority. The Company took additional steps during this time to continually review and update our processes and procedures to comply with all regulatory mandates and procure additional supplies to ensure that each of our businesses have appropriate personal protective equipment to provide these essential services. The Company also implemented additional safety and precautionary measures as it concerns our businesses' day-to-day interaction with the families and communities they serve.

The overall impact of the macroeconomic environment to the deathcare industry from the pandemic may provide varying results as compared to other industries. Our industry's revenues are impacted by various factors, including the number of funeral services performed, the average price for a service and the mix of traditional burial versus cremation contracts. During 2021, changes in the macroeconomic environment as a result of the pandemic have, to this point, led to an increase in funeral volumes and the services we provide. 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 various areas that could affect the results of our operations, though the scope, severity and duration of these impacts remain uncertain at this time because the ultimate impact of COVID-19 remains uncertain, including the potential impacts of new variants of COVID-19, such as the Delta and Omicron variants, and any resulting government responses to 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. Our relationships with our vendors and suppliers have remained consistent and we continue to receive reliable service. To date, we have not experienced any material supply chain impacts or disruptions from our vendors. Remote working arrangements, when utilized, have not materially affected our ability to maintain and support operations, including financial reporting systems, internal controls over financial reporting, and disclosure controls and procedures.

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 of the pandemic is 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 Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources for additional information related to our liquidity position.

During the latter half of 2021, we experienced a high growth rate in funeral home revenue due to elevated funeral volumes from broad market share gains and higher COVID-19 related deaths combined with incremental growth in the average revenue per funeral contract. We will continue to assess these impacts, including the potential impacts of new variants of COVID-19,

such as the Delta and Omicron 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.

OUR OPERATIONS

See Part II, Item 8, Financial Statements and Supplementary Data, Note 21 for segment data related to our operations.

Funeral Home and Cemetery Operations

Our funeral home and cemetery operations are managed by a team of experienced industry and sales professionals with substantial leadership experience.

Given the high fixed-cost structure associated with funeral home operations, we believe the following are key factors affecting our profitability:

- our ability to establish and maintain market share positions supported by strong local heritage and relationships;
- our ability to effectively respond to the increasing trends towards cremation by bundling complimentary services and merchandise;
- our ability to successfully execute our Standards Operating Model;
- our ability to control salary, merchandise and other controllable costs;
- our ability to exercise pricing leverage related to our atneed business to increase average revenue per contract;
- demographic trends in terms of population growth and average age, which impact death rates and number of deaths; and
- our response to fluctuations in capital markets and interest rates, which affect investment earnings on trust funds and our securities portfolio within the trust funds, which would offset lower pricing power as preneed contracts mature.

Our cemetery operations are subject to many of the same profitability factors as our funeral home business, as well as the following key factors:

- 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.

Personalization and pre-planning continue to be two important trends in the funeral and cemetery industry, but the national trend toward more cremations may be the most significant. While this trend is expected to continue, other factors are expected to lead to rising industry revenue, including an increase in spending on additional or unique funeral and cremation services. Shifting preferences will likely continue to lead to a considerable rise in cremations; as such, we are focused on educating and providing our cremation customers with additional services and products that are available. All of our funeral homes offer cremation products and services. While the average revenue for a cremation service is generally lower than that of an average traditional burial service, we have found that this revenue can be substantially enhanced by offering additional services and merchandise, including video tributes, flowers, burial garments and memorial items such as urns, keepsake jewelry and other items that hold a portion of the cremated remains.

We believe the following are our key strengths for our funeral home and cemetery operations:

Market Leader. We compete with other publicly held funeral and cemetery companies and smaller, independent operators and believe we are a market leader in most of our markets. We focus on markets that perform better than the industry average and are less subject to material economic and demographic changes.

High Performance, Decentralized, Partnership Culture. Our funeral homes and cemeteries are managed by entrepreneurially focused Managing Partners with extensive funeral and cemetery industry experience, often within their local markets. They are responsible for day-to-day operations and for growing the business by hiring, training and developing highly motivated and productive local teams. Our businesses are supported by a broader team of High Performance leaders across multiple disciplines in our support center located in Houston, Texas. This promotes more cooperation and synergy between our funeral and cemetery operations and supports the goal of market-share and volume growth in our most significant markets. We believe our decentralized and partnership culture is very attractive to owners of premier independent businesses that fit our profile of suitable acquisition candidates.

Flexible Capital Structure and Strong Cash Flows. We believe our capital structure provides us with financial flexibility by allowing us to invest our cash in growth opportunities, such as business acquisitions and cemetery inventory projects. While we reassess our capital allocation strategy annually, we currently believe that our financial goals will best be achieved by continuing to improve the operating and financial performance of our existing portfolio of businesses while selectively investing our cash in growth opportunities that generate a return on invested capital in excess of our weighted average cost of capital. For additional information regarding our capital structure, please see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources.

Strong Field-Level Gross Profit Margins. We believe that we have strong field-level gross profit margins and that this performance is a testament to the success of our business strategies. Our strong margins and the ability to control costs are important advantages in a business such as ours that is characterized by a high fixed-cost structure. We will continue to seek ways to improve our financial performance, and we believe that our Standards Operating Model will continue to yield long-term improvement in our financial results.

Integrated Information Systems. We have implemented information systems to support local business decisions and to monitor performance of our businesses compared to financial and performance standards. Additionally, we have innovative technological and digital tools that enhance our ability to serve our client families in a remote environment. To further enhance the services we provide to our client families, we have begun developing a multi-year strategy with a greater focus on leveraging technology, specifically with customer facing opportunities. All of our funeral homes and cemeteries are connected to our support center located in Houston, Texas, which allows us to monitor and assess critical operating and financial data and analyze the performance of individual locations on a timely basis. Furthermore, our information system infrastructure provides senior management with a critical tool for monitoring and adhering to our established internal controls, which is critical given our decentralized model and the sensitive nature of our business operations.

Proven Leadership Team. Our leadership team, headed by our founder, Chairman and Chief Executive Officer, Melvin C. Payne, is characterized by a dynamic culture that focuses on addressing changing market conditions and emerging trends in the funeral services industry. We believe our culture of emphasizing the 4E (Energy, Energize Others, Edge and Execution) leadership characteristics is critical and will provide an important advantage as the funeral and cemetery industry evolves. We are committed to continue operating an efficient organization and strengthening our corporate and local business leadership.

Preneed Programs

Funeral and cemetery arrangements sold prior to death occurring are referred to as preneed contracts. We market funeral and cemetery services and products on a preneed basis at the local level. We operate under a decentralized preneed sales strategy whereby each business location customizes its preneed program to its local needs.

Preneed funeral or cemetery contracts enable families to establish, in advance, the type of service to be performed, the products to be used and the cost of such products and services. Preneed contracts permit families to eliminate the burden of making deathcare plans at the time of need and allow input from other family members before the death occurs. We guarantee the price and performance of the preneed contracts to the customer.

Approximately 15% of our funeral services performed are funded through preneed contracts, which are usually secured by placing the funds collected in trust for the benefit of the customer or by the purchase of a life insurance policy, the proceeds of which will pay for such services at the time of need. Insurance-funded contracts allow us to earn commission income to improve our near-term cash flow and offset a significant amount of the up-front costs associated with preneed sales. Trust funded contracts typically provide cash that is invested in various securities with the expectation that returns will exceed the growth factor in the insurance contracts. The cash flow and earnings from insurance contracts are more stable, but are generally lower than traditional trust fund investments. In markets that depend on preneed sales for market share, we supplement the arrangements written by our local funeral directors with sales sourced by our own sales counselors and by third party sellers. We sold 7,525 and 9,563 preneed funeral contracts, net of cancellations, during the years ended December 31, 2020 and 2021, respectively. At December 31, 2021, we had a backlog of 97,203 preneed funeral contracts to be delivered in the future.

In addition to preneed funeral contracts, we also offer "pre-planned" funeral arrangements whereby a customer determines in advance substantially all of the details of a funeral service without any financial commitment or other obligation on the part of the client until the actual time of need. Pre-planned funeral arrangements permit a family to avoid the burden of making deathcare plans at the time of need and enable a funeral home to establish relationships with a client that may eventually lead to an atneed sale.

Approximately 50% of our cemetery operating revenue is derived from preneed property sales. Our preneed cemetery strategy is to build family heritage in our cemeteries by selling property and interment rights prior to death through full time, highly motivated and entrepreneurial local sales teams. Our goal is to build broader and deeper teams of sales leaders and counselors in our larger and more strategically located cemeteries, including the development of standardized sales systems across our portfolio of cemeteries, in order to focus on growth of our preneed property sales. For example, during 2021, we

continued to grow our cemetery sales and marketing team to develop and implement our standardized sales system. Cemetery merchandise and services are often purchased in addition to cemetery property at the time of sale. The performance of these preneed cemetery contracts is secured by placing the funds collected in trust for the benefit of the customer, the proceeds of which will pay for such services at the time of need. General consumer confidence and discretionary income may have a significant impact on our preneed sales success rate. Cemetery revenue that originated from preneed contracts represented approximately 67% of our total cemetery revenue for both 2020 and 2021. At December 31, 2021, we had a backlog of 65,694 preneed cemetery contracts to be delivered in the future.

Trust Funds and Insurance Contracts

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. These trusts are typically administered by independent financial institutions that we select. Investment management and advisory services are provided either by our wholly-owned registered investment advisory firm (“CSV RIA”) or by independent financial advisors. As of December 31, 2021, CSV RIA provided these 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. The investment advisors establish an investment policy that provides guidance on asset allocation, investment requirements, investment manager selection and performance monitoring. The investment objectives are tailored to generate long-term investment returns without assuming undue risk, while ensuring the management of assets complies with applicable laws.

Preneed sales generally require deposits to a trust or purchase of a third-party insurance product. Trust fund income earned, along with the receipt and recognition of any insurance benefits, are not reflected in our revenue until the service is performed or the merchandise is delivered. Trust fund holdings and deferred revenue are reflected on our Consolidated Balance Sheet, while our insurance funded contracts are not reflected on our Consolidated Balance Sheet. In most states, we are not permitted to withdraw principal or investment income from such trusts until the service is performed. Additionally, in most states, regulations require a portion (generally 10%) of the sale amount of cemetery property and memorials to be placed in a perpetual care trust. The income from these perpetual care trusts provides funds necessary to maintain cemetery property and memorials in perpetuity.

For additional information with respect to our trusts, see Part II, Item 8, Financial Statements and Supplementary Data, Note 7.

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.

Important elements of our Standards Operating Model include:

- *Balanced Operating Model* – We believe a decentralized structure works best in the funeral and cemetery industry. Successful execution of our Standards Operating Model is highly dependent on strong local leadership, intelligent risk taking, entrepreneurial drive and corporate support aligned with the key drivers of a successful operation organized around three primary areas - market share, high-value services and operating financial metrics.
- *Incentives Aligned with Standards* – Empowering local managers, who we call Managing Partners, to do the right things in their operations and local communities, and providing appropriate support with operating and financial practices, will enable long-term growth and sustainable profitability. Each Managing Partner participates in a variable bonus plan whereby he or she earns a percentage of his or her respective business' earnings based upon the actual standards achieved as long as the performance exceeds our minimum standards.
- *The Right Local Leadership* – Successful execution of our operating model is highly dependent on strong local leadership as defined by our 4E Leadership Model, intelligent risk taking and entrepreneurial empowerment. A Managing Partner's performance is judged according to achievement of the standards for that business.

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 *Energize* 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 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 ranking 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 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.

COMPETITION

The operating environment in the funeral and cemetery industry has been highly competitive. The largest publicly held operators, in terms of revenue, of both funeral homes and cemeteries with operations in the United States are Service Corporation International (“SCI”), StoneMor, Inc. (“StoneMor”), Park Lawn Corporation (“Park Lawn”) and Carriage. We believe these four companies collectively represent approximately 25% of funeral and cemetery revenue in the United States. Independent businesses, along with a few privately-owned consolidators, represent the remaining amount of industry revenue, accounting for an estimated 75% share of revenue.

Our funeral home and cemetery operations face competition in the markets that they serve. Our primary competition in most of our markets is from local independent operators. We have observed new start-up competition in certain areas of the country, which may impact our profitability in certain markets. Market share for funeral homes and cemeteries is largely a function of reputation and heritage, although competitive pricing, professional service and attractive, well-maintained and conveniently located facilities are also important. Because of the importance of reputation and heritage, market share increases are usually gained over a long period of time. The sale of preneed funeral services and cemetery property has increasingly been used by many companies as a marketing tool to build market share.

There has been increasing competition from providers specializing in specific services, such as cremations, who offer minimal service and low-end pricing. We also face competition from companies that market products and related merchandise over the internet and non-traditional casket stores in certain markets. These competitors have been successful in capturing a portion of the low-end market and product sales.

SEASONALITY

Our business can be affected by seasonal fluctuations in the death rate and may be further affected by epidemics and pandemics, like COVID-19. Generally, the number of deaths 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. However, we have experienced fluctuations in the death rate due to COVID-19, although the duration of these impacts on the death rate remain uncertain at this time because the ultimate impact of COVID-19 remains uncertain.

REGULATION

General. Our operations are subject to regulations, supervision and licensing under numerous federal, state and local laws, ordinances and regulations, including extensive regulations concerning trust funds, preneed sales of funeral and cemetery products and services and various other aspects of our business. We believe that we comply in all material respects with the provisions of these laws, ordinances and regulations. Legislative bodies and regulatory agencies frequently propose new laws and regulations, some of which could have a material impact on our business. We cannot predict the impact of any future laws and regulations or changes to existing laws and regulations.

Federal Trade Commission. Our funeral home operations are comprehensively regulated by the Federal Trade Commission (“FTC”) under Section 5 of the Federal Trade Commission Act and a trade regulation rule for the funeral industry promulgated thereunder referred to as the “Funeral Rule.” The Funeral Rule defines certain acts or practices as unfair or deceptive and contains certain requirements to prevent these acts or practices. The preventive measures require a funeral provider to give consumers accurate, itemized pricing information and various other disclosures about funeral goods and services and prohibit a funeral provider from: (i) misrepresenting legal, crematory and cemetery requirements; (ii) embalming for a fee without permission; (iii) requiring the purchase of a casket for direct cremation; (iv) requiring consumers to buy certain funeral goods or services as condition for furnishing other funeral goods or services; (v) misrepresenting state and local requirements for an outer burial container; and (vi) representing that funeral goods and services have preservative and protective value. Additionally, the Funeral Rule requires the disclosure of mark-ups, commissions, additional charges and rebates related to cash advance items. On February 4, 2020, the FTC has announced that it is reviewing the Funeral Rule, which may result in changes to the Funeral Rule. Among the subjects under review by the FTC is whether the scope of the Funeral Rule should be expanded to cover cemetery sales and merchandise and mandated disclosure of online pricing. We cannot predict what changes, if any, may be made to the Funeral Rule or the impact of any such changes on our business.

State Trust Laws. 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. These trusts are typically administered by independent financial institutions which we select. Under state trust laws, our wholly owned registered investment advisor is 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. Preneed funeral sales generally require deposits to a trust or purchase of a third-party insurance product. In most states, we are not permitted to withdraw principal or investment income from such trusts until the funeral service is performed. Some states, however, allow for the retention of a percentage (generally 10%) of the receipts to offset any

administrative and selling expenses. Additionally, we are generally required under applicable state laws to deposit a specified amount (which varies from state to state, generally 50% to 100% of the selling price) into a merchandise and service trust fund for preneed cemetery merchandise and services sales.

Environmental. Our operations are also subject to certain federal, regional, state and local laws and regulations relating to environmental protection, including legal requirements governing air emissions, waste management and disposal and wastewater discharges. For instance, the federal Clean Air Act and analogous state laws, which restrict the emission of pollutants from many sources, including crematories, may require us to apply for and obtain air emissions permits, install costly emissions control equipment, and conduct monitoring and reporting tasks. Also, in the course of our operations, we store and use chemicals and other regulated substances as well as generate wastes that may subject us to strict liability under the federal Resource Conservation and Recovery Act and comparable state laws, which govern the treatment, storage, and disposal of nonhazardous and hazardous wastes, and the federal Comprehensive Environmental Response, Compensation and Liability Act, a remedial statute that imposes cleanup obligations on current and past owners or operators of facilities where hazardous substance releases occurred and anyone who transported or disposed or arranged for the transportation or disposal of hazardous substances released into the environment from such sites. In addition, the Federal Water Pollution Control Act, also known as the federal Clean Water Act, and analogous state laws regulate discharges of pollutants to state and federal waters. Underground and above ground storage tanks that store chemicals and fuels for vehicle maintenance or general operations are located at certain of our facilities and any spills or releases from those facilities may cause us to incur remedial liabilities under the Clean Water Act or analogous state laws as well as potential liabilities for damages to properties or persons. Failure to comply with environmental laws and regulations could result in the assessment of sanctions, including administrative, civil, and criminal penalties, the imposition of investigatory, remedial and corrective action obligations, delays in permitting or performance of projects and the issuance of injunctions restricting or prohibiting some or all of our activities in affected areas. Moreover, accidental releases or spills may occur in the course of our operations, and we cannot assure that we will not incur significant costs and liabilities as a result of such releases or spills, including any third party claims for damages to property, natural resources or persons. Also, it is possible that implementation of stricter environmental laws and regulations or more stringent enforcement of existing environmental requirements could result in additional, currently unidentifiable costs or liabilities to us, such as requirements to purchase pollution control equipment or implement operational changes or improvements. While we believe we are in compliance with existing environmental laws and regulations, we cannot assure that we will not incur substantial costs in the future.

Worker Health and Safety. We are subject to the requirements of the federal Occupational Safety and Health Act, as amended (“OSHA”), and comparable state statutes whose purpose is to protect the health and safety of workers. In addition, the OSHA hazard communication standard, the Emergency Planning and Community Right to Know Act and implementing regulations and similar state statutes and regulations require that we organize and/or disclose information about hazardous materials used or produced in our operations and that this information be provided to employees, state and local governmental authorities and citizens. We believe that we are in compliance with all applicable laws and regulations relating to worker health and safety.

HUMAN CAPITAL

Our funeral homes and cemeteries are managed by entrepreneurially focused Managing Partners with extensive funeral and cemetery industry experience. They have responsibility for day-to-day operations and follow operating and financial metrics called “Standards” within our Standards Operating Model. Standards Achievement is the measure by which we judge the Managing Partner's performance and how we incentivize our Managing Partners and their teams. To achieve a high level within our Standards in a business year after year, we require 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. See Part I, Item 1, Business Strategy for additional details about our Standards Operating Model and 4E Leadership Model. Additionally, we utilize short-term and long-term incentive performance programs to attract and retain talent in critical positions, ranging from sales counselors and sales managers to Houston support center leaders and employees.

As of December 31, 2021, we and our subsidiaries employed 2,657 employees, of whom 1,139 were full-time and 1,518 were part-time. All of our funeral directors and embalmers possess licenses required by applicable regulatory agencies. None of our employees are represented by unions.

AVAILABLE INFORMATION

We file annual, quarterly and other reports, and any amendments to those reports, and information with the United States Securities and Exchange Commission (“SEC”). The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

Our website address is www.carriageservices.com. Available on our website under “Investors – SEC Filings,” free of charge, are Carriage’s annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, current reports on

Form 8-K, insider reports on Forms 3, 4 and 5 filed on behalf of directors and officers and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC.

Also posted on our website, and available in print upon request, are charters for our Audit Committee, Compensation Committee and Corporate Governance Committee. Copies of the Code of Business Conduct and Ethics and the Corporate Governance Guidelines are also posted on our website under “Investors – Corporate Governance.” Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any modifications to the charters and any waivers applicable to senior officers as defined in the applicable charters, as required by the Sarbanes-Oxley Act of 2002. Information contained on our website is not part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

RISKS RELATED TO OUR BUSINESS

Key Employees and Compensation

The success of our businesses is typically dependent upon one or a few key employees for success because of the localized and personal nature of our business.

Funeral home and cemetery businesses have built local heritage and tradition through successive generations, providing a foundation for ongoing business opportunities from established client family relationships and related referrals. We believe these relationships build trust in the community and are a key driver to market share. Our businesses, which tend to serve small local markets, usually have one or a few key employees that drive our relationships. Our ability to attract and retain Managing Partners, sales force and other personnel is an important factor in achieving future success. We can give no assurance that we can retain these employees or that these relationships will drive market share. Our inability to attract and maintain qualified and productive Managing Partners and sales force could have a material adverse effect on our financial condition, results of operations and cash flows.

Our “Good To Great” incentive program could result in significant future payments to our Managing Partners.

Our Good To Great incentive program rewards our Managing Partners for achieving an average net revenue compounded annual growth rate equal to at least 1% (the “Minimum Growth Rate”) over a five year performance period (the “Performance Period”) with respect to our funeral homes that they operate, which aligns our incentives with long-term value creation. Each Managing Partner that achieves the Minimum Growth Rate during the applicable Performance Period and remains continuously employed as a Managing Partner of the same business throughout the Performance Period will receive a one-time bonus, payable in a combination of cash and shares of our common stock, determined at our discretion. We believe this incentive program will result in improved field-level margins, market share and overall financial performance.

Our “Good To Great II” incentive program could result in the issuance of a significant number of shares of common stock to certain critical employees.

Our Good To Great II incentive program rewards certain employees who are not Managing Partners in alignment with the incentive programs for our Managing Partners. Specifically, the Good To Great II incentive program is tied to the future performance of the Company and requires the Company’s share price to reach one of five predetermined Common Stock Price Averages (as defined by the program) through a performance period ending December 31, 2024 in order for the award to be earned by the participants of the program. While the program aligns our incentives with long-term value creation, there is a potential risk of dilution to our shareholders if we achieve the highest performance tier under the Good To Great II incentive program, which equals a Common Stock Price Average (as defined by the program) of \$77.34 per share. At December 31, 2021, under such a scenario, a total of 1,052,532 shares of common stock would be awarded to participants under the program. We believe this incentive program will result in improved overall financial performance.

Strategic Business Execution and Performance

Improved performance in our funeral and cemetery segments is dependent upon successful execution of our Standards Operating Model.

We have implemented our Standards Operating Model to improve and better measure performance in our funeral and cemetery operations. We developed standards according to criteria, each with a different weighting, designed around market share, high-value services and operational and financial metrics. We also incentivize our location Managing Partners by giving them the opportunity to earn a fixed percentage of the field-level earnings before interest, taxes, depreciation and amortization based upon the number and weighting of the standards achieved. Our expectation is that, over time, the Standards Operating Model will result in improving field-level margins, market share, customer satisfaction and overall financial performance, but

there is no assurance that these goals will be met. Failure to successfully implement our Standards Operating Model in our funeral and cemetery operations could have a material adverse effect on our financial condition, results of operations and cash flows.

Our ability to execute our growth strategy is highly dependent upon our ability to successfully identify suitable acquisition candidates and negotiate transactions on favorable terms.

There is no assurance that we will be able to continue to identify acquisition candidates that meet our criteria or that we will be able to reach terms with identified candidates for transactions that are acceptable to us, and even if we do, we may not be able to successfully complete the transaction or integrate the new business into our existing business. We intend to apply standards established under our Strategic Acquisition Model to evaluate acquisition candidates, and there is no assurance that we will continue to be successful in doing so or that we will find attractive candidates that satisfy these standards. Due in part to the presence of competitors who have been in certain markets longer than we have, such acquisitions or investments may be more difficult or expensive than we anticipate.

Divestitures could negatively impact our business and retained liabilities from businesses that we sell could adversely affect our financial results.

As part of our growth strategy, we periodically review our businesses which may no longer be aligned with our strategic business plan and long-term objectives and, as a result of these reviews of our businesses we may pursue additional divestitures. From time to time, we engage in discussions with third parties about potential divestitures of one or more of our businesses that, if fully consummated, could result in the divestiture of a material amount of assets and contribution to our results of operations that have historically contributed to our results of operations. Divestitures pose risks and challenges that could negatively impact our business, including disputes with buyers or potential impairment charges. For example, when we decide to sell a business, we may be unable to do so on our terms and within our anticipated time-frame, and even after reaching a definitive agreement to sell a business, the sale may be subject to satisfaction of pre-closing conditions, which may not be satisfied, as well as regulatory and governmental approvals, which may prevent us from completing a transaction on acceptable terms. If we do not realize the expected benefits of any divestiture transaction, our financial condition, results of operations, and cash flows could be materially adversely affected. For more information related to our divestitures, see Part II, Item 8, Financial Statements and Supplementary Data, Note 5.

Competitive Marketplace

The funeral and cemetery industry is competitive.

The funeral and cemetery industry is characterized by a large number of locally-owned, independent operations in the United States and a large number of operations owned by publicly and privately-held funeral home and cemetery consolidators. To compete successfully, our funeral service locations and cemeteries must maintain good reputations and high professional standards, as well as offer attractive products and services at competitive prices. In addition, we must market ourselves in such a manner as to distinguish us from our competitors. We have historically experienced price competition from independent and publicly held funeral service and cemetery operators, monument dealers, casket retailers, low-cost providers, and other nontraditional providers of merchandise and services. If we are unable to successfully compete, our financial condition, results of operations, and cash flows could be materially adversely affected.

Marketing and sales activities by existing and new competitors could cause us to lose market share and lead to lower revenue and margins.

We face competition in all of our markets. Most of our competitors are independently owned, and some are relatively recent market entrants. Some of the recent entrants are individuals who were formerly employed by us or by our competitors and have relationships and name recognition within our markets. As a group, independent competitors tend to be aggressive in distinguishing themselves by their independent ownership, and they promote their independence through television, radio and print advertising, direct mailings and personal contact. Increasing pressures from new market entrants and continued advertising and marketing by competitors in local markets could cause us to lose market share and revenue. The types of services and the prices offered for such services by our competitors may attract customers, causing us to lose market share and revenue as well as to incur costs in response to competition to vary the types or mix of products or services offered by us.

Price competition could also reduce our market share or cause us to reduce prices to retain or recapture market share, either of which could reduce revenue and margins.

We have historically experienced price competition primarily from independent funeral home and cemetery operators, and from monument dealers, casket retailers, low-cost providers and other non-traditional providers of services or products. New market entrants tend to attempt to build market share by offering lower cost alternatives. In the past, this price competition has resulted in our losing market share in some markets. In other markets, we have had to reduce prices or offer discounts thereby

reducing profit margins in order to retain or recapture market share. Increased price competition in the future could further reduce revenue, profits and our preneed backlog.

Change in Preneed Sales

Our ability to generate preneed sales depends on a number of factors, including sales incentives and local and general economic conditions.

Significant declines in preneed sales would reduce our backlog and revenue and could reduce our future market share. On the other hand, a significant increase in preneed sales can have a negative impact on cash flow as a result of commissions and other costs incurred initially without corresponding revenue.

As we have localized our preneed sales strategies, we are continuing to refine the mix of service and product offerings in both our funeral and cemetery segments, including changes in our sales commission and incentive structure. These changes could cause us to experience declines in preneed sales in the near term. In addition, economic conditions at the local or national level could cause declines in preneed sales either as a result of less discretionary income or lower consumer confidence. Declines in preneed cemetery property sales reduces current revenue, and declines in other preneed sales would reduce our backlog and future revenue and could reduce future market share.

Increased preneed sales could have a negative impact on our cash flows.

Preneed sales of funeral and cemetery products and services generally have an initial negative impact on our cash flows, as we are required in certain states to deposit a portion of the sales proceeds into trusts or escrow accounts and often incur other expenses at the time of sale. Furthermore, many preneed purchases are paid for in installments over a period of several years, further limiting our cash flows at the time of sale. Because preneed sales generally provide positive cash flows over the long term, we market the sale of such contracts at the local level. If our efforts to increase such sales are successful, however, our current cash flows could be materially and adversely affected, in the near term.

Trust Fund and Life Insurance Contracts

Our funeral and cemetery trust funds own investments in equity securities, fixed income securities, and mutual funds, which are affected by market conditions that are beyond our control.

In connection with our backlog of preneed funeral and preneed cemetery merchandise and service contracts, funeral and cemetery trust funds own investments in equity securities, fixed income securities and mutual funds. Our returns on these investments are affected by financial market conditions that are beyond our control.

The following table summarizes our investment returns (realized and unrealized), excluding certain fees, on our trust funds for the years ended December 31, 2019, 2020 and 2021:

	2019	2020	2021
Preneed funeral trust funds	21.2 %	13.5 %	16.0 %
Preneed cemetery trust funds	26.0 %	15.5 %	19.3 %
Perpetual care trust funds	25.2 %	16.8 %	19.1 %

Generally, earnings or gains and losses on our preneed funeral and cemetery trust investments are recognized, and we withdraw cash, when the underlying service is performed, merchandise is delivered, or upon contract cancellation. Our cemetery perpetual care trusts recognize earnings, and in certain states, capital gains and losses, and we withdraw cash when we incur qualifying cemetery maintenance costs. If the investments in our trust funds experience significant, recurring and sustained declines in subsequent years, there could be insufficient funds in the trusts to cover the costs of delivering services and merchandise or maintaining cemeteries in the future. We may be required to cover any such shortfall with cash flows from operations or other sources of cash, which could have a material adverse effect on our financial condition, results of operations or cash flows. For more information related to our trust investments, see Part II, Item 8, Financial Statements and Supplementary Data, Note 7.

If the fair market value of these trusts, plus any other amount due to us upon delivery of the associated contracts, were to decline below the estimated costs to deliver the underlying products and services at maturity, we would record a charge to earnings for the expected losses on the delivery of the associated contracts. For additional information, see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Policies and Estimates.

Earnings from and principal of trust funds could be reduced by changes in financial markets and the mix of securities owned.

Earnings and investment gains and losses on trust funds are affected by financial market conditions and the specific fixed-income and equity securities that we choose to maintain in the funds. We may not choose the optimal mix for any particular market condition. Declines in earnings from perpetual care trust funds would cause a decline in current revenue, while declines in earnings from other trust funds could cause a decline in future cash flows and revenue.

We may be required to replenish our funeral and cemetery trust funds in order to meet minimum funding requirements, which would have a negative effect on our earnings and cash flow.

Some states have laws that either require replenishment of investment losses under certain circumstances or impose various restrictions on withdrawals of future earnings when trust fund values drop below certain prescribed amounts. In the event of realized losses or market declines, we may be required to deposit portions or all of these amounts into the respective trusts in some future period.

Increasing death benefits related to preneed funeral contracts funded through life insurance contracts may not cover future increases in the cost of providing a price-guaranteed funeral service.

We sell price-guaranteed preneed funeral contracts through various programs providing for future funeral services at prices prevailing when the agreements are signed. For preneed funeral contracts funded through life insurance contracts, we receive in cash a general agency commission from the third-party insurance company. Additionally, there is an increasing death benefit associated with the contract that may vary over the contract life. There is no guarantee that the increasing death benefit will cover future increases in the cost of providing a price-guaranteed funeral service, and any such excess cost could be materially adverse to our future cash flows, revenue, and operating margins.

The financial condition of third-party insurance companies that fund our preneed funeral contracts may impact our future revenue.

Where permitted by state law, our customers may arrange their preneed funeral contract by purchasing a life insurance policy from third-party insurance companies. The customer/policy holder assigns the policy benefits to our funeral home to pay for the preneed funeral contract at the time of need. If the financial condition of the third-party insurance companies were to deteriorate materially because of market conditions or otherwise, there could be an adverse effect on our ability to collect all or part of the proceeds of the life insurance policy, including the annual increase in the death benefit, when we fulfill the preneed contract at the time of need. Failure to collect such proceeds could have a material adverse effect on our financial condition, results of operations, or cash flows.

Tax Changes

Changes in taxation as well as the inherent difficulty in quantifying potential tax effects of business decisions could have a material adverse effect on the results of our operations, financial condition, or cash flows.

We make judgments regarding the utilization of existing income tax credits and the potential tax effects of various financial transactions and results of operations to estimate our obligations to taxing authorities. Tax obligations include income, franchise, real estate, sales and use, and employment-related taxes. These judgments include reserves for potential adverse outcomes regarding our tax positions. Changes in federal, state, or local tax laws, adverse tax audit results, or adverse tax rulings on positions taken could have a material adverse effect on the results of our operations, financial condition, or cash flows.

New or revised tax regulations could have a material effect on our financial statements

New tax laws or regulations could be enacted at any time, and existing tax laws or regulations could be interpreted, amended, or applied in a manner that has a material effect on us, which could materially impact our business and financial condition. For example, on March 27, 2020, the CARES Act was enacted in response to the macroeconomic environment conditions posed by COVID-19. The CARES Act is a sweeping stimulus bill intended to bolster the U.S. economy, among other things, and provide emergency assistance to qualifying businesses and individuals. Under the CARES Act, the primary areas that should be considered for future earnings and cash impact are the changes to the interest expense limitation threshold and the technical correction to the Tax Cuts and Jobs Act regarding the qualified improvement property now being eligible for full expensing. Based on available guidance, we believe that the legislative changes will have a positive impact on our earnings and cash flow. As the enacted legislation includes provisions that would expire after certain periods of time, the fact that our business has the potential to change its operating situation, and the existence of potential changes by state tax authorities related to conformity with federal tax regulations, the possibility exists that the future benefit of the legislation could change. In

addition, it is uncertain if, and to what extent, various states will conform to the CARES Act, or any new or revised federal tax legislation will be enacted.

Litigation and Claims

Unfavorable results of litigation could have a material adverse impact on our financial statements.

We are subject to a variety of claims and lawsuits in the ordinary course of our business. Adverse outcomes in potential litigation related to our business may result in significant monetary damages or injunctive relief against us, as litigation and other claims are subject to inherent uncertainties. Any such adverse outcomes that may arise in the future, could have a material adverse impact on our financial position, results of operations, and cash flows.

RISKS RELATED TO THE FUNERAL AND CEMETERY INDUSTRY

Changes in Death Rates and Consumer Preferences

Declines in the number of deaths in our markets can cause a decrease in revenue. Changes in the number of deaths are not predictable from market to market or over the short term.

Declines in the number of deaths could cause atneed sales of funeral and cemetery services, property and merchandise to decline, which could decrease revenue. Although the United States Bureau of the Census estimates that the number of deaths in the United States will increase in the future, longer life spans could reduce the rate of deaths. In addition, changes in the number of deaths can vary among local markets and from quarter to quarter, and variations in the number of deaths in our markets or from quarter to quarter are not predictable. For example, we have seen the COVID-19 pandemic affect the death rate, with a result of increased deaths. These variations may cause our revenue to fluctuate and our results of operations to lack predictability.

The increasing number of cremations in the United States could cause revenue to decline because we could lose market share to firms specializing in cremations and because our average revenue for cremations is lower than that for traditional burials.

Our traditional cemetery and funeral service operations face competition from the increasing number of cremations in the United States. Industry studies indicate that the percentage of cremations has increased every year and this trend is expected to continue into the future. The trend toward cremation could cause cemeteries and traditional funeral homes to lose market share and revenue to firms specializing in cremations. Additionally, our average revenue for cremations is lower than that for traditional burials. If we are unable to continue to expand our cremation memorialization products and services, and cremations remain or increase as a significant percentage of our services, our financial condition, results of operations, and cash flows could be materially adversely affected.

If we are not able to respond effectively to changing consumer preferences, our market share, revenue and profitability could decrease.

Future market share, revenue and profits will depend in part on our ability to anticipate, identify and respond to changing consumer preferences. In past years, we have implemented new product and service strategies based on results of customer surveys that we conduct on a continuous basis. However, we may not correctly anticipate or identify trends in consumer preferences, or we may identify them later than our competitors. In addition, any strategies we may implement to address these trends may prove incorrect or ineffective.

Because the funeral and cemetery businesses are high fixed-cost businesses, changes in revenue can have a disproportionately large effect on cash flow and profits.

Funeral home and cemetery businesses incur the costs of operating and maintaining facilities, land and equipment regardless of the level of sales in any given period. For example, we must pay salaries, utilities, property taxes and maintenance costs on funeral homes and maintain the grounds of cemeteries regardless of the number of funeral services or interments performed. Because we cannot decrease these costs significantly or rapidly when we experience declines in sales, those declines can cause margins, profits and cash flow to decrease at a greater rate than the decline in revenue.

Regulatory Changes

Changes or increases in, or failure to comply with, regulations applicable to our business could increase costs or decrease cash flows.

The funeral and cemetery industry is subject to extensive and evolving regulation and licensing requirements under federal, state and local laws. For example, the funeral industry is regulated by the FTC, which requires funeral homes to take actions designed to protect consumers. State laws impose licensing requirements and regulate preneed sales. As such, we are subject to state trust fund and preneed sales practice audits, which could result in audit adjustments as a result of non-compliance. In addition, we may assume the liability for any audit adjustments for our acquired businesses for periods under audit that were prior to our ownership of the business depending upon the obligations outlined in the agreement. These audit adjustments could have a material adverse impact on our financial condition, results of operations and cash flows.

Embalming and cremation facilities are subject to stringent environmental and health regulations. Compliance with these regulations is burdensome, and we are always at risk of not complying with the regulations or facing costly and burdensome investigations from regulatory authorities.

In addition, from time to time, governments and agencies propose to amend or add regulations, which could increase costs or decrease cash flows. Several states and regulatory agencies have considered or are considering regulations that could require more liberal refund and cancellation policies for preneed sales of products and services, limit or eliminate our ability to use surety bonding, increase trust requirements and/or prohibit the common ownership of funeral homes and cemeteries in the same market. If adopted by the regulatory authorities of the jurisdictions in which we operate, these and other possible proposals could have a material adverse effect on us, our financial condition, our results of operations and our future prospects. For additional information regarding the regulation of the funeral and cemetery industry, see Part I, Item 1, Business, Regulation.

We are subject to environmental and worker health and safety laws and regulations that may expose us to significant costs and liabilities.

Our cemetery and funeral home operations are subject to certain federal, regional, state and local laws and regulations governing worker health and safety aspects of the operations, the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations may restrict or impact our business in many ways, including requiring the acquisition of a permit before conducting regulated activities, restricting the types, quantities and concentration of substances that can be released into the environment, applying specific health and safety criteria addressing worker protection, and imposing substantial liabilities for any pollution resulting from our operations. We may be required to make significant capital and operating expenditures to comply with these laws and regulations and any failure to comply may result in the assessment of sanctions, including administrative, civil and criminal penalties, imposition of investigatory, remedial or corrective action obligations, delays in permitting or performance of projects and the issuance of injunctions restricting or prohibiting our activities. Failure to appropriately transport and dispose of generated wastes, used chemicals or other regulated substances, or any spills or other unauthorized releases of regulated substances in the course of our operations could expose us to material losses, expenditures and liabilities under applicable environmental laws and regulations, and result in neighboring landowners and other third parties filing claims for personal injury, property damage and natural resource damage allegedly caused by such non-compliant activities or spills or releases. Certain of these laws may impose strict, joint and several liabilities upon us for the remediation of contaminated property resulting from our or a predecessor owner's or operator's operations. We may not be able to recover some or any of these costs from insurance or contractual indemnifications. Moreover, changes in environmental laws, regulations and enforcement policies occur frequently, and any changes that result in more stringent or costly emissions control or waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to attain and maintain compliance and may otherwise have a material adverse effect on our results of operations, competitive position or financial condition.

RISKS RELATED TO OUR CREDIT FACILITY AND FINANCIAL ACTIVITIES

Credit Facility and Debt Obligations

Covenant restrictions in our debt instruments may limit our flexibility to operate and grow our business, and if we are not able to comply with such covenants, our lenders could accelerate our indebtedness, proceed against certain collateral or exercise other remedies, which could have a material adverse effect on us.

The covenants in our Credit Facility and the Indenture governing our Senior Notes contain a number of provisions that impose operating and financial restrictions which, subject to certain exceptions, limit our ability and the ability of our subsidiaries to, among other things: incur additional indebtedness (including guarantees); pay dividends or make distributions or redeem or repurchase our common stock; make investments; grant liens on assets; make capital expenditures; enter into

transactions with affiliates; enter into sale-leaseback transactions; sell or dispose assets; and acquire the assets of, or merge or consolidate with, other companies.

We are required to comply with certain financial covenants in our Credit Facility. Complying with these financial covenants and other restrictive covenants, as well as those that may be contained in any future debt agreements, may limit our ability to finance our future operations or working capital needs or to take advantage of future business opportunities. Our ability to comply with these covenants will depend on our future performance, which may be affected by events beyond our control. Our failure to comply with any of these covenants or restrictions could result in a default under any future debt instrument, which could lead to an acceleration of the debt under that instrument and, in some cases, the acceleration of debt under other instruments that contain cross-default or cross-acceleration provisions, each of which could have a material adverse effect on us. In the case of an event of default, or in the event of a cross-default or cross-acceleration, we may not have sufficient funds available to make the required payments under our debt instruments. If we are unable to repay amounts owed under the terms of our Credit Facility, the lenders thereunder may choose to exercise their remedies in respect of the collateral, including a foreclosure of their lien which results in a sale of certain of our funeral assets to satisfy our obligations under the Credit Facility.

Pursuant to the terms of our Credit Facility, we must comply with, amongst other things, a maximum Total Leverage Ratio covenant that is measured quarterly. If we are unable to comply with the maximum Total Leverage Ratio, we will be in immediate default under the Credit Facility. For example, although 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, the expected duration of the pandemic is unknown and may have a future impact on our business that could result in our inability to comply with this Total Leverage Ratio covenant and other covenants in our Credit Facility. There can be no assurance that the lenders will agree to amend the Credit Facility in the future to adjust or eliminate this covenant or whether the lenders may agree to waive any non-compliance with this financial covenant or any other covenant in the future.

Moreover, if we do not maintain compliance with our continuing obligations or any covenants, terms and conditions of the Credit Facility, we could be in default and required to repay outstanding borrowings on an accelerated basis, which could subject us to decreased liquidity and other negative impacts on our business, results of operations and financial condition. It may be difficult for us to find an alternative lending source under these circumstances. Without access to borrowings under the Credit Facility, our liquidity would be adversely affected and we would lack sufficient working capital to operate our business as presently conducted. Any disruption in access to credit could force us to take measures to conserve cash.

Our level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our debt obligations.

Our indebtedness requires significant interest and principal payments. As of December 31, 2021, we had \$559.9 million of total debt (excluding debt issuance costs, debt discounts and lease obligations), consisting of \$4.5 million of acquisition debt (consisting of deferred purchase price and promissory notes payable to sellers of businesses we purchased), \$400.0 million of our Senior Notes and \$155.4 million of outstanding borrowings under our Credit Facility, with \$42.3 million of availability under our Credit Facility after giving effect to \$2.3 million of outstanding letters of credit.

Our and our subsidiaries' level of indebtedness could have important consequences to us, including:

- continuing to require us and certain of our subsidiaries to dedicate a substantial portion of our cash flow from operations to the payment of our indebtedness, thereby reducing the funds available for operations and any future business opportunities;
- limiting flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- placing us at a competitive disadvantage compared to our competitors that have less indebtedness;
- increasing our vulnerability to adverse general economic or industry conditions;
- making us and our subsidiaries more vulnerable to increases in interest rates, as borrowings under our Credit Facility are at variable rates; and
- limiting our ability to obtain additional financing to fund working capital, capital expenditures, acquisitions or other general corporate requirements and increasing our cost of borrowing.

Our ability to make payments on and to refinance our indebtedness will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We may not generate sufficient funds to service our debt and meet our business needs, such as funding working capital or the expansion of our operations. If we are not able to repay or refinance our debt as it becomes due, we may be forced to take certain actions, including reducing spending on day-to-day operations, reducing future financing for working capital, capital expenditures and general corporate purposes, selling assets or dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on

our indebtedness. In addition, our ability to withstand competitive pressures and to react to changes in our industry could be impaired. The lenders who hold our debt could also accelerate amounts due in the event that we default, which could potentially trigger a default or acceleration of the maturity of our other debt, including the notes.

Additionally, our leverage could put us at a competitive disadvantage compared to our competitors that are less leveraged. These competitors could have greater financial flexibility to pursue strategic acquisitions and secure additional financing for their operations. Our leverage could also impede our ability to withstand downturns in our industry or the economy in general.

Despite our current levels of indebtedness, we may still incur additional indebtedness. This could further exacerbate the risks associated with our indebtedness.

We may incur additional indebtedness in the future. The terms of our Credit Facility and the Indenture governing our Senior Notes will limit, but not prohibit, us from incurring additional indebtedness. Additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also do not prevent us or our subsidiaries from incurring obligations, such as trade payables, that do not constitute indebtedness as defined under our debt agreements. To the extent new debt is added to our current debt levels, the leverage risks associated with our indebtedness would increase.

GENERAL RISKS

Economic Conditions and Natural Disasters

Unfavorable economic conditions, including those resulting from health and safety concerns, could adversely affect our business, financial condition or results of operations.

Our business and operational results could be adversely affected by general conditions in the U.S. economy, including conditions that are outside of our control, such as the impact of health and safety concerns from the COVID-19 pandemic. The initial U.S. and global economic and financial conditions related to COVID-19 resulted in extreme volatility and disruptions in the capital and credit markets. A severe or prolonged economic downturn, and the related adverse economic and health consequences could result in a variety of risks to our business, financial condition or results from operations, including weakened demand from our client families, decreased preneed sales, increased preneed installment contract defaults, increased cremation rates, reduced access to capital and credit markets or delays in obtaining client family payments. A weak or declining economy could also strain our supply partners. Additionally, our business relies heavily on our employees, including key employees due to the localized and personal nature of our business, and adverse events such as health-related concerns, the inability to travel and other matters affecting the general work environment could harm our business. In the event of a major disruption caused by the outbreak of pandemic diseases such as COVID-19, we may lose the services of a number of our key employees or experience system interruptions, which could lead to impacts to our regular business operations, inefficiencies and reputational harm. Due to the uncertainty around the ultimate impact of COVID-19 to our business and operations, the impact on our business and operational results cannot be reasonably estimated at this time. Any of the foregoing could harm our business and we cannot anticipate all the ways in which the current COVID-19 pandemic and financial market conditions could adversely impact our business.

Economic, financial and stock market fluctuations could affect future potential earnings and cash flows and could result in future goodwill, intangible assets and long-lived asset impairments.

In addition to an annual review, we assess the impairment of goodwill, intangible assets and other long-lived assets whenever events or changes in circumstances indicate that the carrying value may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, a significant decline in the market value of our stock or debt values, significant under-performance relative to historical or projected future operating results, and significant negative industry or economic trends. If these factors occur, we may have a triggering event, which could result in an impairment of our goodwill, intangible assets and other long-lived assets.

Based on the results of our annual goodwill and intangible assets impairment test we performed as of August 31, 2021 and our annual review of long-lived assets and leases at December 31, 2021, we concluded that there were no impairments of our goodwill, intangible assets or other long-lived assets and leases.

During 2020, as a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our goodwill and we recorded an impairment to goodwill of \$13.6 million, as the carrying amount of our funeral homes in the Eastern Region Reporting Unit exceeded the fair value. We also performed a quantitative assessment of our tradenames and we recorded an impairment for certain of our tradenames of \$1.1 million, as the carrying amount of these tradenames exceeded the fair value. In connection with the goodwill impairment recorded for the Eastern Region Reporting Unit, we also evaluated the long-lived assets and leases of our funeral homes in the Eastern Region Reporting Unit and concluded that there was no impairment to our long-lived assets and leases.

For our 2020 annual impairment test, we performed a qualitative assessment and determined that there were no factors that would indicate the need to perform additional quantitative goodwill and tradenames impairment tests. We concluded that there was no additional impairment to goodwill or tradenames.

Additionally, if current economic conditions weaken causing deterioration in our operating revenue, operating margins and cash flows, we may have a triggering event that could result in a material impairment of our goodwill, intangible assets and/or long-lived assets and leases.

Significant weather events, natural disasters, or catastrophic events could adversely affect our business, financial condition or results of operations.

Over thirty-five percent of the businesses we operate are located in California, Texas and Florida, areas where natural disasters are more prevalent. Significant weather events, natural disasters or catastrophic events in these states or other key areas where our operations are concentrated could disrupt our business through injury to our employees or client families, physical damage, closure or destruction of one or more of our locations, data centers or office facilities, or disrupt the delivery of goods or services by one or more of our vendors, any or all of which could adversely impact our operations or increase our costs, which would adversely affect our financial results.

Information Technology and Internal Controls

We rely significantly on information technology and any failure, inadequacy, interruption or security lapse of that technology, including any cybersecurity incidents could harm our ability to operate our business effectively.

In the ordinary course of our business, we receive certain personal information, in both physical and electronic formats, about our customers, their loved ones, our employees, and our vendors. We maintain security measures and data backup systems to protect, store, and prevent unauthorized access to such information. Nevertheless, it is possible that computer hackers and others (through increasingly sophisticated cyberattacks or by other means) might circumvent our security measures in the future and obtain the personal information of customers, their loved ones, our employees or our vendors.

For example, in January 2021, we detected that our information technology system was affected by a ransomware attack. Upon learning of the incident, we undertook immediate steps to address the incident, including engaging information technology security and forensics experts and working diligently with these experts to assess the impact on our information technology systems, implement additional and enhanced security measures to help prevent a similar incident in the future, and to restore any of our information technology systems that were impacted by the incident. The restoration of any impacted systems is complete. We maintain insurance coverage for various cybersecurity risks, which covered substantially all of the costs associated with the January 2021 ransomware attack, but it is possible that such insurance coverage may not fully insure all future costs or losses associated with other cybersecurity incidents.

While we determined, based on our assessment of the information known to us, that the January 2021 ransomware incident did not have, nor do we expect it will have, a material impact on our business, operations or financial results, if we fail to protect our own information from any future breaches in data security, we could experience significant costs and expenses as well as damage to our reputation. Additionally, as the sophistication and frequency of attacks increase, our information technology security costs, including cybersecurity insurance, which are significant, may rise.

Additionally, legislation relating to cybersecurity threats could impose additional requirements on our operations. Various state governments, notably California, New York and Nevada, have enacted or enhanced data privacy regulations, and other state governments are considering establishing similar or stronger protections. These regulations impose certain obligations for securing, and potentially removing, specified personal information in our systems, and for apprising individuals of the information we have collected about them. We have incurred costs in an effort to comply with these data privacy risks and requirements, and our costs may increase significantly as risks become increasingly complex or if new or changing requirements are enacted, and based on how individuals exercise their rights. For example, in November 2020, California voters approved Proposition 24 (Consumer Personal Information Law and Agency Initiative), which will increase data privacy requirements for our business when its provisions take effect in 2023. Despite our efforts, any noncompliance could result in our incurring substantial penalties and reputational damage.

Our ability to manage and maintain our internal reports effectively and integration of new business acquisitions depends significantly on our enterprise resource planning system and other information systems. Some of our information technology systems may experience interruptions, delays or cessations of service or produce errors in connection with ongoing systems implementation work. The failure of our systems to operate effectively or to integrate with other systems, or a breach in security or other unauthorized access of these systems, may also result in reduced efficiency of our operations and could require significant capital investments to remediate any such failure, problem or breach and to comply with applicable regulations, all of which could adversely affect our business, financial condition and results of operations.

Failure to maintain effective internal control over financial reporting could adversely affect our results of operations, investor confidence, and our stock price.

The accuracy of our financial reporting depends on the effectiveness of our internal control over financial reporting. Internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements and may not prevent or detect misstatements because of its inherent limitations. If we do not maintain effective internal control over financial reporting or implement controls sufficient to provide reasonable assurance with respect to the preparation and fair presentation of our financial statements, we could be unable to file accurate financial reports on a timely basis, and our results of operations, investor confidence, and stock price could be materially adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

At December 31, 2021, we operated 170 funeral homes in 26 states and 31 cemeteries in 11 states. We own the real estate and buildings for 149 of our funeral homes and lease 21 facilities. We own 30 cemeteries and operate one cemetery under a long-term contract with a municipality, which we refer to as a managed property. We operate 18 funeral homes in combination with cemeteries as these locations are physically located on the same property or in very close proximity and are under the same leadership.

The 31 cemeteries that we operate have developed cemetery property of approximately 155,000 and 147,000 units available-for-sale at December 31, 2020 and 2021, respectively. In addition, we own approximately 500 acres that are available for future development or sale. We anticipate having a sufficient inventory of lots to maintain our property sales for the foreseeable future.

The following table sets forth certain information as of December 31, 2021, regarding our properties used by the funeral home segment and by the cemetery segment identified by state:

State	Number of Funeral Homes		Number of Cemeteries	
	Owned	Leased ⁽¹⁾	Owned	Managed
California	21	5	5	—
Connecticut	7	2	—	—
Florida	9	5	5	—
Georgia	3	—	—	—
Idaho	4	1	3	—
Illinois	2	—	1	—
Kansas	2	—	—	—
Kentucky	7	1	—	—
Louisiana	3	1	1	—
Massachusetts	11	—	—	—
Michigan	2	—	—	—
Montana	2	1	1	—
Nevada	2	—	2	1
New Jersey	2	1	—	—
New Mexico	1	—	—	—
New York	10	1	—	—
North Carolina	7	1	1	—
Ohio	5	—	—	—
Oklahoma	5	—	2	—
Pennsylvania	2	—	—	—
Rhode Island	4	—	—	—
Tennessee	4	—	—	—
Texas	23	1	8	—
Virginia	8	1	1	—
Washington	2	—	—	—
Wisconsin	1	—	—	—
Total	149	21	30	1

(1) The leases, with respect to these funeral homes, generally have remaining terms ranging from one to twenty years, and generally, we have the right to renew past the initial terms and have a right of first refusal on any proposed sale of the property where these funeral homes are located.

Our support center occupies approximately 48,000 square feet of leased office space in Houston, Texas. At December 31, 2021, we owned and operated 427 vehicles.

The following table sets forth the number of funeral homes and cemeteries owned and operated by us for the periods presented:

	Years Ended December 31,		
	2019	2020	2021
Funeral homes at beginning of period	182	186	178
Acquisitions	9	1	—
Divestitures	(4)	(8)	(2)
Mergers of funeral homes	(1)	(1)	(6)
Funeral homes at end of period	<u>186</u>	<u>178</u>	<u>170</u>
Cemeteries at beginning of period	29	31	32
Acquisitions	2	1	—
Divestitures	—	—	(1)
Cemeteries at end of period	<u>31</u>	<u>32</u>	<u>31</u>

ITEM 3. LEGAL PROCEEDINGS.

For more information regarding legal proceedings see Part II, Item 8, Financial Statements and Supplementary Data, Notes 16 and 24.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.****MARKET INFORMATION**

Our common stock is traded on the New York Stock Exchange under the symbol "CSV." At February 25, 2022, there were 15,326,738 shares of our common stock outstanding. The shares of common stock outstanding are held by approximately 330 stockholders of record. Each share is entitled to one vote on matters requiring the vote of stockholders. We believe there are approximately 8,700 beneficial owners of our common stock.

RECENT SALES OF UNREGISTERED SECURITIES

During the year ended December 31, 2021, we did not have any sales of securities in transactions that were not registered under the Securities Act of 1933 (as amended, the "Securities Act") that have not been reported in a Form 8-K or Form 10-Q.

DIVIDENDS

While we intend to pay regular quarterly cash dividends for the foreseeable future, covenant restrictions under our Credit Facility and the Indenture governing our Senior Notes may limit our ability to pay dividends in the future.

EQUITY PLANS

For information regarding securities authorized for issuance under our equity compensation plans, see Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER

Subject to market conditions, normal trading restrictions and satisfying certain financial covenants in our Credit Facility, and in the Indenture governing our Senior Notes, we may make purchases in the open market or through privately negotiated transactions under our Board authorized share repurchase program, in accordance with Rule 10b-18 of the Securities Exchange Act.

On May 18, 2021, July 26, 2021 and October 27, 2021, our Board increased our share repurchase authorization by an additional \$25.0 million, \$25.0 million and \$75.0 million, respectively, that including amounts previously authorized and outstanding, totaled up to \$190.0 million in share repurchase authorizations.

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

	Years Ended December 31,		
	2019	2020	2021
Number of Shares Repurchased ⁽¹⁾	400,000	—	2,906,983
Average Price Paid Per Share	\$ 19.39	\$ —	\$ 49.01
Dollar Value of Shares Repurchased ⁽¹⁾	\$ 7,756	\$ —	\$ 142,469

⁽¹⁾ These amounts may differ from the repurchases of common stock amounts in the consolidated statements of cash flows due to unsettled share repurchases at the end of a period. In December 2021, we repurchased 37,408 shares for \$2.4 million, the settlement of which occurred in January 2022.

Our shares were purchased in the open market at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury stock. At December 31, 2021, we had \$8.1 million remaining available for repurchase under our authorized program.

The following table sets forth certain information with respect to repurchases of our common stock during the quarter ended December 31, 2021:

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⁾
October 1, 2021 - October 31, 2021	—	\$ —	—	\$ 85,061,552
November 1, 2021 - November 30, 2021	—	\$ —	531,417	\$ 57,594,459
December 1, 2021 - December 31, 2021	—	\$ —	847,369	\$ 8,132,056
Total for quarter ended December 31, 2021	—		1,378,786	

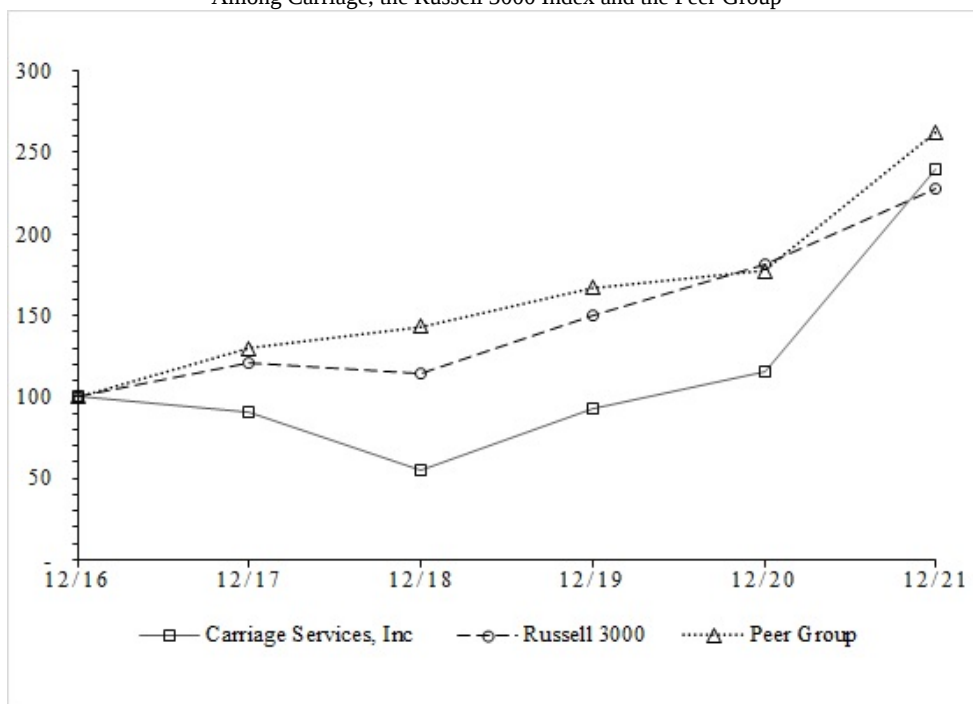
(1) See the first paragraph under the caption “Purchases of Equity Securities by the Issuer” for more information on our publicly announced share repurchase program.

PERFORMANCE

The following graph compares the cumulative 5-year total shareholder return on our common stock relative to the cumulative total returns of the Russell 3000 Index, and a peer group selected by the Company comprising of SCI and StoneMor (the “Peer Group”). The returns of each member of the Peer Group are weighted according to their respective stock market capitalization as of the beginning of each period measured. The graph assumes that the value of the investment in our common stock, the Russell 3000 Index and the Peer Group was \$100 on the last trading day of December 2016, and that all dividends were reinvested. Performance data for Carriage, the Russell 3000 Index and the Peer Group is provided as of the last trading day of each of our last five fiscal years.

The following graph and related information shall not be deemed “soliciting material” or “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities or the Exchange Act except to the extent that we specifically incorporate it by reference.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN⁽¹⁾
Among Carriage, the Russell 3000 Index and the Peer Group



	12/16	12/17	12/18	12/19	12/20	12/21
Carriage Services, Inc.	\$ 100.00	\$ 90.56	\$ 55.34	\$ 92.69	\$ 115.15	\$ 239.40
Russell 3000	100.00	121.12	114.77	150.35	181.74	228.33
Peer Group	100.00	129.84	143.30	166.92	177.14	262.53

⁽¹⁾ Fiscal year ending December 31. \$100 invested on December 31, 2016 in stock or index, including reinvestment of dividends. The Peer Group above includes SCI and StoneMor. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

Recent Trends

During the initial phase of the COVID-19 pandemic, we experienced an increase in volume that corresponded with the initial increase in COVID-related deaths. While we have seen the trend in COVID-related deaths begin to significantly decrease during the last half of 2021, we have not seen an adverse impact to our overall financial performance. However, we continue to closely monitor these death rates. Historically cremation trends have increased year over year and while that continues to be the case, we view this an opportunity to put greater focus on educating our client families on available cremation memorialization options.

General

We operate in two business segments: funeral home operations, which accounts for approximately 70% of our revenue, and cemetery operations, which accounts for approximately 30% of our revenue. 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. Our cemeteries provide interment rights (grave sites and mausoleum spaces) and related merchandise, such as markers and outer burial containers. We provide funeral and cemetery services and products on both an “atneed” (time of death) and “preneed” (planned prior to death) basis.

At December 31, 2021, we operated 170 funeral homes in 26 states and 31 cemeteries in 11 states within the United States. For additional discussion about our overall business strategy, see Part I, Item 1, Business – Business Strategy.

Funeral Home Operations

Factors affecting our funeral operating results include: 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 related to our atneed business to increase average revenue per contract. In simple terms, volume and price are the two variables that affect funeral revenue. The average revenue per contract is influenced by the mix of traditional and cremation services because our average cremation service revenue is approximately one-third of the average revenue earned from a traditional burial service. Funeral homes have a relatively fixed cost structure.

Cemetery Operations

Factors affecting our cemetery operating results include: 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.

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.

We generate cash in our operations primarily from atneed sales and delivery of preneed sales. We also generate cash from earnings on our cemetery perpetual care trusts. Based on our recent operating results, current cash position and anticipated future cash flows, we do not anticipate any significant liquidity constraints in the foreseeable future. We have the ability to draw on our Credit Facility, subject to its customary terms and conditions. However, if our capital expenditures or acquisition plans change, we may need to access the capital markets to obtain additional funding. 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. Please read Part I, Item 1A, Risk Factors.

For 2022, our plan is to remain focused on integrating our recently acquired businesses and 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, share repurchases, dividend increases and further debt repayments. We also expect continued divestiture activity for the next three-six months, which could yield an aggregate of approximately \$3-4 million of cash from the proceeds of the sale. 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 governing our Senior Notes. We believe that our existing and anticipated cash resources 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 2021 with \$0.9 million in cash and ended the year with \$1.1 million in cash. At December 31, 2021, we had borrowings of \$155.4 million outstanding on our Credit Facility compared to \$47.2 million on our Former Credit Facility as of December 31, 2020 and \$83.8 million as of December 31, 2019.

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

	Years Ended December 31,		
	2019	2020	2021
Cash at beginning of year	\$ 644	\$ 716	\$ 889
Net cash provided by operating activities	43,216	82,915	84,246
Acquisition of businesses and real estate	(140,907)	(28,011)	(3,285)
Deposit on pending acquisition	(5,000)	—	—
Proceeds from divestiture and sale of other assets	967	8,541	7,875
Proceeds from insurance reimbursements	1,433	248	7,758
Capital expenditures	(15,379)	(15,198)	(24,883)
Net cash used in investing activities	(158,886)	(34,420)	(12,535)
Net borrowings on our Credit Facility, acquisition debt and finance lease obligations	54,413	(38,345)	106,869
Payment to redeem the Original Senior Notes	—	—	(400,000)
Payment of call premium related to the Original Senior Notes	—	—	(19,876)
Proceeds from the issuance of the Senior Notes	—	—	395,500
Payment of debt issuance costs for the Credit Facility and Senior Notes	(1,871)	(78)	(2,197)
Conversion and maturity of the Convertible Notes	(27)	(4,563)	(3,980)
Proceeds from the issuance of the Senior Notes	76,688	—	—
Net proceeds from employee equity plans	1,251	881	(3)
Dividends paid on common stock	(5,398)	(6,048)	(7,264)
Purchase of treasury stock	(9,152)	—	(140,040)
Other financing costs	(162)	(169)	(461)
Net cash provided by (used in) financing activities	115,742	(48,322)	(71,452)
Cash at end of year	\$ 716	\$ 889	\$ 1,148

Operating Activities

For the year ended December 31, 2021, cash provided by operating activities was \$84.2 million compared to \$82.9 million for the year ended December 31, 2020 and \$43.2 million for the year ended December 31, 2019. The increase of \$1.3 million for the year ended December 31, 2021 compared to the year ended December 31, 2020 is primarily due to the increase in net income, offset by unfavorable working capital changes in income tax receivables, accounts payable and accrued liabilities.

The increase of \$39.7 million for the year ended December 31, 2020 compared to the year ended December 31, 2019 was primarily due to the increase in operating income (excluding the non-cash impact of the divestitures and impairment charges) of \$26.4 million in addition to other favorable working capital changes.

Investing Activities

Our investing activities resulted in a net cash outflow of \$12.5 million for the year ended December 31, 2021 compared to \$34.4 million for the year ended December 31, 2020 and \$158.9 million for the year ended December 31, 2019.

Acquisition and Divestiture Activity

During the year ended December 31, 2021, we sold two funeral homes and one cemetery for \$2.5 million, sold real property for \$5.2 million and purchased real property for \$3.3 million. We also received proceeds of \$7.8 million from our property insurance policy for the reimbursement of renovation costs for our funeral and cemetery businesses that were damaged by Hurricane Ida.

During the year ended December 31, 2020, we acquired one funeral home and cemetery combination business in Lafayette, California for \$33.0 million in cash, of which \$5.0 million was deposited in escrow in 2019 and \$28.0 million was paid at closing in 2020. In addition, we sold eight funeral homes for \$8.4 million and we sold real property for \$0.1 million.

During the year ended December 31, 2019, we acquired, in three separate transactions, two funeral home and cemetery combination businesses, seven funeral home businesses and three ancillary service businesses for an aggregate purchase price of \$140.9 million. In addition, we also paid a \$5.0 million deposit for a funeral home and cemetery combination business that we acquired in January 2020. In addition, we sold a funeral home business for \$0.9 million and we sold real property for \$0.1 million related to a funeral home we merged with another business in an existing market.

Capital Expenditures

For the year ended December 31, 2021, our capital expenditures (comprising of growth and maintenance spend) totaled \$24.9 million compared to \$15.2 million for the year ended December 31, 2020, and \$15.4 million for the year ended December 31, 2019.

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

	Years Ended December 31,		
	2019	2020	2021
Growth			
Cemetery development	\$ 4,111	\$ 4,705	\$ 5,845
Renovations at certain businesses ⁽¹⁾	2,236	953	4,541
Streaming equipment and cemetery sales software	42	636	687
Other	195	142	495
Total Growth	\$ 6,584	\$ 6,436	\$ 11,568

(1) During the year ended December 31, 2021, we spent \$2.0 million for renovations on four businesses that were affected by Hurricane Ida, all of which was reimbursed by our property insurance. During the year ended December 31, 2019, we spent \$1.6 million for renovations on four businesses that were affected by Hurricane Michael, of which \$1.4 million was reimbursed by our property insurance policy.

	Years Ended December 31,		
	2019	2020	2021
Maintenance			
Facility repairs and improvements	\$ 1,820	\$ 2,053	\$ 2,543
General equipment and furniture	3,032	2,892	6,377
Vehicles	1,950	1,493	2,329
Paving roads and parking lots	795	731	1,186
Information technology infrastructure improvements	977	949	—
Other	221	644	880
Total Maintenance	\$ 8,795	\$ 8,762	\$ 13,315

Financing Activities

Our financing activities resulted in a net cash outflow of \$71.5 million for the year ended December 31, 2021 compared to a net cash outflow of \$48.3 million for the year ended December 31, 2020 and a net cash inflow of \$115.7 million for the year ended December 31, 2019.

For the year ended December 31, 2021, we had net borrowings on our Credit Facility, acquisition debt and finance leases of \$106.9 million, offset by the following payments: i) \$19.9 million for the call premium to redeem our Original Senior Notes; ii) \$140.0 million for the purchase of treasury stock; iii) \$2.2 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 Convertible Notes; and v) \$7.3 million in dividends.

For the year ended December 31, 2020, we had net payments on our Credit Facility, acquisition debt and finance leases of \$38.3 million. In addition, we paid \$6.0 million in dividends and \$4.6 million for the repurchase of a portion of our Convertibles Notes.

For the year ended December 31, 2019, we had net proceeds related to the additional issuance of our Original Senior Notes of \$75.7 million and net borrowing on our long-term debt obligations of \$53.5 million. In addition, we purchased treasury stock for \$9.2 million and paid \$5.4 million in dividends on our common stock.

Dividends

On October 27, 2021, our Board approved an increase of \$0.05 per share for a total annual dividend of \$0.45 per share beginning with the dividend declaration in the fourth quarter.

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

	Per Share		Dollar Value	
2021				
March 1st	\$	0.1000	\$	1,799
June 1st	\$	0.1000	\$	1,808
September 1st	\$	0.1000	\$	1,783
December 1st	\$	0.1125	\$	1,873
2020				
March 1st	\$	0.0750	\$	1,339
June 1st	\$	0.0750	\$	1,343
September 1st	\$	0.0875	\$	1,569
December 1st	\$	0.1000	\$	1,797
2019				
March 1st	\$	0.0750	\$	1,360
June 1st	\$	0.0750	\$	1,365
September 1st	\$	0.0750	\$	1,336
December 1st	\$	0.0750	\$	1,337

Share Repurchases

Subject to market conditions, normal trading restrictions and satisfying certain financial covenants in our Credit Facility, and in the Indenture governing our Senior Notes, we may make purchases in the open market or through privately negotiated transactions under our Board authorized share repurchase program, in accordance with Rule 10b-18 of the Securities Exchange Act. On May 18, 2021, July 26, 2021 and October 27, 2021, our Board increased our share repurchase authorization by an additional \$25.0 million, \$25.0 million and \$75.0 million, respectively, that including amounts previously authorized and outstanding, totaled up to \$190.0 million in share repurchase authorizations.

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

	Years Ended December 31,		
	2019	2020	2021
Number of Shares Repurchased ⁽¹⁾	400,000	—	2,906,983
Average Price Paid Per Share	\$ 19.39	\$ —	\$ 49.01
Dollar Value of Shares Repurchased ⁽¹⁾	\$ 7,756	\$ —	\$ 142,469

⁽¹⁾ These amounts may differ from the repurchases of common stock amounts in the consolidated statements of cash flows due to unsettled share repurchases at the end of a period. In December 2021, we repurchased 37,408 shares for \$2.4 million, the settlement of which occurred in January 2022.

Our shares were purchased in the open market at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury stock. At December 31, 2021, we had \$8.1 million remaining available for repurchase under our authorized program.

Credit Facility, Lease Obligations and Acquisition Debt

The outstanding principal of our long-term debt and lease obligations is as follows (in thousands):

	December 31, 2020	December 31, 2021
Credit Facility	\$ 47,200	\$ 155,400
Finance leases	5,854	5,532
Operating leases	22,384	20,433
Acquisition debt	5,509	4,500
Total	\$ 80,947	\$ 185,865

Credit Facility

At December 31, 2020, our senior secured revolving credit facility (the "Former Credit Facility") was comprised of: (i) a \$190.0 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 Former Credit Facility was to occur on May 31, 2023.

On May 13, 2021, in connection with the issuance of the Senior Notes (defined in Senior Notes section below), we entered into an amended and restated \$150.0 million senior secured revolving credit facility (the "Credit Facility") with the Subsidiary Guarantors (as defined below), the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. We incurred \$0.8 million in transactions costs related to the Credit Facility, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

On May 13, 2021, we used \$21.4 million of the availability under the Credit Facility to repay the then outstanding balances under our Former Credit Facility and all commitments thereunder were terminated. In connection with the repayment in full of all amounts due thereunder, the Former Credit Facility was retired and \$2.1 million of letters of credit previously issued under the Former Credit Facility were deemed issued under (and remain outstanding under) the Credit Facility. In connection with the termination of the Former Credit Facility, we recognized a loss on the write-off of \$0.1 million in unamortized debt issuance costs, which was recorded in *Loss on extinguishment of debt*.

On November 22, 2021, we entered into a first amendment and commitment increase to the Credit Facility with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. Pursuant to this amendment, the revolving credit commitment was increased from \$150.0 million to \$200.0 million. We incurred \$0.1 million in transactions costs related to this amendment, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

Our obligations under the Credit Facility are unconditionally guaranteed on a joint and several basis by the same subsidiaries which guarantee the Senior Notes 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 final maturity of the Credit Facility will occur on May 13, 2026.

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 December 31, 2021, we were subject to the following financial covenants under our Credit Facility: (A) a Total Leverage Ratio not to exceed, (i) 5.00 to 1.00 and (B) a Fixed Charge Coverage Ratio (as defined in the Credit Facility) of not less than 1.20 to 1.00 as of the end of any period of four consecutive fiscal quarters. These financial maintenance covenants are calculated for the Company and its subsidiaries on a consolidated basis.

We were in compliance with all of the covenants contained in our Credit Facility at December 31, 2021.

At December 31, 2021, we had outstanding borrowings under the Credit Facility of \$155.4 million. We also had one letter of credit for \$2.1 million under the Credit Facility, which was increased to \$2.3 million on September 1, 2021. 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 December 31, 2021, we had \$42.3 million of availability under the Credit Facility.

Outstanding borrowings under our Credit Facility bear interest at either a prime rate or a LIBOR rate, plus an applicable margin based upon our leverage ratio. At December 31, 2021, the prime rate margin was equivalent to 0.75% and the LIBOR rate margin was 1.75%. The weighted average interest rate on our Credit Facility for the year ended December 31, 2021 was 2.4%. The weighted average interest rate on our Former Credit Facility for the year ended December 31, 2020 was 3.8%.

We have no material assets or operations independent of the Subsidiary Guarantors, as all of our assets and operations are held and conducted by Subsidiary Guarantors. Additionally, we do not currently have any significant restrictions on our ability to receive dividends or loans from any Subsidiary Guarantors.

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

	Years Ended December 31,		
	2019	2020	2021
Credit Facility interest expense	\$ 1,601	\$ 3,738	\$ 1,820
Credit Facility amortization of debt issuance costs	229	482	380

The interest payments on our remaining borrowings under the Credit Facility will be determined based on the average outstanding balance of our borrowings and the prevailing interest rate during that time. See Part II, Item 8, Financial Statements and Supplementary Data, Note 12 to our Consolidated Financial Statements for further detail of our debt and interest payments.

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.

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):

	Years Ended December 31,		
	2019	2020	2021
Operating lease cost	\$ 3,722	\$ 3,795	\$ 3,762
Short-term lease cost	250	185	193
Variable lease cost	27	39	160
Finance lease cost:			
Depreciation of leased assets	\$ 498	\$ 439	\$ 438
Interest on lease liabilities	520	496	471

At December 31, 2021, operating and finance lease obligations were \$48.3 million, with \$6.0 million payable within 12 months. See Part II, Item 8, Financial Statements and Supplementary Data, Note 15 to our Consolidated Financial Statements for further detail of our lease payments.

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 typically range from five to twenty years. Acquisition debt obligations were \$4.5 million, with \$0.5 million payable within 12 months.

The imputed interest expense related to our acquisition debt is as follows (in thousands):

	Years Ended December 31,		
	2019	2020	2021
Acquisition debt imputed interest expense	\$ 622	\$ 489	\$ 364

At December 31, 2021, acquisition debt obligations were \$4.5 million, with \$0.5 million payable within 12 months. See Part II, Item 8, Financial Statements and Supplementary Data, Note 12 to our Consolidated Financial Statements for further detail of our debt payments.

Convertible Subordinated Notes due 2021

On March 19, 2014, we issued \$143.75 million aggregate principal amount of our 2.75% convertible subordinated notes due 2021 (the “Convertible Notes”). The Convertible Notes were due on March 15, 2021 and bear interest at 2.75% per year, which was payable semi-annually in arrears on March 15 and September 15 of each year.

In May 2018, we exchanged \$115.0 million in aggregate principal amount of Convertible Notes in a privately-negotiated exchange with a limited number of convertible noteholders. We completed privately-negotiated repurchases of \$22.4 million, \$25,000 and \$3.8 million in aggregate principal amount of Convertible Notes in December 2018, April 2019 and September 2020, respectively.

During the year ended December 31, 2021, we converted \$2.4 million in aggregate principal amount of our Convertible Notes held by certain holders for \$3.8 million in cash and recorded \$1.4 million for the reacquisition of the equity component. The Convertible Notes matured on March 15, 2021, at which time all Convertible Notes outstanding, \$0.2 million in aggregate principal amount, were paid in full in cash at par value. Therefore, no Convertible Notes remain outstanding at December 31, 2021.

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

	Years Ended December 31,		
	2019	2020	2021
Convertible Notes interest expense	\$ 174	\$ 149	\$ 18
Convertible Notes accretion of debt discount	241	216	20
Convertible Notes amortization of debt issuance costs	24	20	1

The effective interest rate on the unamortized debt discount and debt issuance costs for both years ended December 31, 2020 and 2021 was 11.4% and 3.1%, respectively.

Senior Notes

On May 13, 2021, we issued \$400.0 million in aggregate principal amount of 4.25% Senior Notes due in May 2029 (the “Senior Notes”) and related guarantees by the Subsidiary Guarantors in a private offering under Rule 144A and Regulation S of the Securities Act.

We used the proceeds of \$395.5 million from the offering of the Senior Notes, which are net of a 1.125% debt discount of \$4.5 million, together with cash on hand and borrowings under the Credit Facility, to redeem all of our existing \$400.0 million in aggregate principal amount of 6.625% senior notes due 2026 (the “Original Senior Notes”). We paid a premium of \$19.9 million to redeem the Original Senior Notes on June 1, 2021 at a redemption price of 104.97% of the principal amount thereof, plus accrued and unpaid interest of \$13.25 million. During the year ended December 31, 2021, we incurred \$1.3 million in transaction costs related to the Senior Notes.

For the year ended December 31, 2021, we recognized a net loss of \$23.7 million related to the redemption of the Original Senior Notes, which was recorded in *Loss on extinguishment of debt*. The loss is composed of the \$19.9 million call premium, the write-off of \$3.4 million in unamortized debt discount, the write-off of \$1.8 million in unamortized debt issuance costs, offset by the write-off of \$1.4 million in unamortized debt premium.

The Senior Notes were issued under an indenture, dated as of May 13, 2021 (the “Indenture”), among the Company, the Subsidiary Guarantors (as defined therein) and Wilmington Trust, National Association, as trustee (“Collateral Trustee”).

The Senior Notes bear interest at 4.25% per year. Interest on the Senior Notes is payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2021. The Senior Notes mature on May 15, 2029, unless earlier redeemed or purchased. 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.

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 89 months of the Senior Notes. The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Senior Notes for the year ended December 31, 2021 was 4.42% and 4.30%, respectively.

The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Original Senior Notes, issued in May 2018, for the year ended December 31, 2020 was 6.69%. The effective interest rate on the unamortized debt premium and the unamortized debt issuance costs for the additional Original Senior Notes, issued in December 2019, for year ended December 31, 2020 was 6.90%.

The fair value of the Senior Notes, which are Level 2 measurements, was \$401.6 million at December 31, 2021.

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

	Years Ended December 31,		
	2019	2020	2021
Senior Notes interest expense	\$ 21,711	\$ 26,500	\$ 21,767
Senior Notes amortization of debt discount	493	528	504
Senior Notes amortization of debt premium	—	221	85
Senior Notes amortization of debt issuance costs	139	280	195

We have future interest payments on our outstanding balance of \$125.3 million, with \$17.0 million payable within 12 months. See Part II, Item 8, Financial Statements and Supplementary Data, Note 14 to our Consolidated Financial Statements for further detail of our debt and interest payments.

Off-Balance Sheet Arrangements

At December 31, 2021, our off-balance sheet arrangements were as follows:

Non-compete agreements - We have various non-compete agreements with former owners and employees of businesses we have acquired. These agreements are generally for one to ten years and provide for periodic payments over the term of the agreements. We have future payments on our non-compete agreements of \$6.8 million, with \$2.3 million payable within 12 months.

Consulting agreements - We have various consulting agreements with former owners of businesses we have acquired. Payments for such agreements are generally not made in advance. These agreements are generally for one to five years and provide for bi-weekly or monthly payments. We have future payments on our consulting agreements of \$1.2 million, with \$0.7 million payable within 12 months.

Employment agreements - We have employment agreements with our executive officers and certain senior leadership. These agreements are generally for three to five years and provide for participation in various incentive compensation arrangements. These agreements generally renew automatically on an annual basis after their initial term has expired, with the exception of our Chairman of the Board and Chief Executive Officer, which does not renew after the current term expiring in February 2028. We have future payments on our employment agreements of \$8.3 million, with \$3.3 million payable within 12 months.

Letter of credit - We have one letter of credit for \$2.3 million under the Credit Facility, which secures our obligations under our various self-insurance policies in the event we are unable to meet the self-insurance portion of our claim payment obligations. As we already have reserves recorded for our self-insurance claims costs, these do not represent additional liabilities. The letter of credit will expire on November 25, 2022 and is expected to automatically renew annually.

The obligations related to our off-balance sheet arrangements are significant to our future liquidity; however, although we can provide no assurances, we anticipate that these obligations will be funded from cash provided from our operating activities. If we are not able to meet these obligations with cash provided by our operating activities, we may be required to access the capital markets or draw down on our Credit Facility, both of which may be more difficult to access. See Part II, Item 8, Financial Statements and Supplementary Data, Notes 12 and 16 to our Consolidated Financial Statements for further detail of our letter of credit and off-balance sheet agreements, respectively.

FINANCIAL HIGHLIGHTS

Below are our financial highlights (in thousands except for volumes and averages):

	Years Ended December 31,		
	2019	2020	2021
Revenue	\$ 274,107	\$ 329,448	\$ 375,886
Funeral contracts	38,940	47,190	49,249
Average revenue per funeral contract	\$ 5,499	\$ 5,145	\$ 5,360
Preneed interment rights (property) sold	7,205	9,503	11,408
Average price per interment right sold	\$ 3,653	\$ 4,033	\$ 4,718
Gross profit	\$ 79,585	\$ 105,923	\$ 129,516
Net income	\$ 14,533	\$ 16,090	\$ 33,159

Revenue in 2021 increased \$46.4 million compared to 2020, as we experienced a 20.0% increase in the number of preneed interment rights (property) sold, as well as a 17.0% increase in the average price per interment right sold, primarily due to (1) our sales personnel being less impacted by social distancing restrictions that were in place in 2020 due to COVID-19; (2) the full integration of the cemetery acquisitions made in the fourth quarter of 2019 and first quarter of 2020; and (3) the execution of our innovative cemetery sales strategy of building high performance sales teams and standardized sales systems across our portfolio of cemeteries.

We also experienced a 4.4% increase in total funeral contracts and a 4.2% increase in the average revenue per funeral contract for 2021 compared to 2020. We believe the increase in volume during 2021 is due not only to COVID-19 deaths, but also due to a result of our ability to adapt to the continued changing consumer environment with new and innovative ways to serve families. We believe the increase in the average revenue per contract is a further reflection of our ability to creatively serve our families, as the number of contracts for which we provided memorial services in 2021 began to return to pre-COVID-19 levels.

Revenue in 2020 increased \$55.3 million compared to 2019, as we experienced a 21.2% increase in total funeral contracts primarily due to the funeral home acquisitions made in the fourth quarter of 2019 and first quarter of 2020, as well as increases

from broad market share gains and increases in the number of deaths related to the COVID-19 pandemic. Volume growth was offset by a decrease in the average revenue per funeral contract of 6.4% primarily due to the decrease in services performed as restrictions mandated by state and local governments were placed on social gatherings. In addition, we experienced an increase of 31.9% in the number of preneed interment rights (property) sold primarily due to the cemetery acquisitions made in the fourth quarter of 2019 and first quarter of 2020, as well as an increase of 10.4% in the average price per interment right sold. Further discussion of Revenue for our funeral home and cemetery segments is presented herein under “Results of Operations.”

Gross profit in 2021 increased \$23.6 million compared to 2020, primarily due to the increase in revenue from both our funeral home and cemetery segments, as well as decreases in funeral home and cemetery operating expenses as a percent of operating revenue primarily in salaries and benefits expense as we increased revenue without adding extra personnel.

Gross profit in 2020 increased \$26.3 million compared to 2019, primarily due to the increase in revenue from both our funeral home and cemetery segments due to the acquisitions made in the fourth quarter of 2019 and first quarter of 2020, as well as disciplined expense and cost management by leaders at each business. Further discussion of the components of Gross profit for our funeral home and cemetery segments, is presented herein under “Results of Operations.”

Net income for the 2021 increased \$17.1 million compared to 2020, primarily due to (1) the increase in gross profit of \$23.6 million; (2) a \$20.8 million decrease in net loss on divestitures, disposals and impairments charges and (3) a \$7.1 million decrease in interest expense; offset by (4) a \$23.8 million loss on extinguishment of debt; (5) a \$8.1 million increase in general, administrative and other expenses and (6) a \$2.6 million increase in tax expense.

Net income in 2020 increased \$1.6 million compared to 2019 primarily due to the increase in gross profit, offset by the \$16.6 million increase in charges related to the net loss on divestitures and impairments and \$7.0 million increase in interest expense related to our Senior Notes and Credit Facility.

Further discussion of General, administrative and other expenses, Home office depreciation and amortization expense, Net loss on divestitures, disposals and impairment charges, 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 year ending December 31, 2021, dated February 23, 2022 and discussed in the corresponding earnings conference call. This Trend Report is used as a supplemental financial statement by management and investors to compare our current financial performance with our previous results and with the performance of other companies. We do not intend for this information to be considered in isolation or as a substitute for other measures of performance prepared in accordance with United States generally accepted accounting principles (“GAAP”). The Trend Report is a non-GAAP statement that also provides insight into underlying trends in our business.

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

	Years Ended December 31,		
	2019	2020	2021
Net income	\$ 14,533	\$ 16,090	\$ 33,159
Special items ⁽¹⁾			
Acquisition expenses	2,083	(11)	—
Severance and separation costs ⁽²⁾	1,205	563	1,575
Performance awards cancellation and exchange	—	288	—
Accretion of discount on Convertible Notes ⁽¹⁾	241	216	20
Loss on early extinguishment of debt ⁽³⁾	—	—	23,807
Net (gain) loss on divestitures and other costs	4,217	6,864	(856)
Net impact of impairment of goodwill and other intangibles	963	14,952	500
Litigation reserve ⁽⁴⁾	750	270	1,050
Tax expense related to divested business ⁽¹⁾	911	—	—
Gain on insurance reimbursements	(885)	—	—
Disaster recovery and pandemic costs	—	1,627	2,157
Other special items ⁽⁵⁾	336	410	2,354
Tax adjustment related to certain discrete items ⁽¹⁾	—	400	—
Sum of special items	\$ 9,821	\$ 25,579	\$ 30,607
Tax effect on special items ⁽¹⁾	1,822	7,986	8,503
Adjusted net income ⁽⁶⁾	\$ 22,532	\$ 33,683	\$ 55,263

(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. In 2019 and 2020, Special items are taxed at the federal statutory rate of 21.0%, except the Net (gain) loss on divestitures and other costs and the Net impact of impairment of goodwill and other intangibles, which are taxed at the operating tax rate for the period. In 2021, Special items are taxed at the operating tax rate for the period. The Accretion of discount on Convertible Notes, the Tax expense related to divested business and the Tax adjustment related to certain discrete items are not tax effected.

(2) Costs related to the termination or resignation of certain key members of leadership.

(3) Loss on the redemption of our Original Senior Notes during the second quarter of 2021.

(4) Costs related to litigation matters.

(5) In 2019, the amount is related to costs associated with recruitment of a former member of the senior leadership team. In 2020, this is related to the costs associated with a state audit assessment. In 2021, this is related to (1) write-off of certain fixed assets; (2) a one-time \$1.0 million payment in September 2021 for residual insurance claims; and (3) interest paid on our Original Senior Notes for the two-week period during which our Senior Notes were issued prior to the redemption of our Original Senior Notes.

(6) 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 measure) to Operating profit (a non-GAAP measure) (in thousands):

	Years Ended December 31,		
	2019	2020	2021
Gross profit	\$ 79,585	\$ 105,923	\$ 129,516
Cemetery property amortization	3,985	4,956	6,670
Field depreciation expense	12,370	13,006	12,609
Regional and unallocated funeral and cemetery costs	13,827	18,057	25,846
Operating profit ⁽¹⁾	\$ 109,767	\$ 141,942	\$ 174,641

(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 measure) by Segment (in thousands):

	Years Ended December 31,		
	2019	2020	2021
Funeral Home	\$ 85,737	\$ 104,998	\$ 119,007
Cemetery	24,030	36,944	55,634
Operating profit	<u>\$ 109,767</u>	<u>\$ 141,942</u>	<u>\$ 174,641</u>
Operating profit margin ⁽¹⁾	40.0%	43.1%	46.5%

(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.”

YEAR ENDED DECEMBER 31, 2021 COMPARED TO YEAR ENDED DECEMBER 31, 2020

Results of Operations

The following is a discussion of our results of operations for the year ended December 31, 2021 compared to the year ended December 31, 2020.

The term “same store” refers to funeral homes and cemeteries acquired prior to January 1, 2017 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, 2016, 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 six funeral homes we merged with other businesses we own in existing markets during the year ended December 31, 2021 and eight funeral homes we sold during the year ended December 31, 2020. The term “divested” when discussed in the Cemetery Segment, refers to one cemetery we sold during the year ended December 31, 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):

	Years Ended December 31,	
	2020	2021
Revenue:		
Same store operating revenue	\$ 191,757	\$ 215,039
Acquired operating revenue	35,461	38,031
Divested/planned divested revenue	8,082	3,174
Ancillary revenue	4,661	4,437
Preneed funeral insurance commissions	1,349	1,262
Preneed funeral trust and insurance	7,828	8,144
Total	\$ 249,138	\$ 270,087
Operating profit:		
Same store operating profit	\$ 79,850	\$ 93,025
Acquired operating profit	13,628	16,017
Divested/planned divested operating profit	2,067	605
Ancillary operating profit	1,186	1,006
Preneed funeral insurance commissions	564	359
Preneed funeral trust and insurance	7,703	7,995
Total	\$ 104,998	\$ 119,007

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

	Years Ended December 31,	
	2020	2021
Same store:		
Contract volume	37,802	41,307
Average revenue per contract, excluding preneed funeral trust earnings	\$ 5,073	\$ 5,206
Average revenue per contract, including preneed funeral trust earnings	\$ 5,258	\$ 5,382
Burial rate	36.6%	35.2%
Cremation rate	56.3%	57.1%
Acquired:		
Contract volume	7,218	7,243
Average revenue per contract, excluding preneed funeral trust earnings	\$ 4,913	\$ 5,251
Average revenue per contract, including preneed funeral trust earnings	\$ 4,980	\$ 5,317
Burial rate	40.4%	39.9%
Cremation rate	55.4%	54.3%

Funeral home same store operating revenue increased \$23.3 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase in operating revenue is primarily driven by a 9.3% increase in same store contract volume, as well as a 2.6% increase in the average revenue per contract excluding preneed interest. The increase in volume is not only due to COVID-19 deaths during 2021, but also a result of our ability to adapt to the continued changing environment with new and innovative ways to serve families. We believe the increase in the average revenue per contract is a further reflection of our ability to creatively serve our families, as the number of contracts for which we provided memorial services in 2021 began to return to pre-COVID-19 levels.

Funeral home same store operating profit for the year ended December 31, 2021 increased \$13.2 million when compared to the year ended December 31, 2020. The comparable operating profit margin increased 170 basis points to 43.3%. The

increase in operating profit is primarily due to the increase in same store operating revenue along with disciplined expense and cost management by leaders at each business. Overall same store operating expenses as a percent of operating revenue decreased 1.7% with the largest decrease in salaries and benefits expense of 1.2% as a percent of operating revenue, as we focused on optimizing the inherent operating leverage in each business by increasing revenue without adding extra personnel.

Funeral home acquired operating revenue for the year ended December 31, 2021 increased \$2.6 million compared to the year ended December 31, 2020. The increase in operating revenue is primarily driven by a 6.9% increase in the average revenue per contract excluding preneed interest, while the acquired contract volume was relatively flat. We believe the increase in the average revenue per contract is a further reflection of our ability to creatively serve our families, as the number of contracts for which we provided memorial services in 2021 began to return to pre-COVID-19 levels.

Acquired operating profit for the year ended December 31, 2021, increased \$2.4 million when compared to the year ended December 31, 2020. The comparable operating profit margin increased 370 basis points to 42.1%. The increase in operating profit is primarily due to the increase in acquired operating revenue along with disciplined expense and cost management by leaders at each business. Overall acquired operating expenses as a percent of operating revenue decreased 3.7% with the largest decrease in salaries and benefits expense of 3.2% as a percent of operating revenue, as we focused on optimizing the inherent operating leverage in each business by increasing revenue without adding extra personnel.

Ancillary revenue, which is recorded in *Other revenue*, represents revenue from our flower shop, pet cremation and online cremation businesses and Ancillary operating profit both decreased \$0.2 million for the year ended December 31, 2021 compared to the year ended December 31, 2020.

Preneed funeral insurance commissions and preneed funeral trust and insurance (recorded in *Other revenue*) on a combined basis, increased \$0.2 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase is primarily from trust and insurance earnings on preneed contracts. Recognition of trust and insurance earnings is triggered at the time a preneed contract matures to atneed. For the year ended December 31, 2021, the average trust and insurance earnings per preneed contract increased 7.8% compared to the year ended December 31, 2020. Operating profit for preneed funeral insurance commissions and preneed trust and insurance, on a combined basis, increased \$0.1 million for the year ended December 31, 2021 compared to the year ended December 31, 2020 primarily due to the increase in revenue.

Cemetery Segment

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

	Years Ended December 31,	
	2020	2021
Revenue:		
Same store operating revenue	\$ 51,767	\$ 64,171
Acquired operating revenue	17,584	27,829
Divested revenue	246	288
Preneed cemetery trust earnings	9,797	12,487
Preneed cemetery finance charges	916	1,024
Total	\$ 80,310	\$ 105,799
Operating profit:		
Same store operating profit	\$ 19,501	\$ 27,015
Acquired operating profit	7,128	15,526
Divested operating profit	23	82
Preneed cemetery trust operating profit	9,376	11,987
Preneed cemetery finance charges	916	1,024
Total	\$ 36,944	\$ 55,634

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

	Years Ended December 31,	
	2020	2021
Same store:		
Preneed revenue as a percentage of operating revenue	61%	61%
Preneed revenue (in thousands)	\$ 31,407	\$ 39,291
Atneed revenue (in thousands)	\$ 20,360	\$ 24,880
Number of preneed interment rights sold	7,104	8,330
Average price per interment right sold	\$ 3,771	\$ 4,209
Acquired:		
Preneed revenue as a percentage of operating revenue	66%	67%
Preneed revenue (in thousands)	\$ 11,552	\$ 18,536
Atneed revenue (in thousands)	\$ 6,032	\$ 9,293
Number of preneed interment rights sold	2,353	3,044
Average price per interment right sold	\$ 4,889	\$ 6,155

Cemetery same store preneed revenue increased \$7.9 million for the year ended December 31, 2021 compared to the year ended December 31, 2020, as we experienced a 17.3% increase in the number of interments rights sold, as well as an 11.6% increase in the average price per interment right sold. The increase is primarily due to (1) our sales personnel being less impacted by social distancing restrictions that were in place in 2020 due to COVID-19; and (2) the continuous execution of our innovative cemetery sales strategy of building high performance sales teams and standardized sales systems across our portfolio of cemeteries. Cemetery same store atneed revenue, which represents 39% of our same store operating revenue, increased \$4.5 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase was a result of a 12.6% increase in same store atneed contracts and an 8.5% increase in the average sale per contract, primarily due to the increased deaths in 2021 related to COVID-19.

Cemetery same store operating profit increased \$7.5 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The comparable operating profit margin increased 440 basis points to 42.1% primarily as a result of the increase in operating revenue, along with disciplined expense and cost management by leaders at each business. Operating expenses as a percent of operating revenue decreased 4.4% with the largest decreases in the following areas: (1) salaries and benefits expense decreased 2.6%, as we increased revenue without adding extra personnel; and (2) facilities and grounds expenses decreased 1.0%.

There are three businesses in our acquired cemetery portfolio, two of which were acquired in the fourth quarter of 2019 and one acquired in the first quarter of 2020. In the first quarter of 2020, we hired new sales leadership at two of our recently acquired cemeteries and continue to build their respective sales teams as we execute our innovative cemetery sales strategy of building high performance sales teams and standardized sales systems across our portfolio of cemeteries. As a result, our acquired cemetery portfolio experienced a \$7.0 million increase in preneed revenue and a \$3.3 million increase in atneed revenue for the year ended December 31, 2021 compared to the year ended December 31, 2020.

Cemetery acquired operating profit increased \$8.4 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The comparable operating profit margin increased 1,530 basis points to 55.8% primarily as a result of the increase in operating revenue, along with disciplined expense and cost management by leaders at each business. Operating expenses as a percent of operating revenue decreased 15.2% with the largest decreases in the following areas: (1) salaries and benefits expense decreased 7.1%, as we increased revenue without adding extra personnel; (2) promotional costs decreased 3.4%; (3) preneed merchandise and service costs decreased 1.9%; and (4) facilities and grounds expenses decreased 1.2%.

Preneed cemetery trust revenue and preneed cemetery finance charges (recorded in *Other revenue*) on a combined basis increased \$2.8 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase in our trust fund income is primarily due to our execution of a major repositioning strategy beginning at the height of the COVID-19 market crisis in March 2020, substantially increasing our preneed cemetery trust revenue and operating profit. We experienced a \$1.9 million increase in income and a \$0.3 million increase in realized capital gains within our perpetual care trusts for the year ended December 31, 2021 compared to the year ended December 31, 2020. Additionally, income from delivered merchandise and service contracts increased \$0.3 million. Operating profit for the two categories of *Other revenue*, on a combined basis, increased \$2.7 million for the year ended December 31, 2021 compared to the year ended December 31, 2020 primarily due to the increase in revenue.

Cemetery property amortization. Cemetery property amortization totaled \$6.7 million for the year ended December 31, 2021, an increase of \$1.7 million compared to the year ended December 31, 2020, primarily due to the increase in property sold across our cemetery portfolio.

Field depreciation. Depreciation expense for our field businesses totaled \$12.6 million for the year ended December 31, 2021, a decrease of \$0.4 million compared to the year ended December 31, 2020, primarily due to building structures and older vehicles becoming fully depreciated.

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 \$25.8 million for the year ended December 31, 2021, an increase of \$7.8 million compared to the year ended December 31, 2020, primarily due to the following: (1) a \$5.3 million increase in cash and other incentives and equity compensation, as a result of our improved performance, which reinforces our strategy of aligning incentives with long-term value creation; (2) \$1.0 million increase in compensation expenses, which includes our Chief Operating Officer hired in June 2020 and six additional cemetery sales employees hired in 2021 and the latter half of 2020; (3) a \$0.9 million increase in other general administrative costs, which includes higher travel costs; (4) a \$0.7 million increase in natural disaster costs due to Hurricane Ida impacting several Louisiana businesses; and (5) a \$0.2 million increase in health and safety expenses related to the COVID-19 pandemic; offset by (6) a \$0.3 million decrease in state audit assessments.

Other Financial Statement Items

General, administrative and other. General, administrative and other expenses totaled \$33.9 million for the year ended December 31, 2021, a decrease of \$8.1 million compared to the year ended December 31, 2020, primarily due to the following: (1) a \$3.6 million increase in cash incentives and equity compensation, as a result of our improved performance, which reinforces our strategy of aligning incentives with long-term value creation; (2) a \$1.7 million increase in other general administrative costs, which includes higher online marketing and advertising costs and software license fees for new technology; (3) a \$1.2 million increase in separation expenses related to the resignation of two members of senior leadership; (4) a \$1.2 million increase in insurance claims expense, which includes a one-time \$1.0 million payment for residual insurance claims; and (5) a \$0.4 million increase in acquisition costs.

Home office depreciation and amortization. Home office depreciation and amortization expense totaled \$1.2 million for the year ended December 31, 2021, a decrease of \$0.2 million compared to the year ended December 31, 2020, primarily due to equipment at the home office becoming fully depreciated in the latter half of the prior year.

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

	Years Ended December 31,	
	2020	2021
Goodwill impairment	\$ 13,632	\$ —
Tradenames impairment	1,061	—
Assets held for sale impairment	—	500
Net (gain) loss on divestitures and real property	6,749	(856)
Net loss on disposals of fixed assets	—	1,022
Total	<u>\$ 21,442</u>	<u>\$ 666</u>

During the year ended December 31, 2021, we divested two funeral homes and one cemetery and sold real property for a net gain of \$0.9 million. In addition, we recognized an impairment loss of \$0.5 million related to property, plant and equipment assets held for sale. We also disposed of damaged and obsolete property, plant and equipment that had a carrying value of \$1.0 million.

During the year ended December 31, 2020, as a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our goodwill and we recorded an impairment to goodwill of \$13.6 million, as the carrying amount of our funeral homes in the Eastern Region Reporting Unit exceeded the fair value. We also performed a quantitative assessment of our tradenames and we recorded an impairment for certain of our tradenames of \$1.1 million, as the carrying amount of these tradenames exceeded the fair value. In addition, we divested eight funeral homes for a net loss of \$6.7 million.

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

	Years Ended December 31,	
	2020	2021
Senior Notes	\$ 27,087	\$ 22,381
Credit Facility	4,220	2,200
Convertible Notes	169	19
Finance leases	496	471
Acquisition debt	489	364
Other	54	10
Total	\$ 32,515	\$ 25,445

Other, net. The components of *Other, net* are as follows (in thousands):

	Years Ended December 31,	
	2020	2021
Gain on insurance reimbursements related to Hurricane Michael	\$ (97)	\$ —
Loss on land donation	—	61
Other (income) expense	(55)	23
Total	\$ (152)	\$ 84

Income taxes. Our income tax provision was \$11.1 million for the year ended December 31, 2021, compared to our income tax provision of \$8.6 million for the year ended December 31, 2020. Our operating tax rate before discrete items was 27.8% and 32.4% for the years ended December 31, 2021 and 2020, respectively.

We recorded a net discrete tax benefit of \$1.2 million and a discrete tax expense of \$0.6 million for the years ended December 31, 2021 and 2020, respectively. The net discrete tax benefit for the year ended December 31, 2021, includes benefit related to equity compensation and other adjustments including return to provision analysis and state legislative changes. Our effective tax rate was 25.2% and 34.7% for years ended December 31, 2021 and 2020, respectively.

In connection with the CARES Act, we filed a claim for a refund on June 30, 2020, to carryback the NOLs generated in the tax year ended December 31, 2018. The refund claim for \$7.0 million from the 2018 tax year was received on August 7, 2020. As our refund claim filed for tax year 2018 exceeded \$5.0 million, our 2018 federal return is under audit by the Internal Revenue Service (“IRS”), as required in order to receive Joint Committee approval. An additional carryback claim for a refund was filed on November 3, 2020 for the tax year ended December 31, 2019, which has not yet been received. On December 4, 2020, we filed an amended federal return for the tax year ended December 31, 2018, in order to take full advantage of the CARES Act legislative changes. The changes reported in the amended return resulted in additional \$2.3 million of losses. The additional losses generated from the amended filing will be administratively carried back and processed as part of the Joint Committee review of the 2018 carryback claim.

The majority of the NOLs generated in tax years 2018 and 2019 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. Our unrecognized tax benefit reserve for the years ended December 31, 2020 and 2021 was \$3.7 million and \$3.8 million, respectively.

On October 11, 2021, we received an adverse ruling from the IRS for the accounting method change filed in 2018 for revenue recognition of cemetery property. Approval is still pending for the accounting method change filed for revenue recognition of cemetery merchandise and services. Upon receiving the adverse ruling on the revenue recognition of cemetery property accounting method change, we filed an automatic method change on Form 3115, to adopt the IRS’ preferred revenue recognition method for cemetery property. The accounting method change application was submitted under the “three-month window” rule, which would grant audit protection for the cumulative effect of the adverse ruling for revenue recognition of cemetery property, at the discretion of the IRS agent conducting the audit.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 17 for additional information regarding income taxes.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Understanding our accounting policies and the extent to which our management uses judgment, assumptions and estimates in applying these policies is integral to understanding our Consolidated Financial Statements. Our critical accounting policies are more fully described in Part II, Item 8, Financial Statements and Supplementary Data, Note 1.

We have identified the following accounting policies as those 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.

Goodwill

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. 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 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. 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.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 4 for additional information related to goodwill.

Business Combinations

Determining the fair value of identifiable assets, particularly intangibles and liabilities acquired also requires management to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. 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.

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, the Company is 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.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 3 for additional information related to business combinations.

RECENT ACCOUNTING PRONOUNCEMENTS, ACCOUNTING CHANGES AND OTHER REGULATIONS

For discussion of recent accounting pronouncements and accounting changes, see Note 2 in Part II, Item 8, Financial Statements and Supplementary Data.

ITEM 7A. 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 at 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 December 31, 2021 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 December 31, 2021 are presented in Part II, Item 8, Financial Statements and Supplementary Data, Note 7. The sensitivity of the fixed income securities is such that a 0.25% change in interest rates causes an approximate 1.26% 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. As of December 31, 2021, we had outstanding borrowings under the Credit Facility of \$155.4 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 our Credit Facility at either the prime rate or the LIBOR rate plus a margin. At December 31, 2021, the prime rate margin was equivalent to 0.75% and the LIBOR rate margin was 1.75%. 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 \$1.6 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 December 31, 2021, the carrying value of the Senior Notes on our Consolidated Balance Sheet was \$394.6 million and the fair value of the Senior Notes was \$401.6 million based on the last traded or broker quoted price as reported by FINRA. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

**CARRIAGE SERVICES, INC.
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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Carriage Services, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Carriage Services, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and financial statement schedule included under Item 15(a) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated March 2, 2022 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2014.

Dallas, Texas
March 2, 2022

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Carriage Services, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Carriage Services, Inc., (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2021, and our report dated March 2, 2022 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management’s report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Dallas, Texas
March 2, 2022

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

	December 31,	
	2020	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 889	\$ 1,148
Accounts receivable, net	25,103	25,314
Inventories	7,259	7,346
Prepaid and other current assets	2,076	6,404
Total current assets	35,327	40,212
Preneed cemetery trust investments	86,604	100,903
Preneed funeral trust investments	101,235	113,658
Preneed cemetery receivables, net	21,081	23,150
Receivables from preneed funeral trusts, net	16,844	19,009
Property, plant and equipment, net	269,051	269,367
Cemetery property, net	101,134	100,701
Goodwill	392,978	391,972
Intangible and other non-current assets, net	29,542	29,378
Operating lease right-of-use assets	21,201	17,881
Cemetery perpetual care trust investments	70,828	72,400
Total assets	\$ 1,145,825	\$ 1,178,631
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and lease obligations	\$ 3,432	\$ 2,809
Accounts payable	11,259	14,205
Accrued and other liabilities	31,138	43,773
Convertible notes	2,538	—
Total current liabilities	48,367	60,787
Acquisition debt, net of current portion	4,482	3,979
Credit facility	46,064	153,857
Senior notes	395,968	394,610
Obligations under finance leases, net of current portion	5,531	5,157
Obligations under operating leases, net of current portion	20,302	18,520
Deferred preneed cemetery revenue	47,846	50,202
Deferred preneed funeral revenue	27,992	30,584
Deferred tax liability	46,477	45,784
Other long-term liabilities	4,748	1,419
Deferred preneed cemetery receipts held in trust	86,604	100,903
Deferred preneed funeral receipts held in trust	101,235	113,658
Care trusts' corpus	69,707	71,156
Total liabilities	905,323	1,050,616
Commitments and contingencies:		
Stockholders' equity:		
Common stock, \$0.01 par value; 80,000,000 shares authorized and 26,020,494 and 26,264,245 shares issued, respectively and 17,995,155 and 15,331,923 shares outstanding, respectively	260	263
Additional paid-in capital	239,989	236,809
Retained earnings	102,303	135,462
Treasury stock, at cost; 8,025,339 and 10,932,322 shares at December 31, 2020 and 2021, respectively	(102,050)	(244,519)
Total stockholders' equity	240,502	128,015
Total liabilities and stockholders' equity	\$ 1,145,825	\$ 1,178,631

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

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

	Years Ended December 31,		
	2019	2020	2021
Revenue:			
Service revenue	\$ 142,554	\$ 164,984	\$ 180,572
Property and merchandise revenue	114,514	139,630	167,721
Other revenue	17,039	24,834	27,593
	<u>274,107</u>	<u>329,448</u>	<u>375,886</u>
Field costs and expenses:			
Cost of service	72,991	79,634	82,395
Cost of merchandise	89,294	103,064	113,871
Cemetery property amortization	3,985	4,956	6,670
Field depreciation expense	12,370	13,006	12,609
Regional and unallocated funeral and cemetery costs	13,827	18,057	25,846
Other expenses	2,055	4,808	4,979
	<u>194,522</u>	<u>223,525</u>	<u>246,370</u>
Gross profit	79,585	105,923	129,516
Corporate costs and expenses:			
General, administrative and other	25,880	25,827	33,949
Home office depreciation and amortization	1,416	1,427	1,241
Net loss on divestitures, disposals and impairment charges	4,846	21,442	666
Operating income	<u>47,443</u>	<u>57,227</u>	<u>93,660</u>
Interest expense	(25,522)	(32,515)	(25,445)
Accretion of discount on convertible notes	(241)	(216)	(20)
Loss on extinguishment of debt	—	(6)	(23,807)
Other, net	736	152	(84)
Income before income taxes	<u>22,416</u>	<u>24,642</u>	<u>44,304</u>
Expense for income taxes	(7,395)	(7,985)	(12,316)
Tax adjustment related to discrete items	(488)	(567)	1,171
Total expense for income taxes	<u>(7,883)</u>	<u>(8,552)</u>	<u>(11,145)</u>
Net income	<u>\$ 14,533</u>	<u>\$ 16,090</u>	<u>\$ 33,159</u>
Basic earnings per common share:	<u>\$ 0.81</u>	<u>\$ 0.90</u>	<u>\$ 1.90</u>
Diluted earnings per common share:	<u>\$ 0.80</u>	<u>\$ 0.89</u>	<u>\$ 1.81</u>
Dividends declared per common share:	<u>\$ 0.3000</u>	<u>\$ 0.3375</u>	<u>\$ 0.4125</u>
Weighted average number of common and common equivalent shares outstanding:			
Basic	<u>17,877</u>	<u>17,872</u>	<u>17,409</u>
Diluted	<u>18,005</u>	<u>18,077</u>	<u>18,266</u>

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

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

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance – December 31, 2018	18,078	\$ 257	\$ 243,849	\$ 71,680	\$ (94,294)	\$ 221,492
Net Income – 2019	—	—	—	14,533	—	14,533
Issuance of common stock from employee stock purchase plan	74	1	971	—	—	972
Issuance of common stock to directors and board advisor	7	—	155	—	—	155
Issuance of restricted common stock	26	—	—	—	—	—
Exercise of stock options	76	1	471	—	—	472
Cancellation and surrender of restricted common stock	(21)	—	(194)	—	—	(194)
Stock-based compensation expense	—	—	1,998	—	—	1,998
Dividends on common stock	—	—	(5,398)	—	—	(5,398)
Treasury stock acquired	(400)	—	—	—	(7,756)	(7,756)
Other	15	—	295	—	—	295
Balance – December 31, 2019	17,855	\$ 259	\$ 242,147	\$ 86,213	\$ (102,050)	\$ 226,569
Net Income – 2020	—	—	—	16,090	—	16,090
Issuance of common stock from employee stock purchase plan	72	1	1,201	—	—	1,202
Issuance of common stock to directors and board advisor	31	—	653	—	—	653
Exercise of stock options	20	—	(70)	—	—	(70)
Issuance of restricted common stock	10	—	—	—	—	—
Cancellation and surrender of restricted common stock	(11)	—	(250)	—	—	(250)
Stock-based compensation expense	—	—	2,717	—	—	2,717
Dividends on common stock	—	—	(6,048)	—	—	(6,048)
Convertible notes repurchase	—	—	(828)	—	—	(828)
Other	18	—	467	—	—	467
Balance – December 31, 2020	17,995	\$ 260	\$ 239,989	\$ 102,303	\$ (102,050)	\$ 240,502
Net Income – 2021	—	—	—	33,159	—	33,159
Issuance of common stock from employee stock purchase plan	62	1	1,629	—	—	1,630
Issuance of common stock to directors and board advisor	15	—	642	—	—	642
Issuance of restricted common stock	9	—	—	—	—	—
Exercise of stock options	169	2	(1,259)	—	—	(1,257)
Cancellation and surrender of restricted common stock	(11)	—	(375)	—	—	(375)
Stock-based compensation expense	—	—	4,871	—	—	4,871
Dividends on common stock	—	—	(7,264)	—	—	(7,264)
Convertible notes conversions	—	—	(1,424)	—	—	(1,424)
Treasury stock acquired	(2,907)	—	—	—	(142,469)	(142,469)
Balance – December 31, 2021	15,332	\$ 263	\$ 236,809	\$ 135,462	\$ (244,519)	\$ 128,015

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

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

	Years Ended December 31,		
	2019	2020	2021
Cash flows from operating activities:			
Net income	\$ 14,533	\$ 16,090	\$ 33,159
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,771	19,389	20,520
Provision for credit losses	1,618	2,318	1,783
Stock-based compensation expense	2,153	3,370	5,513
Deferred income tax expense (benefit)	10,117	4,597	(692)
Amortization of intangibles	1,231	1,299	1,285
Amortization of debt issuance costs	392	782	576
Amortization and accretion of debt discount and premium	733	523	439
Loss on extinguishment of debt	—	6	23,807
Net loss on divestitures, disposals and impairment charges	5,059	21,693	847
Gain on insurance reimbursements	(879)	(97)	—
Other	121	19	—
Changes in operating assets and liabilities that provided (used) cash:			
Accounts and preneed receivables	(5,801)	(4,279)	(4,090)
Inventories, prepaid and other current assets	(2,762)	3,516	(4,449)
Intangible and other non-current assets	(924)	(1,015)	(1,181)
Preneed funeral and cemetery trust investments	(6,500)	(5,043)	(31,349)
Accounts payable	(580)	2,702	522
Accrued and other liabilities	1,271	10,784	3,485
Deferred preneed funeral and cemetery revenue	168	528	5,010
Deferred preneed funeral and cemetery receipts held in trust	5,495	5,733	29,061
Net cash provided by operating activities	43,216	82,915	84,246
Cash flows from investing activities:			
Acquisition of businesses and real estate	(140,907)	(28,011)	(3,285)
Deposit on pending acquisition	(5,000)	—	—
Proceeds from divestitures and sale of other assets	967	8,541	7,875
Proceeds from insurance reimbursements	1,433	248	7,758
Capital expenditures	(15,379)	(15,198)	(24,883)
Net cash used in investing activities	(158,886)	(34,420)	(12,535)
Cash flows from financing activities:			
Borrowings from the credit facility	174,961	109,500	266,168
Payments against the credit facility	(118,261)	(146,100)	(157,968)
Payment to redeem the original senior notes	—	—	(400,000)
Payment of call premium for the redemption of the original senior notes	—	—	(19,876)
Proceeds from the issuance of the senior notes	—	—	395,500
Payment of debt issuance costs for the credit facility and senior notes	(1,871)	(78)	(2,197)
Conversion and maturity of the convertible notes	(27)	(4,563)	(3,980)
Proceeds from the issuance of the original senior notes	76,688	—	—
Payments on acquisition debt and obligations under finance leases	(2,287)	(1,745)	(1,331)
Payments on contingent consideration recorded at acquisition date	(162)	(169)	(461)
Proceeds from the exercise of stock options and employee stock purchase plan	1,445	1,229	2,644
Taxes paid on restricted stock vestings and exercise of stock options	(194)	(348)	(2,647)
Dividends paid on common stock	(5,398)	(6,048)	(7,264)
Purchase of treasury stock	(9,152)	—	(140,040)
Net cash provided by (used in) financing activities	115,742	(48,322)	(71,452)
Net increase in cash and cash equivalents	72	173	259
Cash and cash equivalents at beginning of year	644	716	889
Cash and cash equivalents at end of year	\$ 716	\$ 889	\$ 1,148

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

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 December 31, 2021, we operated 170 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

The accompanying Consolidated Financial Statements include the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Reclassifications

Certain reclassifications have been made to prior period amounts on our Consolidated Statements of Cash Flows related to debt and debt issuance costs to conform to the current period financial statement presentation with no effect on our previously reported Consolidated Statements of Operations and Consolidated Balance Sheet.

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 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.

We did not acquire any businesses in 2021. On January 3, 2020, we acquired one funeral home and cemetery combination business in Lafayette, California.

The pro forma impact of the acquisitions on prior periods is not presented as the impact is not material to our reported results. The results of the acquired businesses are included in our results of operations from the date of acquisition.

See Note 3 to the Consolidated Financial Statements herein for further information related to 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 apply the guidance in Accounting Standards Codification ("ASC") Topic 350 – Intangibles – Goodwill and Other to determine 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.

During 2021, we sold two funeral homes and one cemetery for \$2.5 million and we merged six funeral homes with other businesses we own in existing markets. During 2020, we sold eight funeral homes for \$8.4 million. During 2019, we divested three funeral homes whose building leases expired and sold a funeral home for \$0.9 million. In addition, we merged a funeral home with a business in an existing market.

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

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. In addition to our annual test, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value of a reporting unit may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant negative industry or economic trends and significant adverse changes in the business climate, which may be indicated by a decline in our market capitalization or decline in operating results.

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

For our 2021 annual impairment test, we performed a qualitative assessment and concluded that there was no impairment to goodwill.

During 2020, as a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our goodwill and we recorded an impairment to goodwill of \$13.6 million, as the carrying amount of our funeral homes in the Eastern Region Reporting Unit exceeded the fair value.

For our 2020 annual impairment test, we performed a qualitative assessment and determined that there were no factors that would indicate the need to perform an additional quantitative goodwill impairment test and concluded that there was no additional impairment to goodwill.

For our 2019 annual impairment test, we performed a quantitative assessment and concluded there was no impairment to goodwill as the fair value of our reporting units was greater than the carrying value. However, we recorded a goodwill impairment of \$0.7 million during the year ended December 31, 2019 related to two funeral homes that we divested.

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. For the years ended December 31, 2020 and 2021, after each divestiture, we concluded that it was more-likely-than not that the fair value of our reporting units was greater than their carrying value and thus there was no impairment to goodwill.

See Note 4 to the Consolidated Financial Statements included herein for additional information related to 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.

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. In addition to our 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.

For our 2021 annual impairment test, we performed a qualitative assessment and concluded there that was no impairment to our intangible assets.

During 2020, as a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our tradenames and we recorded an impairment to tradenames for certain of our funeral homes of \$1.1 million, as the carrying amount of these tradenames exceeded the fair value.

For our 2020 annual impairment test, we performed a qualitative assessment and determined that there were no factors that would indicate the need to perform an additional quantitative impairment test and concluded there that was no additional impairment to our intangible assets.

For our 2019 annual impairment test, we performed a quantitative assessment and recorded an impairment of \$0.2 million for tradenames during the year ended December 31, 2019, as the carrying amount of certain tradenames exceeded their fair value.

See Note 11 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.

We present our credit losses for fixed income securities as an allowance for the fixed income securities we do not intend to sell and it is likely that we will not be required to sell prior to their anticipated recovery.

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.

An enterprise is required to perform an analysis to determine whether the enterprise’s variable interest(s) give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both

the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Our analysis continues to support our position as the primary beneficiary in the majority of our funeral and cemetery trust 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. We have not elected to measure any additional financial instruments and certain other items at fair value that are not currently required to be measured at fair value.

In the ordinary course of business, we are typically exposed to a variety of market risks. Currently, these are primarily related to changes in fair market values related to outstanding debts 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 risk management techniques when appropriate and when available for a reasonable price.

See Notes 7 and 10 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. Amortization expense totaled \$0.6 million for each of the years ended December 31, 2019, 2020 and 2021.

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 11 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 following estimated useful lives of the assets:

	Years
Buildings and improvements	15 to 40
Furniture and fixtures	5 to 10
Machinery and equipment	3 to 15
Automobiles	5 to 7

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

	December 31, 2020	December 31, 2021
Land	\$ 82,615	\$ 82,095
Buildings and improvements	240,567	240,387
Furniture, equipment and automobiles	91,302	73,377
Property, plant and equipment, at cost	414,484	395,859
Less: accumulated depreciation	(145,433)	(126,492)
Property, plant and equipment, net	<u>\$ 269,051</u>	<u>\$ 269,367</u>

During the year ended December 31, 2021, we acquired real property for \$3.3 million and we sold real property for \$5.2 million, with a carrying value of \$4.3 million, resulting in a gain on the sale of \$0.9 million. We recognized a \$0.5 million impairment loss related to property, plant and equipment assets held for sale. The gain on sale and impairment loss were recorded in *Net loss on divestitures, disposals and impairment charges*.

We also divested two funeral homes and one cemetery that had a carrying value of property, plant and equipment of \$1.4 million, which was included in the gain or loss on the sale of divestitures and recorded in *Net loss on divestitures, disposals and impairment charges* on our Consolidated Statements of Operations, described in Note 5 to the Consolidated Financial Statements included herein.

Additionally, we disposed of damaged and obsolete property, plant and equipment that had a carrying value of \$1.0 million, which was recorded in *Net loss on divestitures, disposals and impairment charges*.

During the year ended December 31, 2020, we acquired \$1.7 million of property, plant and equipment related to our funeral home and cemetery acquisition, described in Note 3 to the Consolidated Financial Statements included herein. In addition, we divested eight funeral homes that had a carrying value of property, plant and equipment of \$8.0 million, which was included in the gain or loss on the sale of divestitures and recorded in *Net loss on divestitures, disposals and impairment charges* on our Consolidated Statements of Operations.

Our growth and maintenance capital expenditures totaled \$10.5 million and \$19.0 million for the years ended December 31, 2020 and 2021, respectively, for property, plant, equipment. In addition, we recorded depreciation expense of \$13.8 million, \$14.4 million and \$13.8 million for the years ended December 31, 2019, 2020 and 2021, respectively.

Long-lived assets, such as property, plant and equipment and right-of-use assets (see leases discussion 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 in accordance with ASC 360 – Property, Plant and Equipment. Factors that could trigger an impairment review include, but are not limited to, significant under-performance relative to historical or projected future operating results. We evaluate our long-lived assets for impairment when a funeral home or cemetery business has negative earnings before interest, taxes, depreciation and amortization (“EBITDA”) for four consecutive years and if there has been a decline in EBITDA in that same period. We test the recoverability of our long-lived assets by comparing their carrying value to the sum of the undiscounted cash flows expected to result from the use of the assets over their remaining useful lives. We recognize an impairment loss if the carrying amount of the long-lived asset is not recoverable and exceeds its fair value.

Additionally, assets to be disposed of and assets not expected to provide any future service potential are recorded at the lower of their carrying amount or fair value less estimated costs to sell. If we determine that the carrying value is not recoverable from the proceeds of the sale, we record an impairment loss at that time.

For the year ended December 31, 2021, we did not identify any factors or events that would trigger us to perform an impairment test on our long-lived assets and concluded there was no impairment to our long-lived assets.

In connection with the goodwill impairment recorded for the Eastern Region Reporting Unit during the quarter ended March 31, 2020, we evaluated the long-lived assets of our funeral homes in the Eastern Region Reporting Unit for impairment and concluded that there was no impairment to our long-lived assets. Subsequent to our impairment tests performed at March 31, 2020, we did not identify any new factors or events that would trigger us to perform an additional assessment of our long-lived assets.

For the year ended December 31, 2019, we did not identify any factors or events that would trigger us to perform an impairment test on our long-lived assets and concluded there was no impairment to our long-lived assets.

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 \$101.1 million and \$100.7 million, net of accumulated amortization of \$46.6 million and \$53.1 million at December 31, 2020 and 2021, 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 totaled \$4.7 million and \$5.9 million for the years ended December 31, 2020 and 2021, respectively, for cemetery property development. We recorded amortization expense for cemetery interment rights of \$4.0 million, \$5.0 million and \$6.7 million for the years ended December 31, 2019, 2020 and 2021, respectively.

During the year ended December 31, 2021, we divested one cemetery that had a carrying value of cemetery property of \$0.1 million, which was included in the gain or loss on the sale of divestitures and recorded in *Net loss on divestitures, disposals and impairment charges* on our Consolidated Statements of Operations. We did not divest any cemeteries during the years ended December 31, 2019 and 2020.

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 in determining 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 obligations* 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 *Obligations under finance leases, net of current portion* on our Consolidated Balance Sheet.

In connection with the goodwill and intangible impairment tests performed at March 31, 2020, we also evaluated the operating and finance leases of our funeral homes in the Eastern Reporting Unit and concluded that there was no impairment to our operating and finance lease assets. Subsequent to our impairment tests performed at March 31, 2020, we did not identify any new factors or events that would trigger us to perform an additional assessment of our operating and finance leases. See discussion of our impairment policy for long-lived assets and right-of-use assets above.

See Note 15 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. For the years ended December 31, 2019 and 2020 the excess tax deficiency related to share-based payments was \$0.4 million and \$0.1 million, respectively. For the year ended December 31, 2021, the excess tax benefit was \$1.2 million. The excess tax benefit and tax deficiencies are recorded within *Tax adjustment related to discrete items* on our Consolidated Statements of Operations. Excess tax benefits and deficiencies related to share-based payments are included in operating cash flows on the Consolidated Statements of Cash Flows.

See Note 18 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. Packages for service and ancillary items are offered to help the customer make decisions during emotional and stressful times. 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 December 31, 2021, 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 \$8.2 million and \$8.0 million at December 31, 2020 and 2021, 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 \$7.9 million and \$10.4 million at December 31, 2020 and 2021, 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 Notes 21 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.

In connection with the CARES Act, we filed a claim for a refund on June 30, 2020, to carryback the NOLs generated in the tax year ended December 31, 2018. The refund claim for \$7.0 million from the 2018 tax year was received on August 7, 2020. As our refund claim filed for tax year 2018 exceeded \$5.0 million, our 2018 federal return is under audit by the Internal Revenue Service ("IRS"), as required in order to receive Joint Committee approval.

An additional carryback claim for a refund was filed on November 3, 2020 for the tax year ended December 31, 2019, which has not yet been received. On December 4, 2020, Carriage filed an amended federal return for the tax year ended December 31, 2018, in order to take full advantage of the CARES Act legislative changes. The changes reported in the amended return resulted in additional \$2.3 million of losses. The additional losses generated from the amended filing will be administratively carried back and processed as part of the Joint Committee review of the 2018 carryback claim.

The majority of the NOLs generated in tax years 2018 and 2019 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. These losses were carried back 5 years to tax years in which the enacted federal rate was 35%, under the CARES Act.

On October 11, 2021, we received an adverse ruling from the IRS for the accounting method change filed in 2018 for revenue recognition of cemetery property. Approval is still pending for the accounting method change filed for revenue recognition of cemetery merchandise and services. Upon receiving the adverse ruling for cemetery property, we filed an automatic accounting method change on Form 3115, to adopt the IRS' preferred method of revenue recognition for cemetery property effective for the year ending December 31, 2021, reflected in this filing. The accounting method change application was submitted under the "three-month window" rule, which would grant audit protection for the cumulative effect of the adverse ruling for revenue recognition of cemetery property, at the discretion of the IRS auditor currently reviewing our 2018 federal return. Due to the uncertainty of receiving audit protection for the Form 3115 and not yet receiving approval of the cemetery merchandise and services accounting method change filed in 2018, a reserve remains against the net cash tax benefit derived from carrying back the NOLs generated to tax years in which the enacted federal rate was 35%. Our unrecognized tax benefit reserve for the years ended December 31, 2019, 2020 and 2021 was \$0.7 million, \$3.7 million and \$3.8 million, respectively.

See Note 17 to the Consolidated Financial Statements included herein for additional information related to income taxes.

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, performance awards and our Convertible Notes (as defined in Note 13).

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 and directors 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 20 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 December 31, 2021 through the date the financial statements were issued for potential recognition or disclosure in the accompanying financial statements covered by this report.

See Note 24 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. We did not utilize the optional expedients and exceptions provided by this ASU during the year ended December 31, 2021.

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. Early adoption of the amendments is permitted. We plan to adopt the provisions of this ASU for our fiscal year beginning January 1, 2023. We are still evaluating the impact of adoption on our consolidated financial statements.

3. ACQUISITIONS

We did not acquire any businesses in 2021. On January 3, 2020, we acquired one funeral home and cemetery combination business in Lafayette, California for \$33.0 million in cash, of which \$5.0 million was deposited in escrow in 2019 and \$28.0 million was paid at closing in 2020. We acquired substantially all of the assets and assumed certain operating liabilities of these businesses.

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 on our Consolidated Statements of Operations from the date of acquisition.

Subsequent to our initial purchase price allocation for this acquisition made during the first quarter of 2020, we adjusted and finalized our purchase price allocation based on additional information that became available prior to December 31, 2020.

The following table summarizes the breakdown of the purchase price allocation for our 2020 acquisition (in thousands):

	Initial Purchase Price Allocation	Adjustments	Adjusted Purchase Price Allocation
Current assets	\$ 2,662	\$ 108	\$ 2,770
Trust investments	9,089	—	9,089
Property, plant & equipment	1,720	—	1,720
Cemetery property	14,753	82	14,835
Goodwill	12,916	500	13,416
Intangible and other non-current assets	2,506	(628)	1,878
Assumed liabilities	(489)	\$ —	\$ (489)
Deferred tax liability	(527)	(5)	(532)
Trust liabilities	(9,089)	—	(9,089)
Deferred revenue	(541)	(57)	(598)
Purchase price	<u>\$ 33,000</u>	<u>\$ —</u>	<u>\$ 33,000</u>

The current assets primarily relate to preneed cemetery receivables. The intangible and other non-current assets primarily relate to the fair value of tradenames. The assumed liabilities primarily relate to the obligations associated with delivered preneed merchandise that were not paid for prior to acquisition. The goodwill recorded for our 2020 acquisition is expected to be deductible for tax purposes.

4. GOODWILL

Many of the former owners and staff of our acquired funeral homes and certain cemeteries have provided high quality service to families for generations, which often represents a substantial portion of the value of a business. 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.

Our 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. 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.

For our 2021 annual impairment test, we performed a qualitative assessment and determined that there was no impairment to goodwill.

During 2020, as a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our goodwill and we recorded an impairment to goodwill of \$13.6 million, as the carrying amount of our funeral homes in the Eastern Region Reporting Unit exceeded the fair value.

For our 2020 annual impairment test, we performed a qualitative assessment and determined that there was no additional impairment to goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	December 31, 2020	December 31, 2021
Goodwill at the beginning of year	\$ 398,292	\$ 392,978
Net increase in goodwill related to acquisitions	14,054	—
Decrease in goodwill related to divestitures	(5,736)	(1,006)
Decrease in goodwill related to impairments	(13,632)	—
Goodwill at the end of the year	<u>\$ 392,978</u>	<u>\$ 391,972</u>

During the year ended December 31, 2021, we allocated \$1.0 million of goodwill to the sale of one funeral home for a loss recorded in *Net loss on divestitures, disposals and impairment charges* on our Consolidated Statements of Operations. Goodwill is only allocated to the sale if the set is considered to be a business. When we divest a portion of a reporting unit that constitutes a business in accordance with U.S. GAAP, we allocate goodwill associated with that business to be included in the gain or loss on divestiture. When divesting a business, goodwill is allocated based on the relative fair values of the business being divested and the portion of the reporting unit that will be retained.

During the year ended December 31, 2020, we recognized \$14.1 million in goodwill related to our acquisitions; \$10.4 million was allocated to our cemetery segment and \$3.7 million was allocated to our funeral home segment. In addition, we allocated \$5.7 million of goodwill to the sale of five funeral homes for a loss recorded in *Net loss on divestitures, disposals and impairment charges*.

See Notes 1, 3 and 5 to the Consolidated Financial Statements included herein, for a discussion of the methodology used for our annual goodwill impairment test and a discussion of our acquisitions and divestitures, respectively.

5. DIVESTED OPERATIONS

During 2021, we sold two funeral homes and one cemetery for \$2.5 million and we merged six funeral homes with other businesses we own in existing markets. During 2020, we sold eight funeral homes for \$8.4 million. During 2019, we divested three funeral homes whose building leases expired and sold a funeral home for \$0.9 million. In addition, we merged a funeral home with a business we own in an existing market.

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

	Years Ended December 31,		
	2019	2020	2021
Revenue	\$ 805	\$ 2,643	\$ 1,070
Operating income (loss)	(569)	159	6
Net loss on divestitures ⁽¹⁾	(3,883)	(6,749)	(62)
Income tax benefit	1,288	2,135	16
Net loss from divested operations, after tax	<u>\$ (3,164)</u>	<u>\$ (4,455)</u>	<u>\$ (40)</u>

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

6. RECEIVABLES
Accounts Receivable

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

	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	<u>\$ 10,692</u>	<u>\$ 14,437</u>	<u>\$ 185</u>	<u>\$ 25,314</u>

	December 31, 2020			
	Funeral	Cemetery	Corporate	Total
Trade and financed receivables	\$ 11,448	\$ 12,230	\$ —	\$ 23,678
Other receivables	367	2,144	201	2,712
Allowance for credit losses	(327)	(960)	—	(1,287)
Accounts receivable, net	<u>\$ 11,488</u>	<u>\$ 13,414</u>	<u>\$ 201</u>	<u>\$ 25,103</u>

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 for the year ended December 31, 2021 (in thousands):

	January 1, 2021	Provision for Credit Losses	Write Offs	Recoveries	December 31, 2021
Trade and financed receivables:					
Funeral	\$ (327)	\$ (915)	\$ 2,193	\$ (1,316)	\$ (365)
Cemetery	(960)	(325)	660	—	(625)
Total allowance for credit losses on Trade and financed receivables	<u>\$ (1,287)</u>	<u>\$ (1,240)</u>	<u>\$ 2,853</u>	<u>\$ (1,316)</u>	<u>\$ (990)</u>

Preneed Cemetery Receivables

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

	December 31, 2020	December 31, 2021
Interment rights	\$ 36,425	\$ 40,863
Merchandise and services	6,449	7,348
Unearned finance charges	4,348	4,644
Preneed cemetery receivables	<u>\$ 47,222</u>	<u>\$ 52,855</u>

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

	December 31, 2020	December 31, 2021
Preneed cemetery receivables	\$ 47,222	\$ 52,855
Less: unearned finance charges	(4,348)	(4,644)
Preneed cemetery receivables, at amortized cost	<u>\$ 42,874</u>	<u>\$ 48,211</u>
Less: allowance for credit losses	(2,604)	(1,704)
Less: balances due on undelivered cemetery preneed contracts	(7,919)	(10,353)
Less: amounts in accounts receivable	(11,270)	(13,004)
Preneed cemetery receivables, net	<u>\$ 21,081</u>	<u>\$ 23,150</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes the activity in our allowance for credit losses for *Preneed cemetery receivables, net* for the year ended December 31, 2021 (in thousands):

	January 1, 2021	Provision for Credit Losses	Write Offs	December 31, 2021
Total allowance for credit losses on <i>Preneed cemetery receivables, net</i>	\$ (1,644)	\$ (543)	\$ 1,108	\$ (1,079)

The amortized cost basis of our preneed cemetery receivables by year of origination as of December 31, 2021 is as follows (in thousands):

	2021	2020	2019	2018	2017	Prior	Total
Total preneed cemetery receivables, at amortized cost	\$ 24,644	\$ 10,955	\$ 6,723	\$ 3,158	\$ 1,198	\$ 1,533	\$ 48,211

The aging of past due preneed cemetery receivables as of December 31, 2021 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 Financing Receivables
Recognized revenue	\$ 777	\$ 738	\$ 210	\$ 1,919	\$ 3,644	\$ 34,214	\$ 37,858
Deferred revenue	271	159	57	467	954	14,043	14,997
Total contracts	\$ 1,048	\$ 897	\$ 267	\$ 2,386	\$ 4,598	\$ 48,257	\$ 52,855

The aging of past due preneed cemetery receivables as of December 31, 2020 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 Financing Receivables
Recognized revenue	\$ 759	\$ 348	\$ 174	\$ 1,763	\$ 3,044	\$ 32,219	\$ 35,263
Deferred revenue	220	130	42	557	949	11,010	11,959
Total contracts	\$ 979	\$ 478	\$ 216	\$ 2,320	\$ 3,993	\$ 43,229	\$ 47,222

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 foreign debt, corporate debt, preferred stocks, mortgage-backed securities 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 10 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.

For fixed income securities in an unrealized loss position, we first assess whether we intend to sell or it is more-likely-than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For fixed

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

income securities that do not meet the aforementioned criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If our assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

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, 2020	December 31, 2021
Preneed cemetery trust investments, at market value	\$ 89,081	\$ 103,808
Less: allowance for contract cancellation	(2,477)	(2,905)
Preneed cemetery trust investments	<u>\$ 86,604</u>	<u>\$ 100,903</u>

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		<u>\$ 96,817</u>	<u>\$ 12,039</u>	<u>\$ (5,992)</u>	<u>\$ 102,864</u>
Accrued investment income		<u>\$ 944</u>			<u>\$ 944</u>
Preneed cemetery trust investments					<u>\$ 103,808</u>
Market value as a percentage of cost					<u>106.2%</u>

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

Due in one year or less	\$ —
Due in one to five years	10,250
Due in five to ten years	6,815
Thereafter	27,365
Total fixed income securities	<u>\$ 44,430</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The cost and market values associated with preneed cemetery trust investments at December 31, 2020 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	\$ 1,859	\$ —	\$ —	\$ 1,859
Fixed income securities:					
Foreign debt	2	15,953	2,083	(702)	17,334
Corporate debt	2	14,856	1,820	(358)	16,318
Preferred stock	2	11,886	980	(336)	12,530
Mortgage-backed securities	2	272	—	(159)	113
Common stock	1	30,253	7,642	(6,601)	31,294
Mutual funds:					
Fixed Income	2	7,494	1,331	(185)	8,640
Trust Securities		\$ 82,573	\$ 13,856	\$ (8,341)	\$ 88,088
Accrued investment income		\$ 993			\$ 993
Preneed cemetery trust investments					\$ 89,081
Market value as a percentage of cost					106.7%

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)

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, 2020, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 2020					
	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	\$ 2,517	\$ (57)	\$ 371	\$ (645)	\$ 2,888	\$ (702)
Corporate debt	784	(99)	542	(259)	1,326	(358)
Preferred stock	709	(118)	4,049	(218)	4,758	(336)
Mortgage-backed securities	—	—	112	(159)	112	(159)
Total fixed income securities with an unrealized loss	\$ 4,010	\$ (274)	\$ 5,074	\$ (1,281)	\$ 9,084	\$ (1,555)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Years ended December 31,		
	2019	2020	2021
Investment income	\$ 1,743	\$ 2,175	\$ 2,147
Realized gains	6,353	8,922	18,321
Realized losses	(4,677)	(5,090)	(6,626)
Unrealized gains, net	826	5,515	6,047
Expenses and taxes	(1,313)	(1,354)	(1,715)
Net change in deferred preneed cemetery receipts held in trust	(2,932)	(10,168)	(18,174)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

	Years ended December 31,		
	2019	2020	2021
Purchases	\$ (40,984)	\$ (48,824)	\$ (41,414)
Sales	29,635	41,178	43,265

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, 2020	December 31, 2021
Preneed funeral trust investments, at market value	\$ 104,166	\$ 116,973
Less: allowance for contract cancellation	(2,931)	(3,315)
Preneed funeral trust investments	<u>\$ 101,235</u>	<u>\$ 113,658</u>

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		<u>\$ 110,476</u>	<u>\$ 10,961</u>	<u>\$ (5,296)</u>	<u>\$ 116,141</u>
Accrued investment income		<u>\$ 832</u>			<u>\$ 832</u>
Preneed funeral trust investments					<u>\$ 116,973</u>
Market value as a percentage of cost					<u>105.1%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Due in one year or less	\$	—
Due in one to five years		8,931
Due in five to ten years		6,083
Thereafter		24,985
Total fixed income securities	\$	39,999

The cost and market values associated with preneed funeral trust investments at December 31, 2020 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	\$ 18,478	\$ —	\$ —	\$ 18,478
Fixed income securities:					
U.S. treasury debt	1	819	6	—	825
Foreign debt	2	15,144	2,018	(634)	16,528
Corporate debt	2	13,292	1,638	(310)	14,620
Preferred stock	2	10,944	900	(298)	11,546
Mortgage-backed securities	2	293	1	(155)	139
Common stock	1	28,327	7,364	(6,052)	29,639
Mutual funds:					
Fixed income	2	6,475	1,198	(121)	7,552
Other investments	2	3,928	—	—	3,928
Trust securities		\$ 97,700	\$ 13,125	\$ (7,570)	\$ 103,255
Accrued investment income		\$ 911			\$ 911
Preneed funeral trust investments					\$ 104,166
Market value as a percentage of cost					105.7%

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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, 2020, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 2020					
	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	\$ 2,225	\$ (55)	\$ 337	\$ (579)	\$ 2,562	\$ (634)
Corporate debt	763	(96)	528	(214)	1,291	(310)
Preferred stock	506	(87)	3,942	(211)	4,448	(298)
Mortgage-backed securities	—	—	111	(155)	111	(155)
Total fixed income securities with an unrealized loss	\$ 3,494	\$ (238)	\$ 4,918	\$ (1,159)	\$ 8,412	\$ (1,397)

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

	Years ended December 31,		
	2019	2020	2021
Investment income	\$ 1,753	\$ 1,907	\$ 1,747
Realized gains	6,214	9,441	17,091
Realized losses	(4,612)	(4,677)	(6,155)
Unrealized gains, net	1,499	5,555	5,665
Expenses and taxes	(1,129)	(878)	(1,221)
Net change in deferred preneed funeral receipts held in trust	(3,725)	(11,348)	(17,127)
	\$ —	\$ —	\$ —

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

	Years ended December 31,		
	2019	2020	2021
Purchases	\$ (38,984)	\$ (47,315)	\$ (38,175)
Sales	29,983	43,270	40,658

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, 2020	December 31, 2021
Cemetery perpetual care trust investments, at market value	\$ 70,828	\$ 72,400
Obligations due from trust	(1,121)	(1,244)
Care trusts' corpus	\$ 69,707	\$ 71,156

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table reflects the cost and market values associated with the trust investments held in 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		<u>\$ 67,290</u>	<u>\$ 8,794</u>	<u>\$ (4,373)</u>	<u>\$ 71,711</u>
Accrued investment income		<u>\$ 689</u>			<u>\$ 689</u>
Cemetery perpetual care investments					<u>\$ 72,400</u>
Market value as a percentage of cost					<u>106.6%</u>

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

Due in one year or less	\$ —
Due in one to five years	6,748
Due in five to ten years	5,158
Thereafter	20,288
Total fixed income securities	<u>\$ 32,194</u>

The following table reflects the cost and market values associated with the trust investments held in perpetual care trust funds at December 31, 2020 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	\$ 686	\$ —	\$ —	\$ 686
Fixed income securities:					
Foreign debt	2	12,539	1,641	(582)	13,598
Corporate debt	2	11,684	1,506	(240)	12,950
Preferred stock	2	10,444	819	(355)	10,908
Mortgage-backed securities	2	206	—	(121)	85
Common stock	1	23,662	6,108	(5,255)	24,515
Mutual funds:					
Fixed income	2	6,444	1,054	(220)	7,278
Trust securities		<u>\$ 65,665</u>	<u>\$ 11,128</u>	<u>\$ (6,773)</u>	<u>\$ 70,020</u>
Accrued investment income		<u>\$ 808</u>			<u>\$ 808</u>
Cemetery perpetual care investments					<u>\$ 70,828</u>
Market value as a percentage of cost					<u>106.6 %</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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)

The following table summarized our fixed income securities within our perpetual care trust investment in an unrealized loss position at December 31, 2020, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 2020					
	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	\$ 1,728	\$ (43)	\$ 312	\$ (539)	\$ 2,040	\$ (582)
Corporate debt	592	(74)	410	(166)	1,002	(240)
Preferred stock	1,142	(191)	3,060	(164)	4,202	(355)
Mortgage-backed securities	—	—	85	(121)	85	(121)
Total fixed income securities with an unrealized loss	\$ 3,462	\$ (308)	\$ 3,867	\$ (990)	\$ 7,329	\$ (1,298)

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

	Years ended December 31,		
	2019	2020	2021
Realized gains	\$ 1,663	\$ 2,602	\$ 2,474
Realized losses	(1,258)	(1,695)	(950)
Unrealized gains, net	2,964	4,355	4,421
Net change in Care trusts' corpus	(3,369)	(5,262)	(5,945)
Total	\$ —	\$ —	\$ —

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

	Years ended December 31,		
	2019	2020	2021
Investment income	\$ 4,500	\$ 8,461	\$ 10,443
Realized losses	(377)	(387)	(118)
Total	\$ 4,123	\$ 8,074	\$ 10,325

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

	Years ended December 31,		
	2019	2020	2021
Purchases	\$ (26,573)	\$ (38,168)	\$ (28,317)
Sales	17,588	34,316	29,829

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, 2020	December 31, 2021
Preneed funeral trust funds, at cost	\$ 17,365	\$ 19,597
Less: allowance for contract cancellation	(521)	(588)
Receivables from preneed funeral trusts, net	<u>\$ 16,844</u>	<u>\$ 19,009</u>

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, 2020 and 2021. 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 trust funds at December 31, 2021 is as follows (in thousands):

	Historical Cost Basis	Fair Value
As of December 31, 2021		
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	<u>\$ 19,597</u>	<u>\$ 19,668</u>

The composition of the preneed trust funds at December 31, 2020 is as follows (in thousands):

	Historical Cost Basis	Fair Value
As of December 31, 2020		
Cash and cash equivalents	\$ 4,604	\$ 4,604
Fixed income investments	10,355	10,355
Mutual funds and common stocks	2,402	2,569
Annuities	4	4
Total	<u>\$ 17,365</u>	<u>\$ 17,532</u>

9. CONTRACTS FUNDED BY INSURANCE

When preneed funeral contracts are funded through third-party insurance policies, we earn a commission on the sale of the policies. Insurance commissions are subject to refund (charge-back) if the preneed policy is cancelled within a year or if there is an imminent death of beneficiary before the first year anniversary of the policy. We record these insurance commissions as *Other revenue* when the commission is no longer subject to refund, which is typically one year after the policy is issued. All selling costs incurred pursuant to the sale of the insurance funded preneed contracts are expensed as incurred.

Generally, at the time of the sale of either the preneed insurance or preneed trust contract, the intent is that the beneficiary has made a commitment to assign the proceeds to us for the fulfillment of the service and merchandise obligations on the preneed contract at the time of need. However, this commitment is generally revocable and the proceeds from the policy are portable, so the customer can choose to use an alternative provider at the time of need.

Preneed funeral contracts to be funded at maturity by third-party insurance policies totaled \$395.4 million and \$403.3 million at December 31, 2020 and 2021, respectively, and are not recorded as assets or liabilities on our Consolidated Balance Sheet.

10. 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 12) and Senior Notes (as defined in Note 14) are classified within Level 2 of the Fair Value Measurements hierarchy.

At December 31, 2021, the carrying value and fair value of our Credit Facility was \$155.4 million. We believe that our Credit Facility bears interest at a rate that approximates prevailing market rates for instruments with similar characteristics and therefore, the carrying value of our Credit Facility approximates fair value. We estimate the fair value of our acquisition debt utilizing an income approach, which uses a present value calculation to discount payments based on current market rates as of the reporting date. At December 31, 2021, the carrying value of our acquisition debt was \$4.5 million, which approximated its fair value. The fair value of our Senior Notes was \$401.6 million at December 31, 2021 based on the last traded or broker quoted price.

We identified investments in fixed income securities, common stock and mutual funds presented within the preneed and perpetual care trust investments categories on our Consolidated Balance Sheet as having met the criteria for fair value measurement. 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.

The following three-level valuation hierarchy based upon the transparency of inputs is utilized in the measurement and valuation of financial assets or liabilities as of the measurement date:

- Level 1—Fair value of securities based on unadjusted quoted prices for identical assets or liabilities in active markets. Our investments classified as Level 1 securities include cash, U.S. treasury debt, common stock and equity mutual funds;
- Level 2—Fair value of securities estimated based on quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable or that can be corroborated by observable market data by correlation. These inputs include interest rates, yield curves, credit risk, prepayment speeds, rating and tax-exempt status. Our investments classified as Level 2 securities include foreign debt, corporate debt, preferred stocks, mortgage-backed securities and fixed income mutual funds and other investments.
- Level 3—Unobservable inputs based upon the reporting entity's internally developed assumptions, which market participants would use in pricing the asset or liability. As of December 31, 2020 and 2021, we did not have any assets that had fair values determined by Level 3 inputs and no liabilities measured at fair value.

See Notes 7 and 8 to our Consolidated Financial Statements herein for the fair value hierarchy levels of our trust investments.

11. INTANGIBLE AND OTHER NON-CURRENT ASSETS

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

	December 31, 2020	December 31, 2021
Tradenames	\$ 23,565	\$ 23,565
Prepaid agreements not-to-compete, net of accumulated amortization of \$3,193 and \$3,316, respectively	2,785	2,247
Capitalized commissions on preneed contracts, net of accumulated amortization of \$1,594 and \$2,278, respectively	3,141	3,560
Other	51	6
Intangible and other non-current assets, net	\$ 29,542	\$ 29,378

Tradenames

Our tradenames have indefinite lives and therefore are not amortized. During the year ended December 31, 2020, we increased tradenames by \$0.4 million related to our 2020 acquisitions described in Note 3 to the Consolidated Financial Statements included herein.

For our 2021 annual impairment test, we performed a qualitative assessment and concluded there that was no impairment to our intangible assets.

During 2020, as a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our tradenames and we recorded an impairment to tradenames for certain of our funeral homes of \$1.1 million, as the carrying amount of these tradenames exceeded the fair value.

For our 2020 annual impairment test, we performed a qualitative assessment and determined that there were no factors that would indicate the need to perform an additional quantitative impairment test and concluded there that was no additional impairment to our intangible assets.

See Notes 1, 3 and 5 to the Consolidated Financial Statements included herein, for a discussion of the methodology used for our indefinite lived intangible asset impairment test and discussion of our acquisitions and divestitures, respectively.

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 \$673,000, \$719,000 and \$645,000 for the years ended December 31, 2019, 2020 and 2021, respectively. During the year ended December 31, 2020, we divested three funeral homes that had a carrying value of prepaid agreements not-to-compete of \$537,000, which was included in the gain or loss on the sale of divestitures and recorded in *Net loss on divestitures, disposals and impairment charges* on our Consolidated Statements of Operations. See Note 5 to the Consolidated Financial Statements included herein, for a discussion of our divestitures.

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 \$558,000, \$580,000 and \$640,000 for the years ended December 31, 2019, 2020 and 2021, respectively.

The aggregate amortization expense for our non-compete agreements and capitalized commissions as of December 31, 2021 is as follows (in thousands):

	<u>Non-Compete Agreements</u>	<u>Capitalized Commissions</u>
Years ending December 31,		
2022	\$ 548	\$ 660
2023	446	605
2024	381	544
2025	372	480
2026	257	413
Thereafter	243	858
Total amortization expense	<u>\$ 2,247</u>	<u>\$ 3,560</u>

12. CREDIT FACILITY AND ACQUISITION DEBT

At December 31, 2020, our senior secured revolving credit facility (the "Former Credit Facility") was comprised of: (i) a \$190.0 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 Former Credit Facility was to occur on May 31, 2023.

On May 13, 2021, in connection with the issuance of the Senior Notes (defined in Note 14), we entered into an amended and restated \$150.0 million senior secured revolving credit facility (the "Credit Facility") with the Credit Facility Subsidiary Guarantors (as defined below), the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. We incurred \$0.8 million in transactions costs related to the Credit Facility, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

On May 13, 2021, we used \$21.4 million of the availability under the Credit Facility to repay the then outstanding balances under our Former Credit Facility and all commitments thereunder were terminated. In connection with the repayment in full of all amounts due thereunder, the Former Credit Facility was retired and \$2.1 million of letters of credit previously issued under the Former Credit Facility were deemed issued under (and remain outstanding under) the Credit Facility. In connection with the termination of the Former Credit Facility, we recognized a loss on the write-off of \$0.1 million in unamortized debt issuance costs, which was recorded in *Loss on extinguishment of debt*.

On November 22, 2021, we entered into a first amendment and commitment increase to the Credit Facility with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. Pursuant to this amendment, the revolving credit commitment was increased from \$150.0 million to \$200.0 million. We incurred \$0.1 million in transactions costs related to this amendment, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

Our obligations under the Credit Facility are unconditionally guaranteed on a joint and several basis by the same subsidiaries which guarantee the Senior Notes 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 final maturity of the Credit Facility will occur on May 13, 2026.

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 December 31, 2021, we were subject to the following financial covenants under our Credit Facility: (A) a Total Leverage Ratio not to exceed, (i) 5.00 to 1.00 and (B) a Fixed Charge Coverage Ratio (as defined in the Credit Facility) of not less than 1.20 to 1.00 as of the end of any period of four consecutive fiscal quarters. These financial maintenance covenants are calculated for the Company and its subsidiaries on a consolidated basis.

We were in compliance with all of the covenants contained in our Credit Facility at December 31, 2021.

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

	December 31, 2020	December 31, 2021
Credit Facility	\$ 47,200	\$ 155,400
Debt issuance costs, net of accumulated amortization of \$819 and \$1,324, respectively	(1,136)	(1,543)
Total Credit Facility	\$ 46,064	\$ 153,857
Acquisition debt	\$ 5,509	\$ 4,500
Less: current portion	(1,027)	(521)
Total acquisition debt, net of current portion	\$ 4,482	\$ 3,979

At December 31, 2021, we had outstanding borrowings under the Credit Facility of \$155.4 million. We also had one letter of credit for \$2.1 million under the Credit Facility, which was increased to \$2.3 million on September 1, 2021. 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 December 31, 2021, we had \$42.3 million of availability under the Credit Facility.

Outstanding borrowings under our Credit Facility bear interest at either a prime rate or a LIBOR rate, plus an applicable margin based upon our leverage ratio. At December 31, 2021, the prime rate margin was equivalent to 0.75% and the LIBOR rate margin was 1.75%. The weighted average interest rate on our Credit Facility for the year ended December 31, 2021 was 2.4%. The weighted average interest rate on our Former Credit Facility for the year ended December 31, 2020 was 3.8%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

We have no material assets or operations independent of Subsidiary Guarantors, as all of our assets and operations are held and conducted by the Subsidiary Guarantors. Additionally, we do not currently have any significant restrictions on our ability to receive dividends or loans from any Subsidiary Guarantors.

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

	Years ended December 31,		
	2019	2020	2021
Credit Facility interest expense	\$ 1,601	\$ 3,738	\$ 1,820
Credit Facility amortization of debt issuance costs	229	482	380

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 typically range from five to twenty years.

The imputed interest expense related to our acquisition debt is as follows (in thousands):

	Years ended December 31,		
	2019	2020	2021
Acquisition debt imputed interest expense	\$ 622	\$ 489	\$ 364

The aggregate maturities of our Credit Facility and acquisition debt for the next five years subsequent to December 31, 2021 and thereafter, excluding debt issuance costs, are as follows (in thousands):

Years ending December 31,	Credit Facility		Acquisition Debt	
	\$	—	\$	—
2022	\$	—	\$	825
2023		—		825
2024		—		772
2025		—		772
2026		155,400		325
Thereafter		—		3,007
Total Credit Facility and acquisition debt	\$	155,400	\$	6,526
Less: Interest		—		(2,026)
Present value of Credit Facility and acquisition debt	\$	155,400	\$	4,500

13. CONVERTIBLE SUBORDINATED NOTES

On March 19, 2014, we issued \$143.75 million aggregate principal amount of our 2.75% convertible subordinated notes due 2021 (the “Convertible Notes”). The Convertible Notes were due on March 15, 2021 and bear interest at 2.75% per year, which was payable semi-annually in arrears on March 15 and September 15 of each year.

In May 2018, we exchanged \$115.0 million in aggregate principal amount of Convertible Notes in a privately-negotiated exchange with a limited number of convertible noteholders. We completed privately-negotiated repurchases of \$22.4 million, \$25,000 and \$3.8 million in aggregate principal amount of our Convertible Notes in December 2018, April 2019 and September 2020, respectively.

During the year ended December 31, 2021, we converted \$2.4 million in aggregate principal amount of our Convertible Notes held by certain holders for \$3.8 million in cash and recorded \$1.4 million for the reacquisition of the equity component. The Convertible Notes matured on March 15, 2021, at which time all Convertible Notes outstanding, \$0.2 million in aggregate principal amount, were paid in full in cash at par value. Therefore, no Convertible Notes remain outstanding at December 31, 2021.

The carrying values of the liability and equity components of the Convertible Notes are reflected on our Consolidated Balance Sheet as follows (in thousands):

	December 31, 2020	December 31, 2021
Long-term liabilities:		
Principal amount	\$ 2,559	\$ —
Unamortized discount of liability component	(20)	—
Convertible Notes issuance costs, net of accumulated amortization of \$63	(1)	—
Carrying value of the liability component	<u>\$ 2,538</u>	<u>\$ —</u>
Carrying value of the equity component	<u>\$ 319</u>	<u>\$ —</u>

The carrying value of the liability component and the carrying value of the equity component are recorded in *Convertible subordinated notes due 2021* and *Additional paid-in capital*, respectively, on our Consolidated Balance Sheet at December 31, 2020.

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

	Years ended December 31,		
	2019	2020	2021
Convertible Notes interest expense	\$ 174	\$ 149	\$ 18
Convertible Notes accretion of debt discount	241	216	20
Convertible Notes amortization of debt issuance costs	24	20	1

The effective interest rate on the unamortized debt discount and debt issuance costs for both years ended December 31, 2020 and 2021 was 11.4% and 3.1%, respectively.

14. SENIOR NOTES

On May 13, 2021, we issued \$400.0 million in aggregate principal amount of 4.25% Senior Notes due 2029 (the “Senior Notes”) and related guarantees by the Subsidiary Guarantors in a private offering under Rule 144A and Regulation S of the Securities Act.

We used the proceeds of \$395.5 million from the offering of the Senior Notes, which are net of a 1.125% debt discount of \$4.5 million, together with cash on hand and borrowings under the Credit Facility, to redeem all of our existing \$400.0 million in aggregate principal amount of 6.625% senior notes due 2026 (the “Original Senior Notes”). We paid a premium of \$19.9 million to redeem the Original Senior Notes on June 1, 2021 at a redemption price of 104.97% of the principal amount thereof, plus accrued and unpaid interest of \$13.25 million. During the year ended December 31, 2021, we incurred \$1.3 million in transaction costs related to the Senior Notes.

For the year ended December 31, 2021, we recognized a net loss of \$23.7 million related to the redemption of the Original Senior Notes, which was recorded in *Loss on extinguishment of debt*. The loss is composed of the \$19.9 million call premium, the write-off of \$3.4 million in unamortized debt discount, the write-off of \$1.8 million in unamortized debt issuance costs, offset by the write-off of \$1.4 million in unamortized debt premium.

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 (“Collateral Trustee”).

The Senior Notes bear interest at 4.25% per year. Interest on the Senior Notes is payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2021. The Senior Notes mature on May 15, 2029, unless earlier redeemed or purchased. 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.

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 89 months of the Senior Notes. The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Senior Notes for the year ended December 31, 2021 was 4.42% and 4.30%, respectively.

The carrying value of our Senior Notes is reflected on our Consolidated Balance Sheet as follows (in thousands):

	December 31, 2020	December 31, 2021
Long-term liabilities:		
Principal amount	\$ 400,000	\$ 400,000
Debt premium, net of accumulated amortization of \$221	1,467	—
Debt discount, net of accumulated amortization of \$1,293 and \$301, respectively	(3,582)	(4,199)
Debt issuance costs, net of accumulated amortization of \$496 and \$86, respectively	(1,917)	(1,191)
Carrying value of the Senior Notes	<u>\$ 395,968</u>	<u>\$ 394,610</u>

The fair value of the Senior Notes, which are Level 2 measurements, was \$401.6 million at December 31, 2021.

The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Original Senior Notes, issued in May 2018, for the year ended December 31, 2020 was 6.69%. The effective interest rate on the unamortized debt premium and the unamortized debt issuance costs for the additional Original Senior Notes, issued in December 2019, for year ended December 31, 2020 was 6.90%.

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

	Years ended December 31,		
	2019	2020	2021
Senior Notes interest expense	\$ 21,711	\$ 26,500	\$ 21,767
Senior Notes amortization of debt discount	493	528	504
Senior Notes amortization of debt premium	—	221	85
Senior Notes amortization of debt issuance costs	139	280	195

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The aggregate maturities of our Senior Notes for the next five years subsequent to December 31, 2021 and thereafter are as follows (in thousands):

	Principal Maturity	Discount Amortization	Carrying Value
Years ending December 31,			
2022	\$ —	\$ (493)	\$ (493)
2023	—	(515)	(515)
2024	—	(539)	(539)
2025	—	(563)	(563)
2026	—	(588)	(588)
Thereafter	400,000	(1,501)	398,499
Total	\$ 400,000	\$ (4,199)	\$ 395,801

15. 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	Years Ended December 31,		
		2019	2020	2021
Operating lease cost	Facilities and grounds expense ⁽¹⁾	\$ 3,722	\$ 3,795	\$ 3,762
Short-term lease cost	Facilities and grounds expense ⁽¹⁾	250	185	193
Variable lease cost	Facilities and grounds expense ⁽¹⁾	27	39	160
Finance lease cost:				
Depreciation of leased assets	Depreciation and amortization ⁽²⁾	\$ 498	\$ 439	\$ 438
Interest on lease liabilities	<i>Interest expense</i>	520	496	471
Total finance lease cost		1,018	935	909
Total lease cost		\$ 5,017	\$ 4,954	\$ 5,024

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

(2) Depreciation and amortization expense is included within *Field depreciation expense* and *Home office depreciation and amortization* on our Consolidated Statements of Operations.

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

	Years Ended December 31,		
	2019	2020	2021
Cash paid for operating leases included in operating activities	\$ 3,910	\$ 3,383	\$ 3,822
Cash paid for finance leases included in financing activities	872	828	835

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

	Years Ended December 31,	
	2020	2021
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 782	\$ (1,313)
Right-of-use assets obtained in exchange for new finance lease liabilities	—	—

During the year ended December 31, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Lease Type	Balance Sheet Classification	December 31, 2020	December 31, 2021
Operating lease right-of-use assets	<i>Operating lease right-of-use assets</i>	\$ 21,201	\$ 17,881
Finance lease right-of-use assets	<i>Property, plant and equipment, net</i>	6,770	6,770
Accumulated depreciation	<i>Property, plant and equipment, net</i>	(2,005)	(2,443)
Finance lease right-of-use assets, net		\$ 4,765	\$ 4,327
Operating lease current liabilities	<i>Current portion of operating lease obligations</i>	\$ 2,082	\$ 1,913
Finance lease current liabilities	<i>Current portion of finance lease obligations</i>	323	375
Total current lease liabilities		\$ 2,405	\$ 2,288
Operating lease non-current liabilities	<i>Obligations under operating leases, net of current portion</i>	\$ 20,302	\$ 18,520
Finance lease non-current liabilities	<i>Obligations under finance leases, net of current portion</i>	5,531	5,157
Total non-current lease liabilities		\$ 25,833	\$ 23,677
Total lease liabilities		\$ 28,238	\$ 25,965

The average lease terms and discount rates at December 31, 2021 are as follows:

	Weighted-average remaining lease term (years)	Weighted-average discount rate
Operating leases	9.8	8.1 %
Finance leases	12.1	8.2 %

The aggregate future lease payments for operating and finance leases at December 31, 2021 are as follows (in thousands):

	Operating	Finance
Lease payments due:		
2022	\$ 3,470	\$ 868
2023	3,342	860
2024	3,316	791
2025	3,161	736
2026	3,129	745
Thereafter	13,059	4,810
Total lease payments	\$ 29,477	\$ 8,810
Less: Interest	(9,044)	(3,278)
Present value of lease liabilities	\$ 20,433	\$ 5,532

At December 31, 2021, we had no additional significant operating or finance leases that had not yet commenced.

16. COMMITMENTS AND CONTINGENCIES
Non-Compete, Consulting and Employment Agreements

We have various non-compete agreements with former owners and employees. These agreements are generally for one to ten years and provide for periodic future payments over the term of the agreements.

We have various consulting agreements with former owners of businesses we have acquired. Payments for such agreements are generally not made in advance. These agreements are generally for one to five years and provide for bi-weekly or monthly payments.

We have employment agreements with our executive officers and certain of our senior leadership. These agreements are generally for three to five years and provide for participation in various incentive compensation arrangements. These

agreements generally renew automatically on an annual basis after their initial term has expired, with the exception of our Chairman of the Board and Chief Executive Officer, which does not renew after the current term expiring in February 2028.

At December 31, 2021, the maximum estimated future cash commitments under these agreements with remaining commitment terms, and with original terms of more than one year, are as follows (in thousands):

Years ending December 31,	Non-Compete	Consulting	Employment ^(a)	Total
2022	\$ 2,263	\$ 719	\$ 3,333	\$ 6,315
2023	1,761	322	1,211	3,294
2024	1,186	148	900	2,234
2025	832	51	900	1,783
2026	458	—	900	1,358
Thereafter	308	—	1,012	1,320
Total	\$ 6,808	\$ 1,240	\$ 8,256	\$ 16,304

(a) Melvin C. Payne, our Chairman of the Board and Chief Executive Officer, has an employment agreement that does not renew after the initial term.

Defined Contribution Plan

We sponsor a defined contribution plan, a 401K plan, for the benefit of our employees. Matching contributions and plan administrative expenses totaled \$2.0 million, \$2.3 million and \$2.5 million during the years ended December 31, 2019, 2020 and 2021, respectively. We do not offer any post-retirement or post-employment benefits.

Litigation

We are a party to various litigation matters and proceedings. For each of our outstanding legal matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies, and the likelihood of an unfavorable outcome. If we determine that an unfavorable outcome is probable and can be reasonably estimated, we establish the necessary accruals. We hold certain insurance policies that may reduce cash outflows with respect to an adverse outcome of certain of these litigation matters.

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. Plaintiff, a former employee, seeks monetary damages on behalf of himself and other similarly situated current and former non-exempt employees. Plaintiff claims 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. See Note 24 to the Consolidated Financial Statements included herein for further discussion of the expected final settlement of this matter.

17. INCOME TAXES

The provision for income taxes consisted of the following (in thousands):

	Years Ended December 31,		
	2019	2020	2021
Current:			
U. S. federal provision (benefit)	\$ (2,039)	\$ 1,778	\$ 8,848
State provision (benefit)	(195)	2,177	2,989
Total current provision (benefit)	\$ (2,234)	\$ 3,955	\$ 11,837
Deferred:			
U. S. federal provision (benefit)	\$ 8,056	\$ 3,994	\$ (452)
State provision (benefit)	2,061	603	(240)
Total deferred provision (benefit)	\$ 10,117	\$ 4,597	\$ (692)
Total income tax provision	\$ 7,883	\$ 8,552	\$ 11,145

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

A reconciliation of income taxes calculated at the U.S. federal statutory rate to those reflected in the Consolidated Statements of Operations is as follows (dollars in thousands):

	Years Ended December 31,					
	2019		2020		2021	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal statutory rate	\$ 4,707	21.0 %	\$ 5,175	21.0 %	\$ 9,304	21.0 %
Effect of state income taxes, net of federal benefit	1,352	6.0	2,080	8.4	2,180	4.9
Effect of non-deductible expenses and other, net	947	4.2	460	1.9	(423)	(1.0)
Effect of divestitures and impairment of businesses	911	4.10	846	3.40	103	0.2
Change in valuation allowance, net of federal benefit	(34)	(0.2)	(9)	—	(19)	—
Total	\$ 7,883	35.1 %	\$ 8,552	34.7 %	\$ 11,145	25.1 %

The discrete tax adjustment for the year ended December 31, 2021 includes a \$1.2 million excess tax benefit related to share-based payments and other adjustments including return to provision analysis and state legislative changes.

We are subject to taxation in the United States and various states. As of December 31, 2021, tax years 2013 to 2020 are subject to examination by taxing authorities. On May 10, 2017, we filed amended federal returns for the tax years ended December 31, 2013, 2014 and 2015, which generated refunds of \$1.9 million. The amended returns are under audit and as a result, the administrative processing of the carryback claims requires that the statute for tax years 2013 to 2015 remains open.

On June 30, 2020, we filed a carryback claim for a refund for the tax year ended December 31, 2018 for \$7.0 million. The requested refund was received on August 7, 2020. As our refund claim filed for the tax year 2018 exceeded \$5 million, our 2018 federal return is under IRS under audit as required in order to receive Joint Committee approval for the refund.

On November 3, 2020, we filed a carryback claim for refund for the tax year ended December 31, 2019 for \$1.2 million, which has not yet been received. On December 4, 2020, we filed an amended federal return for the tax year ended December 31, 2018, in order to take full advantage of the CARES Act legislative changes. The changes reported in the amended return resulted in additional \$2.3 million of loss. The additional losses generated from the amended filing will be administratively carried back and processed as part of the Joint Committee review of the 2018 carryback claim.

The majority of the NOLs generated in tax years 2018 and 2019 are primarily the result of filing non-automatic accounting method changes relating to cemetery property and merchandise and services deferred revenue. These losses were carried back 5 years to tax years in which the enacted federal rate was 35%, under the CARES Act.

On October 11, 2021, we received an adverse ruling from the IRS for the accounting method change filed in 2018 for revenue recognition of cemetery property. Approval is still pending for the accounting method change filed for revenue recognition of cemetery merchandise and services. Upon receiving the adverse ruling on the revenue recognition of cemetery property accounting method change, we filed an automatic method change on Form 3115, to adopt the IRS' preferred revenue recognition method for cemetery property. The accounting method change application was submitted under the "three-month window" rule, which would grant audit protection for the cumulative effect of the adverse ruling for revenue recognition of cemetery property, at the discretion of the IRS agent conducting the audit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The tax effects of temporary differences from total operations that give rise to significant deferred tax assets and liabilities are as follows (in thousands):

	Years Ended December 31,	
	2020	2021
Deferred income tax assets:		
Net operating loss carryforwards	\$ 1,570	\$ 1,268
Interest expense limitation	18	2,777
Tax credit carryforwards	100	88
State depreciation	1,264	1,195
Accrued and other liabilities	6,313	7,552
Amortization of non-compete agreements	1,117	1,172
Prepaid and other assets	741	616
Total deferred income tax assets	11,123	14,668
Less valuation allowance	(222)	(198)
Total deferred income tax assets	\$ 10,901	\$ 14,470
Deferred income tax liabilities:		
Depreciation and amortization	\$ (50,946)	\$ (56,030)
Preneed liabilities	(6,427)	(4,224)
Convertible Notes	(5)	—
Total deferred income tax liabilities	(57,378)	(60,254)
Total net deferred tax liabilities	\$ (46,477)	\$ (45,784)

Our deferred tax assets and liabilities, along with related valuation allowances, are classified as non-current on our Consolidated Balance Sheet at December 31, 2020 and 2021.

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 recognized an immaterial net decrease in our valuation allowance during 2020 and 2021.

For state reporting purposes, we have \$24.4 million of net operating loss carryforwards that will expire between 2022 and 2041, if not utilized. Based on management's assessment of the various state net operating losses, it was determined that it is more-likely-than not that we will be able to realize tax benefits on some portion of the amount of the state losses. The valuation allowance at December 31, 2021 was attributable to the deferred tax asset related to a portion of the state operating losses.

We analyze tax benefits for uncertain tax positions and how they are to be recognized, measured, and derecognized in 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. The deferred tax assets recognized for those NOLs are presented net of these unrecognized tax benefits.

At December 31, 2021, the Company's unrecognized tax benefits reserve for uncertain tax positions primarily relates to the uncertainty of receiving audit protection for revenue recognition of cemetery property and not yet receiving the IRS approval of the cemetery merchandise and services accounting method change filed in 2018. Our unrecognized tax benefit reserve for the years ended December 31, 2020 and 2021 was \$3.7 million and \$3.8 million, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Years Ended December 31,		
	2019	2020	2021
Unrecognized tax benefit at beginning of year	\$ —	\$ 691	\$ 3,656
Gross increases - tax positions in prior period	691	—	—
Gross decreases - tax positions in prior period	—	(691)	—
Gross increases - tax positions in current period	—	3,656	105
Unrecognized tax benefit at end of year	\$ 691	\$ 3,656	\$ 3,761

At December 31, 2021, we expect that the \$3.8 million of unrecognized tax benefit will be recognized in the next twelve months. We recognize interest accrued related to unrecognized tax benefit as income tax expense. As of December 31, 2021, we accrued \$0.1 million of interest related to the unrecognized tax benefit.

18. STOCKHOLDERS' EQUITY

Share Authorization

We are authorized to issue 80,000,000 shares of common stock, \$0.01 per share par value. We had 26,020,494 and 26,264,245 shares issued and 17,995,155 and 15,331,923 shares outstanding, net of 8,025,339 and 10,932,322 shares held in treasury at par, at December 31, 2020 and 2021, respectively.

Stock Based Compensation Plans

During the year ended December 31, 2021, we had two stock benefits plans in effect under which stock, restricted stock, stock options and performance awards have been granted or remain outstanding: the Second Amended and Restated 2006 Long-Term Incentive Plan (as amended, the "Amended and Restated 2006 Plan") and the 2017 Omnibus Incentive Plan (as amended, the "2017 Plan"). The Amended and Restated 2006 Plan was terminated upon the approval of the 2017 Plan at the annual shareholders meeting on May 17, 2017. The 2017 Plan expires on May 17, 2027. All stock-based plans are administered by the Compensation Committee appointed by our Board of Directors (our "Board").

At December 31, 2021, we had 2,427,279 shares available to issue under our 2017 Plan. The termination of the Amended and Restated 2006 Plan does not affect the awards previously issued and outstanding.

Restricted Stock

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

	Year Ended December 31,			
	2020		2021	
	Shares	Fair Value	Shares	Fair Value
Granted ⁽¹⁾	10,200	\$ 255	9,300	\$ 324
Returned for payroll taxes	10,588	\$ 250	10,399	\$ 375
Cancelled	—	\$ —	966	\$ 27

(1) Restricted stock granted during the years ended December 31, 2020 and 2021 will vest 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 \$25.00 and \$34.79, respectively.

A summary of the status of unvested restricted stock as of December 31, 2021, and changes during 2021, is presented below:

Restricted stock awards	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2021	45,130	\$ 23.34
Granted	9,300	34.79
Vested	(30,821)	23.81
Cancelled	(966)	28.18
Unvested at December 31, 2021	22,643	\$ 27.21

We recorded stock-based compensation expense, which is included in *Regional and unallocated funeral and cemetery costs* and *General, administrative and other expenses*, for restricted stock awards of \$828,000, \$735,000 and \$390,000 for the years ended December 31, 2019, 2020 and 2021, respectively.

At December 31, 2021, we had \$616,000 of total unrecognized compensation costs related to unvested restricted stock awards, which are expected to be recognized over a weighted average period of 1.2 years.

Stock Options

During the year ended December 31, 2021, we granted 150,000 options to a certain 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 and was calculated using the Monte-Carlo simulation pricing model.

During the year ended December 31, 2021, our stock price closed at or above \$53.39 for three consecutive days, which triggered the vesting of the 50,000 options granted during 2021. As a result, we accelerated the recognition of the grant date fair value of these options and recognized stock-based compensation expense of \$511,000 during the year ended December 31, 2021. Additionally, we recognized an additional \$129,000 of stock-based compensation expense when we accelerated 12,980 options in connection with the resignation of an employee in accordance with the terms of the separation agreement we entered into in connection with such resignation.

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

	Year Ended December 31,			
	2020		2021	
	Shares	Fair Value	Shares	Fair Value
Granted ⁽¹⁾	20,000	\$ 92	701,400	\$ 7,115
Cancelled	146,034	\$ 846	74,688	\$ 722

(1) Stock options granted during the years ended December 31, 2020 and 2021 had a weighted average price of \$18.02 and \$34.79, respectively. The fair value of these options was calculated using the Black-Scholes option pricing model. The options granted in 2020 vest over a three-year period and have a ten-year term. The options granted in 2021 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.

	Year Ended December 31,			
	2020		2021	
	Shares	Cash	Shares	Cash
Exercised ⁽¹⁾	40,365	N/A	423,294	N/A
Returned for option price ⁽²⁾	18,640	\$ 19	211,088	\$ 1,013
Returned for payroll taxes ⁽³⁾	2,954	\$ 89	43,534	\$ 2,272

(1) Stock options exercised during the years ended December 31, 2020 and 2021 had a weighted average exercise price of \$13.72 and \$21.99, respectively, with an aggregate intrinsic value of \$0.5 million and \$8.2 million, respectively.

(2) Represents cash received for the payment of the option price.

(3) Represents cash withheld for the payment of payroll taxes.

Stock options are granted with an exercise price equal to the closing price of our common stock on the date of grant. All of the options granted and outstanding under this plan have either a seven or ten-year term. We utilized the Black-Scholes option pricing model and Monte-Carlo simulation pricing model for estimating the fair value of our stock options. These models allow for the use of a range of assumptions related to volatility, risk-free interest rate, expected holding period and dividend yield. The expected volatility utilized in these valuation models is based on the historical volatility of our stock price. The dividend yield and expected holding period are based on historical experience and management's estimate of future events. The risk-free interest rate is derived from the U.S. Treasury yield curve based on the expected life of the option in effect at the time of grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The fair value of the options granted using the Monte-Carlo simulation pricing model was estimated on the date of grant with the following assumptions:

	Year ended December 31, 2021
Awards granted	150,000
Dividend yield	1.15%
Expected volatility	34.08%
Risk-free interest rate	1.29%

The fair value of the options granted using the Black-Scholes option pricing model was estimated on the date of grant with the following assumptions:

	Years Ended December 31,		
	2019	2020	2021
Awards granted	100,000	20,000	701,400
Dividend yield	1.23 %	1.67 %	1.15 %
Expected volatility	27.45 %	38.54 %	36.72 %
Risk-free interest rate	1.65 %	0.25 %	0.57 %
Expected holding period (years)	5.0	3.7	5.0
Black-Scholes value	\$5.70	\$4.61	\$10.14

A summary of the stock options at and changes during the three years ended December 31, 2021 is presented in the table below (shares in thousands):

	Years Ended December 31,					
	2019		2020		2021	
	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price
Outstanding at January 1	1,523	\$ 21.95	1,078	\$ 23.22	912	\$ 23.40
Granted	100	\$ 24.35	20	\$ 18.02	851	\$ 34.79
Exercised	(247)	\$ 17.37	(40)	\$ 13.72	(423)	\$ 21.99
Cancelled or expired	(298)	\$ 21.96	(146)	\$ 23.97	(75)	\$ 33.56
Outstanding at December 31	1,078	\$ 23.22	912	\$ 23.40	1,265	\$ 30.94
Exercisable at December 31	643	\$ 22.02	668	\$ 22.90	426	\$ 25.71

A summary of the intrinsic value of stock options exercised and the fair value of stock options vested for the three years ended December 31, 2021 is presented in the table below (in thousands):

	Years Ended December 31,		
	2019	2020	2021
Intrinsic value of options exercised	\$ 1,197	\$ 517	\$ 8,229
Fair value of stock options vested	\$ 853	\$ 735	\$ 1,413

The following table further describes our outstanding stock options at December 31, 2021:

Actual Ranges of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding at 12/31/21	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/21	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$18.02 - \$18.02	13,333	3.48	\$ 18.02	—	—	\$ —
\$20.06 - \$26.54	464,921	5.18	\$ 24.80	375,793	5.07	\$ 24.51
\$34.79 - \$34.79	786,900	9.14	\$ 34.79	50,000	9.14	\$ 34.79
\$18.02 - \$34.79	1,265,154	7.63	\$ 30.94	425,793	5.55	\$ 25.71

The aggregate intrinsic value of the outstanding and exercisable stock options was \$42.4 million and \$16.5 million, respectively, at December 31, 2021. We had \$6.1 million of unrecognized compensation cost, net of estimated forfeitures, related to unvested stock options expected to be recognized over a weighted average period of approximately 4.79 years at December 31, 2021.

We recorded stock-based compensation expense, which is included in *Regional and unallocated funeral and cemetery costs* and *General, administrative and other expenses*, for stock options, including the accelerated stock options discussed above of \$682,000, \$669,000 and \$2,355,000 for the years ended December 31, 2019, 2020 and 2021, respectively.

Performance Awards

During the year ended December 31, 2020, we issued 237,500 performance awards to certain employees, payable in shares, with a fair value of \$2.8 million. On May 19, 2020, we cancelled all performance award agreements previously awarded to all individuals during 2019, as well as the 237,500 performance awards previously granted in 2020. Concurrently with the cancellation of those performance awards, the Compensation Committee of the Board approved 368,921 new performance awards to be issued to certain employees. These new performance awards were treated as a modification of the cancelled awards and resulted in an additional \$1.7 million of incremental compensation expense. These awards will vest (if at all) on December 31, 2024, provided that the Company's common stock reaches the predetermined growth targets for a sustained period beginning on the grant date and ending on December 31, 2024.

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.

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

	Years Ended December 31,			
	2020		2021	
	Shares	Fair Value	Shares	Fair Value
Granted	30,743	\$ 733	55,302	\$ 2,116
Cancelled	33,538	\$ 631	55,896	\$ 799

A summary of the new performance award and changes during the year ended December 31, 2021 is presented in the table and below:

<u>Performance Awards</u>	Shares	Weighted Average Grant Date Fair Value	
At January 1, 2021		366,124	\$ 10.89
Granted		55,302	38.27
Amended		70,236	36.36
Cancelled		(55,896)	14.29
At December 31, 2021		435,766	\$ 21.76

The following table reflects the new performance awards granted during the year ended December 31, 2021, their respective fair values and the assumptions utilized in the Monte-Carlo simulation pricing model:

Grant date	April 16, 2021	June 1, 2021	August 12, 2021	September 15, 2021	November 29, 2021
Simulation period (years)	3.71	3.58	3.39	3.29	3.09
Share price at grant date	\$35.83	\$38.78	\$39.48	\$45.27	\$51.15
Expected volatility	41.17 %	41.79 %	42.85 %	43.44 %	45.50 %
Risk-free interest rate	0.52 %	0.46 %	0.53 %	0.49 %	0.85 %

At December 31, 2021, there was \$7.2 million of unrecognized compensation cost related to performance awards expected to be recognized over a weighted average period of 36 months. If all of the predetermined growth targets are met as of December 31, 2024, a total of 1,052,532 shares of common stock would be awarded to participants under this program.

We recorded stock-based compensation expense, which is included in *Regional and unallocated funeral and cemetery costs* and *General, administrative and other expenses*, for performance awards of \$196,000, \$894,000 and \$1,573,000 during the years ended December 31, 2019, 2020 and 2021, respectively.

Employee Stock Purchase Plan

We provide all employees the opportunity to purchase common stock through payroll deductions in our ESPP. Purchases are made quarterly; the price being 85% of the lower of the price on the first day of the plan entry date (beginning of the fiscal year) or the actual date of purchase (end of quarter).

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

	Years Ended December 31,					
	2019		2020		2021	
	Shares	Price	Shares	Price	Shares	Price
ESPP	73,731	\$ 13.18	71,908	\$ 16.71	61,904	\$ 26.32

We recorded stock-based compensation expense, which is included in *Regional and unallocated funeral and cemetery costs* and *General, administrative and other expenses*, for our ESPP of \$292,000, \$434,000 and \$552,000 during the years ended December 31, 2019, 2020 and 2021, respectively.

The fair values of the right to purchase shares under the ESPP are estimated at the date of purchase with the four quarterly purchase dates using the following assumptions:

	Years Ended December 31,					
	2019		2020		2021	
Dividend yield	1.4 %		1.5 %		0.01 %	
Expected volatility	36.1 %		48.6 %		48.1 %	
Risk-free interest rate	2.42%, 2.51%, 2.56%, 2.60%		1.54%, 1.57%, 1.57%, 1.56%		0.09%, 0.09%, 0.10%, 0.10%	
Expected life (years)	0.25, 0.50, 0.75, 1.00		0.25, 0.50, 0.75, 1.00		0.25, 0.50, 0.75, 1.00	

Expected volatilities are based on the historical volatility during the previous twelve months of the underlying common stock. The risk-free rate for the quarterly purchase periods is based on the U.S. Treasury yields in effect at the time of purchase. The expected life of the ESPP grants represents the calendar quarters from the beginning of the year to the purchase date (end of each quarter).

Good To Great Incentive Program

We did not issue any shares of common stock in 2021 related to our Good To Great program.

On February 19, 2020, we issued 17,991 shares of our common stock to certain employees, which were valued at \$449,000 at a grant date stock price of \$25.00.

During 2019, we issued 14,844 shares of our common stock to certain employees, which were valued at \$294,000 at a grant date stock price of \$19.92.

Non-Employee Director and Board Advisor Compensation

Our Director Compensation Policy provides that each independent director is entitled to a quarterly retainer of \$35,000 payable in cash and/or unrestricted shares of our common stock at the end of each quarter. The Lead Director and chairman of our Audit Committee are entitled to an additional annual retainer of \$10,000, payable in quarterly installments of \$2,500 each at the end of each quarter, and the chairman of our Corporate Governance and Compensation Committees are entitled to an additional annual retainer of \$5,000, payable in quarterly installments of \$1,250 each at the end of each quarter. Any new independent director will receive upon admission to the Board a grant of \$25,000 (in addition to the independent director annual retainer prorated at the time the new director is admitted to the Board) which can be taken in cash or unrestricted shares of our common stock. The Board Advisor is entitled to a quarterly retainer of \$18,750 payable in cash and/or unrestricted shares of our common stock at the end of each quarter. The number of shares of such common stock will be determined by dividing the cash amount by the closing price of our common stock on the date of grant, which will be the date of admission to the Board.

On May 17, 2021, James R. Schenck provided notice of his resignation from the Board effective on that date. He served as the chairman of the Corporate Governance Committee and as a member of the Audit Committee and the Compensation Committee. On June 1, 2021, the Board appointed Dr. Achille Messac to be the chairman of the Corporate Governance Committee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Years Ended December 31,					
	2019		2020		2021	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Board of Directors	7,458	\$ 155	30,883	\$ 654	14,744	\$ 622
Advisor to the Board	—	\$ —	967	\$ 20	466	\$ 20

(1) Common stock granted during the years ended December 31, 2019, 2020 and 2021 had a weighted average price of \$20.78, \$21.16 and \$42.14, respectively.

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 \$455,000, \$889,000 and \$858,000 during the years ended December 31, 2019, 2020 and 2021, respectively.

Cash Dividends

On October 27, 2021, our Board approved an annual increase of \$0.05 per share for a total annual dividend of \$0.45 per share beginning with the dividend declaration in the fourth quarter.

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

	Per Share		Dollar Value	
2021				
March 1st	\$	0.1000	\$	1,799
June 1st	\$	0.1000	\$	1,808
September 1st	\$	0.1000	\$	1,783
December 1st	\$	0.1125	\$	1,873
2020				
March 1st	\$	0.0750	\$	1,339
June 1st	\$	0.0750	\$	1,343
September 1st	\$	0.0875	\$	1,569
December 1st	\$	0.1000	\$	1,797

19. SHARE REPURCHASE PROGRAM

Subject to market conditions, normal trading restrictions and satisfying certain financial covenants in our Credit Facility, and in the Indenture governing our Senior Notes, we may make purchases in the open market or through privately negotiated transactions under our Board authorized share repurchase program, in accordance with Rule 10b-18 of the Securities Exchange Act.

On May 18, 2021, July 26, 2021 and October 27, 2021, our Board increased our share repurchase authorization by an additional \$25.0 million, \$25.0 million and \$75.0 million, respectively, that including amounts previously authorized and outstanding, totaled up to \$190.0 million in share repurchase authorizations.

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

	Years Ended December 31,					
	2019		2020		2021	
Number of Shares Repurchased ⁽¹⁾		400,000		—		2,906,983
Average Price Paid Per Share	\$	19.39	\$	—	\$	49.01
Dollar Value of Shares Repurchased ⁽¹⁾	\$	7,756	\$	—	\$	142,469

(1) These amounts may differ from the repurchases of common stock amounts in the consolidated statements of cash flows due to unsettled share repurchases at the end of a period. In December 2021, we repurchased 37,408 shares for \$2.4 million, the settlement of which occurred in January 2022.

Our shares were purchased in the open market at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury stock. At December 31, 2021, we had \$8.1 million remaining available for repurchase under our authorized program.

See Note 24 to the Consolidated Financial Statements included herein for additional information related to our share repurchases.

20. EARNINGS PER SHARE

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

The following table sets forth the computation of the basic and diluted earnings per share (in thousands, except per share data):

	Years Ended December 31,		
	2019	2020	2021
Numerator for basic and diluted earnings per share:			
Net income	\$ 14,533	\$ 16,090	\$ 33,159
Less: Earnings allocated to unvested restricted stock	(62)	(46)	(53)
Income attributable to common stockholders	<u>\$ 14,471</u>	<u>\$ 16,044</u>	<u>\$ 33,106</u>
Denominator:			
Denominator for basic earnings per common share - weighted average shares outstanding	17,877	17,872	17,409
Effect of dilutive securities:			
Stock options	118	196	475
Convertible Notes	10	9	—
Performance awards	—	—	382
Denominator for diluted earnings per common share - weighted average shares outstanding	<u>18,005</u>	<u>18,077</u>	<u>18,266</u>
Basic earnings per common share	<u>\$ 0.81</u>	<u>\$ 0.90</u>	<u>\$ 1.90</u>
Diluted earnings per common share	<u>\$ 0.80</u>	<u>\$ 0.89</u>	<u>\$ 1.81</u>

The fully diluted weighted average shares outstanding for the years ended December 31, 2019 and 2020, and the corresponding calculation of fully diluted earnings per share, included approximately 10,000 and 9,000 shares that would have been issued upon the conversion of our Convertible Notes as a result of the application of the if-converted method prescribed by the FASB ASC 260. At December 31, 2021, we had no Convertible Notes outstanding.

For the year ended December 31, 2019, there were 338,440 stock options excluded from the computation of diluted earnings per share because the inclusion of such stock options would result in an antidilutive effect. For the years ended December 31, 2020 and 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 December 31, 2021, 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.

21. SEGMENT REPORTING

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

Year Ended, December 31, 2021

	Funeral	Cemetery	Total
Services	\$ 164,082	\$ 16,490	\$ 180,572
Merchandise	92,023	13,741	105,764
Cemetery property	—	61,957	61,957
Other revenue	13,982	13,611	27,593
Total	\$ 270,087	\$ 105,799	\$ 375,886

Year Ended, December 31, 2020

	Funeral	Cemetery	Total
Services	\$ 150,283	\$ 14,701	\$ 164,984
Merchandise	84,787	10,778	95,565
Cemetery property	—	44,065	44,065
Other revenue	14,068	10,766	24,834
Total	\$ 249,138	\$ 80,310	\$ 329,448

Year Ended, December 31, 2019

	Funeral	Cemetery	Total
Services	\$ 131,636	\$ 10,918	\$ 142,554
Merchandise	75,682	7,665	83,347
Cemetery property	—	31,167	31,167
Other revenue	9,550	7,489	17,039
Total	\$ 216,868	\$ 57,239	\$ 274,107

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents operating income (loss), income (loss) before income taxes, depreciation and amortization, interest expense, income tax expense (benefit), total assets, long-lived assets, goodwill, capital expenditures and number of operating locations by segment (in thousands, except number of operating locations):

	Funeral	Cemetery	Corporate	Consolidated
Operating income (loss):				
2021	\$ 88,591	\$ 40,353	\$ (35,284)	\$ 93,660
2020	57,622	26,859	(27,254)	57,227
2019	58,756	15,983	(27,296)	47,443
Income (loss) before income taxes:				
2021	\$ 88,015	\$ 40,473	\$ (84,184)	\$ 44,304
2020	56,875	27,087	(59,320)	24,642
2019	58,844	16,025	(52,453)	22,416
Depreciation and amortization:				
2021	\$ 11,062	\$ 8,217	\$ 1,241	\$ 20,520
2020	11,586	6,376	1,427	19,389
2019	11,128	5,227	1,416	17,771
Interest expense:				
2021	\$ 835	\$ —	\$ 24,610	\$ 25,445
2020	1,004	13	31,498	32,515
2019	1,142	—	24,380	25,522
Income tax expense (benefit):				
2021	\$ 22,141	\$ 10,181	\$ (21,177)	\$ 11,145
2020	19,738	9,401	(20,587)	8,552
2019	20,694	5,635	(18,446)	7,883
Total assets:				
2021	\$ 769,539	\$ 390,344	\$ 18,748	\$ 1,178,631
2020	764,535	366,964	14,326	1,145,825
2019	790,459	314,413	24,883	1,129,755
Long-lived assets:				
2021	\$ 611,181	\$ 176,398	\$ 3,839	\$ 791,418
2020	619,588	172,122	995	792,705
2019	650,179	145,158	1,303	796,640
Goodwill:				
2021	\$ 344,823	\$ 47,149	\$ —	\$ 391,972
2020	345,829	47,149	—	392,978
2019	361,451	36,841	—	398,292
Capital expenditures:				
2021	\$ 11,511	\$ 9,704	\$ 3,668	\$ 24,883
2020	6,997	7,025	1,176	15,198
2019	8,403	5,772	1,204	15,379
Number of operating locations at year end:				
2021	170	31	—	201
2020	178	32	—	210
2019	186	31	—	217

22. SUPPLEMENTARY DATA
Balance Sheet

The detail of certain balance sheet accounts is as follows (in thousands):

	December 31,	
	2020	2021
Prepays and other current assets:		
Prepaid expenses	\$ 1,919	\$ 2,215
Federal income tax receivable	—	4,064
Other current assets	157	125
Total prepaid and other current assets	<u>\$ 2,076</u>	<u>\$ 6,404</u>
Current portion of debt and lease obligations:		
Acquisition debt	\$ 1,027	\$ 521
Finance lease obligations	323	375
Operating lease obligations	2,082	1,913
Total current portion of debt and lease obligations	<u>\$ 3,432</u>	<u>\$ 2,809</u>
Accrued and other liabilities:		
Incentive compensation	\$ 11,139	\$ 19,121
Insurance	3,016	4,089
Unrecognized tax benefit	3,656	3,761
Vacation	3,271	3,334
Natural disaster liability	—	2,628
Interest	2,291	2,250
Salaries and wages	1,392	2,193
Employer payroll tax deferral	1,773	1,773
Employee meetings and award trips	801	1,462
Income tax payable	798	485
Commissions	634	684
Perpetual care trust payable	908	389
Ad valorem and franchise taxes	435	450
Other accrued liabilities	1,024	1,154
Total accrued and other liabilities	<u>\$ 31,138</u>	<u>\$ 43,773</u>
Other long-term liabilities:		
Incentive compensation	\$ 2,975	\$ 1,291
Employer payroll tax deferral	1,773	—
Severance	—	128
Total other long-term liabilities	<u>\$ 4,748</u>	<u>\$ 1,419</u>

23. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

	Years Ended December 31,		
	2019	2020	2021
Cash paid for interest and financing costs	\$ 23,870	\$ 30,935	\$ 24,127
Cash paid (refunded) for taxes	378	(4,457)	16,110
Unsettled share repurchases	1,396	—	2,429
Fair value of donated real property	—	—	635

24. SUBSEQUENT EVENTS

On January 5, 2022, the Company and the Plaintiff, a former employee, mediated the *Chinchilla v. Carriage Services, Inc., et al.*, matter and executed a Memorandum of Understanding for class settlement in the amount of \$1.0 million. The parties will seek preliminary approval of the class settlement after executing a long-form class settlement agreement. At December 31, 2021, we accrued \$1.1 million for the expected settlement amount and associated legal fees.

On February 23, 2022, our Board increased our share repurchase program authorization by an additional \$75 million. Prior to the Board's approval of the increase, at December 31, 2021, we had \$8.1 million remaining available for repurchase under our authorized program. At February 23, 2022, we had \$83.1 million of share repurchase authorization remaining under the revised repurchase program.

CARRIAGE SERVICES, INC.
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

<u>Description</u>	<u>Balance at beginning of year</u>	<u>Charged to costs and expenses</u>	<u>Deduction</u>	<u>Balance at end of year</u>
Year ended December 31, 2019:				
Allowance for bad debts, current portion	\$ 769	\$ 1,088	\$ 1,008	\$ 849
Allowance for bad debts of preneed cemetery receivables, non-current portion	\$ 1,227	\$ 532	\$ 469	\$ 1,290
Employee severance accruals	\$ 1,141	\$ 1,265	\$ 1,569	\$ 837
Valuation allowance of the deferred tax asset	\$ 276	\$ —	\$ 43	\$ 233
Year ended December 31, 2020:				
Allowance for credit losses, current portion	\$ 849	\$ 1,617	\$ 1,179	\$ 1,287
Allowance for credit losses of preneed cemetery receivables, non-current portion	\$ 1,290	\$ 701	\$ 347	\$ 1,644
Employee severance accruals	\$ 837	\$ 596	\$ 1,271	\$ 162
Valuation allowance of the deferred tax asset	\$ 233	\$ —	\$ 11	\$ 222
Year ended December 31, 2021:				
Allowance for credit losses, current portion	\$ 1,287	\$ 1,240	\$ 1,537	\$ 990
Allowance for credit losses of preneed cemetery receivables, non-current portion	\$ 1,644	\$ 543	\$ 1,108	\$ 1,079
Employee severance accruals	\$ 162	\$ 1,431	\$ 952	\$ 641
Valuation allowance of the deferred tax asset	\$ 222	\$ —	\$ 24	\$ 198

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Management's Evaluation of Disclosure Controls and Procedures

Our management, including our principal executive and financial officers, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-K. 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's rules and forms, and to ensure that such information is accumulated and communicated to management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that our disclosure controls and procedures were effective as of December 31, 2021 (the end of the period covered by this Annual Report on Form 10-K).

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management's report on our internal control over financial reporting is presented on the following page of this Form 10-K. Grant Thornton LLP, the independent registered public accounting firm that audited the financial statements included in this Form 10-K, has issued an attestation report on our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined under Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's Consolidated Financial Statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the U.S., and that our receipts and expenditures are being made only in accordance with authorizations of management and our directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our Consolidated Financial Statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the Company's internal control over financial reporting as of December 31, 2021 using the framework specified in *Internal Control — Integrated Framework (2013)*, published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2021.

The Company's internal control over financial reporting as of December 31, 2021 has been audited by Grant Thornton LLP, an independent registered public accounting firm, which also audited the financial statements of the Company for the year ended December 31, 2021, as stated in their report that is presented in this Annual Report.

/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)

March 2, 2022

Changes in Internal Control Over Financial Reporting

During the three months ended December 31, 2021, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.****Code of Ethics**

We have adopted a Code of Business Conduct and Ethics (the “Code”), which is applicable to each of our Directors, Officers, and employees, including our principal executive officer and other senior financial officers, who include our principal financial officer, principal accounting officer or controller, and persons performing similar functions. The Code is available on our internet website at www.carriageservices.com. To the extent required by SEC rules, we intend to disclose any amendments to this code and any waiver of a provision of the Code for the benefit of our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our website within four business days following any such amendment of waiver, or within any other period that may be required under SEC rules from time to time.

The information required by Item 10 is incorporated in this Annual Report on Form 10-K by reference to our definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed with the SEC not later than 120 days after the end of the fiscal year ended December 31, 2021.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by Item 11 is incorporated in this Annual Report on Form 10-K by reference to our definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed with the SEC not later than 120 days after the end of the fiscal year ended December 31, 2021.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by Item 12 is incorporated in this Annual Report on Form 10-K by reference to our definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed with the SEC not later than 120 days after the end of the fiscal year ended December 31, 2021.

The following table, required by Item 201(d) of Regulation S-K, summarizes information regarding the number of shares of our common stock that are available for issuance under all of our existing equity compensation plans as of December 31, 2021.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by security holders	1,265,154	\$ 30.94	2,427,279
Equity compensation plans not approved by security holders	—	—	—
Total	1,265,154	\$ 30.94	2,427,279

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by Item 13 is incorporated in this Annual Report on Form 10-K by reference to our definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed with the SEC not later than 120 days after the end of the fiscal year ended December 31, 2021.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by Item 14 is incorporated in this Annual Report on Form 10-K by reference to our definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed with the SEC not later than 120 days after the end of the fiscal year ended December 31, 2021.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(1) FINANCIAL STATEMENTS

The following financial statements and the Report of Independent Registered Public Accounting Firm are filed as a part of this Form 10-K on the pages indicated:

	<u>Page</u>
Reports of Independent Registered Public Accounting Firm	45
Consolidated Balance Sheet as of December 31, 2020 and 2021	47
Consolidated Statements of Operations for the Years Ended December 31, 2019, 2020 and 2021	48
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2019, 2020 and 2021	49
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2020 and 2021	50
Notes to Consolidated Financial Statements	50
Management's Report on Internal Control over Financial Reporting	97

(2) FINANCIAL STATEMENT SCHEDULES

The following Financial Statement Schedule is included in this Form 10-K on the page indicated:

	<u>Page</u>
Financial Statement Schedule II — Valuation and Qualifying Accounts	95

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or related notes.

(3) EXHIBITS

A copy of this Form 10-K, excluding exhibits, will be furnished at no charge to each person to whom a proxy statement for our 2022 annual meeting of stockholders is delivered upon the request of such person. Exhibits to this Form 10-K are available upon payment of a reasonable fee, which is limited to our expenses in furnishing the requested exhibit. Requests for copies should be directed to our Corporate Secretary, by mail at 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056 or by phone at 1-866-332-8400 or 713-332-8400.

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation, as amended, of the Company, Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996, filed on March 20, 1997.
3.2	Certificate of Amendment dated May 7, 1997. Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997, filed on November 14, 1997.
3.3	Certificate of Amendment dated May 7, 2002. Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended June 30, 2002, filed on August 13, 2002.

- *3.4 [Second Amended and Restated By-Laws of Carriage Services, Inc. dated July 28, 2021.](#)
- 4.1 [Indenture, dated as of May 13, 2021, among the Company, the Guarantors \(as defined therein\) and Wilmington Trust, National Association, as Trustee. Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed May 13, 2021.](#)
- 4.2 [Form of 4.25% Senior Notes due 2029 \(included with the Indenture filed as Exhibit 4.1\). Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 13, 2021.](#)
- 4.3 [Second Amended and Restated 2006 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended June 30, 2012. †](#)
- 4.4 [First Amendment to Carriage Services, Inc. Second Amended and Restated 2006 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K filed March 5, 2014. †](#)
- 4.5 [Amended and Restated Carriage Services, Inc. 2007 Employee Stock Purchase Plan. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended September 30, 2013. †](#)
- 4.6 [First Amendment to the Amended and Restated Carriage Services, Inc. 2007 Employee Stock Purchase Plan. Incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed on April 4, 2018. †](#)
- 4.7 [Second and Third Amendments to the Amended and Restated Carriage Services, Inc. 2007 Employee Stock Purchase Plan. Incorporated by reference to Appendix A and B, respectively, to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 5, 2021 and Amendment No. 1 to our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 6, 2021. †](#)
- 4.8 [Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Appendix A of the Proxy Statement on Schedule 14A filed on April 5, 2017. †](#)
- 4.9 [First Amendment to the Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Appendix C to the Company's Definitive Proxy Statement on Schedule 14A filed on April 5, 2021 and Amendment No. 1 to our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 6, 2021. †](#)
- *4.10 [Summary of Securities Registered under Section 12.](#)
- 10.1 [Indemnity Agreement with Melvin C. Payne dated December 18, 2000. Incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. †](#)
- *10.2 [Director Compensation Policy dated February 19, 2020. †](#)
- 10.3 [Form of Incentive Stock Option Agreement under Carriage Services, Inc. Second Amended and Restated 2006 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended June 30, 2013. †](#)
- 10.4 [Form of Restricted Stock Agreement under Carriage Services, Inc. Second and Amended and Restated 2006 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for its quarter ended June 30, 2013. †](#)
- 10.5 [Form of Employee Restricted Stock Agreement under Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2017. †](#)
- 10.6 [Form of Employee Incentive Stock Option Agreement under Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2017. †](#)

- 10.7 [Form of Employee Stock Option Agreement under Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2017.](#) †
- 10.8 [Employment Agreement dated November 5, 2019, by and between the Company and Melvin C. Payne. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 8, 2019.](#) †
- 10.9 [First Amendment to Employment Agreement dated February 17, 2021 by and between the Company and Melvin C. Payne. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 18, 2021.](#) †
- 10.10 [Form of First Amendment to Employment Agreement Consideration \\$77.34 Option Grant dated February 17, 2021 by and between the Company and Melvin C. Payne.](#) †
- 10.11 [Form of First Amendment to Employment Agreement Consideration \\$53.39 Option Grant dated February 17, 2021 by and between the Company and Melvin C. Payne.](#) †
- 10.12 [Employment Agreement dated November 5, 2019, by and between the Company and Shawn Phillips. Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 8, 2019.](#) †
- 10.13 [Employment Agreement dated November 5, 2019, by and between the Company and Paul Elliott. Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 8, 2019.](#) †
- 10.14 [Employment Agreement dated November 5, 2019, by and between the Company and Carl Benjamin Brink. Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on November 8, 2019.](#) †
- *10.15 [Employment Agreement dated November 5, 2019, by and between the Company and Steven D. Metzger.](#) †
- *10.16 [Employment Agreement dated June 25, 2020, by and between the Company and Carlos Quezada.](#) †
- *10.17 [First Amendment to Employment Agreement dated June 1, 2021, by and between the Company and Carl Benjamin Brink.](#) †
- *10.18 [First Amendment to Employment Agreement dated June 1, 2021, by and between the Company and Steven D. Metzger.](#) †
- *10.19 [First Amendment to Employment Agreement dated June 1, 2021, by and between the Company and Carlos Quezada.](#) †
- 10.20 [Form of Performance Award Agreement under Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 22, 2020.](#) †
- *10.21 [Form of First Amendment to Performance Award Agreement under Carriage Services, Inc. 2017 Omnibus Incentive Plan dated as of June 1, 2021.](#) †
- 10.23 [First Amended and Restated Credit Agreement dated as of May 13, 2021, among Carriage Services, Inc., the guarantors party thereto, the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 13, 2021.](#)
- 10.24 [First Amendment and Commitment Increase to First Amended and Restated Credit Agreement dated as of November 22, 2021, among Carriage Services, Inc., the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent, swing line lender and L/C issuer. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 23, 2021.](#)
- 10.25 [Form of Notes Repurchase Agreement, Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 4, 2020.](#)

10.26	Release and Separation Agreement by and between Carriage Services, Inc. and Viki K. Blinderman, dated February 2, 2021 and effective March 31, 2021. Incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K filed on March 2, 2021. †
*21.1	Subsidiaries of the Company.
*23.1	Consent of Grant Thornton LLP.
*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	Interactive Data Files.

(*) Filed herewith.

(**) Furnished herewith.

(†) Management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY.

None.

SECOND AMENDED AND RESTATED BY-LAWS OF CARRIAGE SERVICES, INC.

PREAMBLE These Second Amended and Restated By-Laws (the “by-laws”) are subject to, and governed by, the General Corporation Law of the State of Delaware (the “Delaware General Corporation Law”) and the certificate of incorporation, as amended (the “Certificate of Incorporation”), of Carriage Services, Inc., a Delaware corporation (the “Corporation”). In the event of a direct conflict between the provisions of these by-laws and the mandatory provisions of the Delaware General Corporation Law or the provisions of the Certificate of Incorporation, such provisions of the Delaware General Corporation Law or the Certificate of Incorporation, as the case may be, will be controlling.

ARTICLE ONE: OFFICES

1.1 REGISTERED OFFICE AND AGENT. The registered office and registered agent of the Corporation shall be as designated from time to time by the appropriate filing by the Corporation in the office of the Secretary of State of the State of Delaware.

1.2 OTHER OFFICES. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or as the business of the Corporation may require.

ARTICLE TWO: MEETINGS OF STOCKHOLDERS

2.1 ANNUAL MEETING. An annual meeting of stockholders of the Corporation shall be held each calendar year on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice of such meeting. At such meeting, the stockholders shall elect directors and transact such other business as may properly be brought before the meeting.

2.2 SPECIAL MEETING. A special meeting of the stockholders of the Corporation, and any proposals to be considered at such meetings, may be called and proposed exclusively by the Board of Directors, pursuant to a resolution approved by a majority of the members of the Board of Directors at the time in office, and no stockholder of the Corporation shall have the right to require the Board of Directors to call a special meeting of stockholders or to propose business at a special meeting of stockholders. A special meeting shall be held on such date and at such time as shall be designated by the person(s) calling the meeting and stated in the notice of the meeting or in a duly executed waiver of notice of such meeting. Only such business shall be transacted at a special meeting as may be stated or indicated in the notice of such meeting or in a duly executed waiver of notice of such meeting.

2.3 PLACE OF MEETINGS. An annual meeting of stockholders may be held at any place within or without the State of Delaware, or by means of remote communication, designated by the Board of Directors. A special meeting of stockholders may be held at any place within or without the State of Delaware, or by means of remote communication, designated in the notice of the meeting or a duly executed waiver of notice of such meeting. The Board of Directors, in its sole discretion, may determine that meetings of stockholders be held by means of remote

communication, provided that the Corporation implement the measures for remote communications set forth in Section 8.8.

2.4 NOTICE. Written or printed notice stating the place (if any), day, and time of each meeting of the stockholders, the record date for determining the stockholders entitled to vote at the meeting (if such date is different than the record date for stockholders entitled to notice of the meeting), the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in case of a special meeting, the purpose or purposes for which the meeting is called shall be delivered not less than ten nor more than 60 days before the date of the meeting (unless a different time is specified by law), whether personally, by mail, or by a form of electronic transmission to each stockholder of record entitled to vote at such meeting. If such notice is to be sent by mail, it shall be directed to such stockholder at his address as it appears on the records of the Corporation, unless he shall have filed with the Secretary or an Assistant Secretary of the Corporation a written request that notices to him be mailed to some other address, in which case it shall be directed to him at such other address, and such notice will be deemed to be given when deposited in the U.S. mail. Notice sent by a form of electronic transmission shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice, (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network together with a separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; or (iv) if by any other form of electronic transmission, when directed to the stockholder. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall attend such meeting in person or by proxy and shall not, at the beginning of such meeting, object to the transaction of any business because the meeting is not lawfully called or convened, or who shall, either before or after the meeting, submit a proper waiver of notice. Proper waiver of notice shall either be in writing and signed by the person entitled to notice, or transmitted electronically by the person entitled to notice. Any stockholder so waiving notice of the meeting shall be bound by the proceedings of the meeting in all respects as if due notice thereof had been given.

2.5 VOTING LIST. At least ten days before each meeting of stockholders, the Secretary or other officer of the Corporation who has charge of the Corporation's stock ledger, either directly or through another officer appointed by him or through a transfer agent appointed by the Board of Directors, shall prepare a complete list of stockholders entitled to vote thereat, arranged in alphabetical order and showing the address of each stockholder and number of shares registered in the name of each stockholder. For a period of at least 10 days prior to such meeting, such list shall be open to examination, for any purpose germane to the meeting, either (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with notice of the meeting, or (ii) at the principal place of business of the Corporation during ordinary business hours. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of

remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with notice of the meeting. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. Except as required by applicable law, the stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger and the list of stockholders or to vote in person or by proxy at any meeting of stockholders.

2.6 QUORUM. The holders of a majority of the outstanding shares entitled to vote on a matter, present in person or by proxy, shall constitute a quorum at any meeting of stockholders, except as otherwise provided by law, the Certificate of Incorporation, or these by-laws. For the purposes of these by-laws, a stockholder or proxy holder not physically present at a meeting of stockholders may be deemed present in person at that meeting by means of remote communication, provided that the Corporation implement reasonable measures to verify his or her attendance and eligibility. If a quorum shall not be present, in person or by proxy, at any meeting of stockholders, the stockholders entitled to vote thereat who are present, in person or by proxy, or, if no stockholder entitled to vote is present, any officer of the Corporation may adjourn the meeting from time to time, without notice other than announcement at the meeting (unless the Board of Directors, after such adjournment, fixes a new record date for the adjourned meeting), until a quorum shall be present, in person or by proxy. At any adjourned meeting at which a quorum shall be present, in person or by proxy, any business may be transacted which may have been transacted at the original meeting had a quorum been present; provided that, if the adjournment is for more than 30 days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting.

2.7 REQUIRED VOTE; WITHDRAWAL OF QUORUM. When a quorum is present at any meeting, the vote of the holders of at least a majority of the outstanding shares entitled to vote who are present, in person or by proxy, shall decide any question brought before such meeting, unless the question is one on which, by express provision of statute, the Certificate of Incorporation, or these by-laws, a different vote is required, in which case such express provision shall govern and control the decision of such question. The stockholders present at a duly constituted meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

2.8 METHOD OF VOTING; PROXIES. Unless otherwise required by law or provided in the Certificate of Incorporation, each stockholder shall be entitled to one vote, in person or by proxy, for each share of capital stock held by such stockholder. At any meeting of stockholders, every stockholder having the right to vote may vote either in person or by a proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact. If authorized by the Board of Directors, such requirement of a written ballot shall be satisfied by a ballot submitted by electronic transmission, provided that any such electronic transmission must either set forth or be

submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder or proxy holder. Each such proxy shall be filed with the Secretary or an Assistant Secretary of the Corporation before or at the time of the meeting. No proxy shall be valid after three years from the date of its execution, unless otherwise provided in the proxy. If no date is stated in a proxy, such proxy shall be presumed to have been executed on the date of the meeting at which it is to be voted. Each proxy shall be revocable unless expressly provided therein to be irrevocable and coupled with an interest sufficient in law to support an irrevocable power or unless otherwise made irrevocable by law.

2.9 RECORD DATE. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders, or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion, or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, for any such determination of stockholders, such date in any case to be not more than 60 days and not less than ten days prior to such meeting. If no record date is fixed: (a) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; and (b) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

2.10 CONDUCT OF MEETING. The Chairman of the Board, if such office has been filled, or in his or her absence the Lead Director, or the Chief Executive Officer of the Corporation, in the order named, shall call meetings of the stockholders to order, and shall act as chairman of such meeting; provided, however, that the Board of Directors may appoint any person to act as chairman of any meeting in the absence of the Chairman of the Board or the Lead Director. The Secretary shall keep the records of each meeting of stockholders. In the absence or inability to act of any such officer, such officer's duties shall be performed by the officer given the authority to act for such absent or non-acting officer under these by-laws or by a person appointed by the meeting.

2.11 INSPECTORS. The Board of Directors may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, the chairman of the meeting shall, or if inspectors shall not have been appointed, the chairman of the meeting may, appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares of capital stock of the Corporation outstanding and the voting power of each, the number of shares

represented at the meeting, the existence of a quorum, and the validity and effect of proxies and shall receive votes, ballots, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots, or consents, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request, or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. Inspectors need not be stockholders.

2.12 NOMINATIONS FOR ELECTION AS A DIRECTOR; ADVANCE NOTICE OF STOCKHOLDER NOMINATIONS AND PROPOSALS.

(a) No business may be transacted at any meeting of the stockholders, including the nomination or election of persons to the Board of Directors, other than business that is either specified in the notice of meeting (or any supplement thereto) given by the Board of Directors (or any duly authorized committee thereof) with respect to the meeting, otherwise properly brought before the meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) and otherwise properly brought before the meeting by a stockholder of the Company (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 2.12 and on the record date for the determination of stockholders entitled to vote at such meeting and (ii) who complies with the notice and nomination provisions set forth in this Section 2.12.

(b) Only persons who are nominated in accordance with the procedures set forth in these by-laws and qualify for nomination pursuant to Section 3.2 shall be eligible for election by stockholders as, and to serve as, directors. In addition, any proposal of business (other than nomination of persons for election to the Board of Directors) must be a proper matter for stockholder action.

(c) Such proposals for business (including, but not limited to, director nominations), other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation even if such matter is already the subject of any notice to the stockholders or public disclosure from the Board of directors. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation (i) for an annual meeting, not less than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting of stockholders of the Corporation, or, in the event that no annual meeting was held in the previous year, not earlier than the close of business on the 120th day prior to the annual meeting and not later than the close of business on the later of (A) the 90th day prior to the annual meeting and (B) the close of business on the tenth (10th) day following the first date of public disclosure of such meeting via a press release or in a document filed with the Securities and Exchange Commission, and (ii) with respect to a special meeting of stockholders of the Corporation not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting

was mailed to stockholders of the Corporation as provided in Section 2.4 or public disclosure of the date of the special meeting via a press release or in a document filed with the Securities and Exchange Commission was made, whichever first occurs.

(d) Such stockholder's notice to the Secretary shall set forth (x) for director nominations, as to each person whom the stockholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serve as a director if elected), and for proposals other than director nominations, a brief description of the business desired to be brought before the meeting, the reasons for conducting the business at the meeting, the text of any proposal or business (including the text of any resolutions proposed for consideration), and (y) as to the stockholder giving the notice (i) the name and address, as they appear on the Corporation's books, of such stockholder, (ii) the class and number of shares of voting stock of the Corporation which are beneficially owned by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to bring such business before the meeting.

(e) At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. In the event that a person is validly designated as a nominee to the Board of Directors in accordance with the procedures set forth in this Section 2.12 and shall thereafter become unable or unwilling to stand for election to the Board of Directors, the Board of Directors or the stockholder who proposed such nominee, as the case may be, may designate a substitute nominee. Other than directors chosen pursuant to the provisions of Section 3.5, no person shall be eligible to serve as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.12. The presiding officer of the meeting of stockholders shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these by-laws and the defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Section 2.12, a stockholder shall also comply with all applicable requirements of the Exchange Act, and the rules and regulations thereunder with respect to the matters set forth in this Section 2.12.

(f) No business shall be conducted at any meeting of stockholders, and no person nominated by a stockholder shall be eligible for election as a director, unless proper notice was given with respect to the proposed action in compliance with the procedures set forth in this Section 2.12. Determinations of the chairman of the meeting as to

whether those procedures were complied with in a particular case shall be final and binding.

2.11 NO ACTION BY STOCKHOLDER CONSENT IN LIEU OF A MEETING. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of the stockholders of the Corporation and may not be effected by any consent by such stockholders.

ARTICLE THREE: DIRECTORS

3.1 MANAGEMENT. The business and property of the Corporation shall be managed by the Board of Directors. Subject to the restrictions imposed by law, the Certificate of Incorporation, or these by-laws, the Board of Directors may exercise all the powers of the Corporation.

3.2 NUMBER; QUALIFICATION; ELECTION; TERM. The number of directors which shall constitute the entire Board of Directors shall be determined from time to time by resolutions adopted by the Board of Directors. Except as otherwise required by law or the certificate of incorporation of the Corporation, the directors shall be elected at an annual meeting of stockholders at which a quorum is present. In a contested election, the directors shall be elected by the vote of a plurality of the votes of the shares present in person or represented by proxy and entitled to vote on the election of directors. In an uncontested election, the directors shall be elected by a majority of the votes of the shares present in person or represented by proxy and entitled to vote on the election of directors.

The following additional procedures apply in an uncontested election of an incumbent director: A nominee who does not receive a majority of the votes cast shall promptly deliver a written resignation to the Board of Directors and shall continue to serve as a holdover director until the effective date of the director's resignation which shall be no later than 120 days after the date of the election. The remaining Board of Directors, by a majority vote, promptly shall determine whether to decline to accept or to accept the resignation of such director. If the Board of Directors declines to accept the resignation, the director may continue to serve so long as such nominee received a plurality of the votes cast. If the Board of Directors accepts the resignation, the office shall be considered vacant and the Board of Directors may fill the office pursuant to Section 3.5 of the by-laws.

Each director shall hold office until his term expires as provided in the Certificate of Incorporation and until his or her successor is elected and qualified or, if earlier, until his or her death, resignation, or removal from office. None of the directors need be a stockholder of the Corporation or a resident of the State of Delaware. Each director must have attained the age of majority.

3.3 CHANGE IN NUMBER. No decrease in the number of directors constituting the entire Board of Directors shall have the effect of shortening the term of any incumbent director.

3.4 REMOVAL. Except as otherwise provided in the Certificate of Incorporation, at any meeting of stockholders called expressly for that purpose, any director or the entire Board of Directors

may be removed only for cause and only by a vote of the holders of at least eighty percent (80%) of the shares then entitled to vote on the election of directors;

3.5 VACANCIES. Vacancies and newly-created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by the sole remaining director, and each director so chosen shall hold office until his or her term expires as provided in the Certificate of Incorporation and until his or her successor is elected and qualified or, if earlier, until his or her death, resignation, or removal from office. If there are no directors in office, an election of directors may be held in the manner provided by statute. Except as otherwise provided in the Certificate of Incorporation, when one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in these by-laws with respect to the filling of other vacancies.

3.6 MEETINGS OF DIRECTORS. The directors may hold their meetings and may have an office and keep the books of the Corporation, except as otherwise provided by statute, in such place or places within or without the State of Delaware as the Board of Directors may from time to time determine or as shall be specified in the notice of any such meeting or duly executed waiver of notice of any such meeting.

3.7 FIRST MEETING. Each newly elected Board of Directors may hold its first meeting for the purpose of organization and the transaction of business, if a quorum is present, immediately after and at the same place as the annual meeting of stockholders, and no notice of such meeting shall be necessary.

3.8 ELECTION OF OFFICERS. At the first meeting of the Board of Directors after each annual meeting of stockholders at which a quorum shall be present, the Board of Directors shall elect the officers of the Corporation.

3.9 REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such times and places as shall be designated from time to time by resolution of the Board of Directors. Notice of such regular meetings shall not be required.

3.10 SPECIAL MEETINGS. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, the Lead Director, the Chief Executive Officer, or any director.

3.11 NOTICE. The Secretary shall give notice of each special meeting to each director at least 24 hours before the meeting. Notice of any such meeting need not be given to any director who shall, either before or after the meeting, submit a signed waiver of notice or who shall attend such meeting without protesting, prior to or at its commencement, the lack of notice to him or her. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting. Such

notice will be properly and timely given if it is (a) deposited in the United States mail not later than the third calendar day preceding the date of the meeting or (b) personally delivered, telegraphed, sent by facsimile transmission or communicated by telephone at least twenty-four hours before the time of the meeting. Such notice need not include a statement of the business to be transacted at, or the purpose of, any such meeting.

3.12 QUORUM; MAJORITY VOTE. At all meetings of the Board of Directors, one third (1/3) of the directors fixed in the manner provided in these by-laws shall constitute a quorum for the transaction of business. If at any meeting of the Board of Directors there be less than a quorum present, a majority of those present or any director solely present may adjourn the meeting from time to time without further notice. Unless the act of a greater number is required by law, the Certificate of Incorporation, or these by-laws, the act of a majority of the directors present at a meeting at which a quorum is in attendance shall be the act of the Board of Directors. At any time that the Certificate of Incorporation provides that directors elected by the holders of a class or series of stock shall have more or less than one vote per director on any matter, every reference in these by-laws to a majority or other proportion of directors shall refer to a majority or other proportion of the votes of such directors.

3.13 PROCEDURE. At meetings of the Board of Directors, business shall be transacted in such order as from time to time the Board of Directors may determine. The Chairman of the Board, if such office has been filled, or in his or her absence the Lead Director, or the Chief Executive Officer of the Corporation, in the order named, shall preside at all meetings of the Board of Directors. In the absence or inability to act of either such officer, a chairman shall be chosen by the Board of Directors from among the directors present. The Secretary of the Corporation shall act as the secretary of each meeting of the Board of Directors unless the Board of Directors appoints another person to act as secretary of the meeting. The Board of Directors shall keep regular minutes of its proceedings which shall be placed in the minute book of the Corporation.

3.14 PRESUMPTION OF ASSENT. A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof or shall forward any dissent by certified or registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

3.15 COMPENSATION. The Board of Directors shall have the authority to fix the compensation, including fees and reimbursement of expenses, paid to directors for attendance at regular or special meetings of the Board of Directors or any committee thereof; provided, that nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity or receiving compensation therefor.

ARTICLE FOUR: COMMITTEES

4.1 DESIGNATION. The Board of Directors may, by resolution adopted by a majority of the entire Board of Directors, designate one or more committees.

4.2 NUMBER; QUALIFICATION; TERM. Each committee shall consist of one or more directors appointed by resolution adopted by a majority of the entire Board of Directors. The number of committee members may be increased or decreased from time to time by resolution adopted by a majority of the entire Board of Directors. Each committee member shall serve as such until the earliest of (i) the expiration of his term as director, (ii) his resignation as a committee member or as a director, or (iii) his removal as a committee member or as a director.

4.3 AUTHORITY. Each committee, to the extent expressly provided in the resolution establishing such committee, shall have and may exercise all of the authority of the Board of Directors in the management of the business and property of the Corporation except to the extent expressly restricted by law, the Certificate of Incorporation, or these by-laws.

4.4 COMMITTEE CHANGES. The Board of Directors shall have the power at any time to fill vacancies in, to change the membership of, and to discharge any committee.

4.5 ALTERNATE MEMBERS OF COMMITTEES. The Board of Directors may designate one or more directors as alternate members of any committee. Any such alternate member may replace any absent or disqualified member at any meeting of the committee. If no alternate committee members have been so appointed to a committee or each such alternate committee member is absent or disqualified, the member or members of such committee present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

4.6 REGULAR MEETINGS. Regular meetings of any committee may be held without notice at such time and place as may be designated from time to time by the committee and communicated to all members thereof.

4.7 SPECIAL MEETINGS. Special meetings of any committee may be held whenever called by any committee member. The committee member calling any special meeting shall cause notice of such special meeting, including therein the time and place of such special meeting, to be given to each committee member at least two days before such special meeting. Neither the business to be transacted at, nor the purpose of, any special meeting of any committee need be specified in the notice or waiver of notice of any special meeting.

4.8 QUORUM; MAJORITY VOTE. At meetings of any committee, a majority of the number of members designated by the Board of Directors shall constitute a quorum for the transaction of business. If a quorum is not present at a meeting of any committee, a majority of the members present may adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is present. The act of a majority of the members present at any meeting at which a quorum is in attendance shall be the act of a committee, unless the act of a

greater number is required by law, the Certificate of Incorporation, these by-laws or the resolutions creating the committee.

4.9 MINUTES. Each committee shall cause minutes of its proceedings to be prepared and shall report the same to the Board of Directors upon the request of the Board of Directors. The minutes of the proceedings of each committee shall be delivered to the Secretary of the Corporation for placement in the minute books of the Corporation.

4.10 COMPENSATION. Committee members may, by resolution of the Board of Directors, be allowed a fixed sum and expenses of attendance, if any, for attending any committee meetings or a stated salary.

4.11 RESPONSIBILITY. The designation of any committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any director of any responsibility imposed upon it or such director by law.

ARTICLE FIVE: OFFICERS

5.1 NUMBER; TITLES; TERM OF OFFICE. The officers of the Corporation shall be a President, a Secretary, and such other officers as the Board of Directors may from time to time elect or appoint, including, without limitation, a Chairman of the Board, Chief Executive Officer, one or more Vice Presidents (with each Vice President to have such descriptive title, if any, as the Board of Directors shall determine), and a Treasurer. Each officer shall hold office until his or her successor shall have been duly elected and shall have qualified, until his or her death, or until he or she shall resign or shall have been removed in the manner hereinafter provided. Any two or more offices may be held by the same person. None of the officers need be a stockholder or a director of the Corporation or a resident of the state of Delaware.

5.2 REMOVAL. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interest of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

5.3 VACANCIES. Any vacancy occurring in any office of the Corporation (by death, resignation, removal or otherwise) may be filled by the Board of Directors.

5.4 AUTHORITY. Officers shall have such authority and perform such duties in the management of the Corporation as are provided in these by-laws or as may be determined by resolution of the Board of Directors not inconsistent with these by-laws.

5.5 COMPENSATION. The compensation, if any, of officers and agents shall be fixed from time to time by the Board of Directors; provided, however, that the Board of Directors may delegate the power to determine the compensation of any officer and agent (other than the officer to whom such power is delegated) to a committee of the Board of Directors, the Chairman of the Board or the President.

5.6 CHAIRMAN OF THE BOARD. The Chairman of the Board shall have such powers and duties as may be reasonably prescribed by the Board of Directors. Such officer shall preside, if present, at all meetings of the stockholders and of the Board of Directors. Such officer may sign all certificates for shares of stock of the Corporation.

5.7 CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall have general supervision of the affairs of the Corporation and shall have general and active control of all its business. He or she shall preside, in the absence of the Chairman of the Board or the Lead Director, at all meetings of stockholders. He or she shall see that all orders and resolutions of the Board of Directors and the stockholders are carried into effect. He or she shall have general executive charge, management, and control of the properties and operations of the Corporation in the ordinary course of its business, with all such powers with respect to such properties and operations as may be reasonably incident to such responsibility, and shall have such powers and authority usually appertaining to the chief executive officer of a corporation, except as otherwise provided in these by-laws.

5.8 PRESIDENT. The President shall have such powers and duties as may be assigned to him or her by the Chief Executive Officer. If the Board of Directors has not elected a Chief Executive Officer or in the absence or inability to act of the Chief Executive Officer, the President shall exercise all of the powers and discharge all of the duties of the Chief Executive Officer. As between the Corporation and third parties, any action taken by the President in the performance of the duties of the Chief Executive Officer shall be conclusive evidence that there is no Chief Executive Officer or that the Chief Executive Officer is absent or unable to act.

5.9 VICE PRESIDENTS. Each Vice President shall have such powers and duties as may be assigned to him or her by the Board of Directors, the Chief Executive Officer or the President, and (in order of their seniority as determined by the Board of Directors or, in the absence of such determination, as determined by the length of time they have held the office of Vice President) shall exercise the powers of the President during that officer's absence or inability to act. As between the Corporation and third parties, any action taken by a Vice President in the performance of the duties of the President shall be conclusive evidence of the absence or inability to act of the President at the time such action was taken.

5.10 TREASURER. The Treasurer shall have custody of the Corporation's funds and securities, shall keep full and accurate account of receipts and disbursements, shall deposit all monies and valuable effects in the name and to the credit of the Corporation in such depository or depositories as may be designated by the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors, the Chief Executive Officer or the President.

5.11 ASSISTANT TREASURERS. Each Assistant Treasurer shall have such powers and duties as may be assigned to him or her by the Board of Directors, the Chief Executive Officer or the President. The Assistant Treasurers (in the order of their seniority as determined by the Board of Directors or, in the absence of such a determination, as determined by the length of time they

have held the office of Assistant Treasurer) shall exercise the powers of the Treasurer during that officer's absence or inability to act.

5.12 SECRETARY. Except as otherwise provided in these by-laws, the Secretary shall keep the minutes of all meetings of the Board of Directors and of the stockholders in books provided for that purpose, and he shall attend to the giving and service of all notices. He or she may sign with the Chairman of the Board, the Chief Executive Officer or the President, in the name of the Corporation, all contracts of the Corporation and affix the seal of the Corporation thereto. He or she may sign with the Chairman of the Board, the Chief Executive Officer or the President all certificates for shares of stock of the Corporation, and he or she shall have charge of the certificate books, transfer books, and stock papers as the Board of Directors may direct, all of which shall at all reasonable times be open to inspection by any director upon application at the office of the Corporation during business hours. He or she shall in general perform all duties incident to the office of the Secretary, subject to the control of the Board of Directors, the Chief Executive Officer, and the President.

5.13 ASSISTANT SECRETARIES. Each Assistant Secretary shall have such powers and duties as may be assigned to him or her by the Board of Directors, the Chief Executive Officer or the President. The Assistant Secretaries (in the order of their seniority as determined by the Board of Directors or, in the absence of such a determination, as determined by the length of time they have held the office of Assistant Secretary) shall exercise the powers of the Secretary during that officer's absence or inability to act.

ARTICLE SIX: CERTIFICATES AND STOCKHOLDERS

6.1 CERTIFICATES FOR SHARES. Certificate for shares of stock of the Corporation shall be in such form as shall be approved by the Board of Directors; provided that the Board of Directors may also provide that some or all of any class or series of shares shall be uncertificated shares that may be evidenced by a book-entry system maintained by the registrar of such stock. The certificates shall be signed by the Chairman of the Board or the President or a Vice President and also by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer. Any and all signatures on the certificate may be a facsimile and may be sealed with the seal of the Corporation or a facsimile thereof. If any officer, transfer agent, or registrar who has signed, or whose facsimile signature has been placed upon, a certificate has ceased to be such officer, transfer agent, or registrar before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if her were such officer, transfer agent, or registrar at the date of issue. The certificates shall be consecutively numbered and shall be entered in the books of the Corporation as they are issued and shall exhibit the holder's name and the number of shares.

6.2 REPLACEMENT OF LOST OR DESTROYED CERTIFICATES. The Board of Directors may direct a new certificate or certificates to be issued in place of a certificate or certificates theretofore issued by the Corporation and alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate or certificates

representing shares to be lost or destroyed. When authorizing such issue of a new certificate or certificates the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond with a surety or sureties satisfactory to the Corporation in such sum as it may direct as indemnity against any claim, or expense resulting from a claim, that may be made against the Corporation with respect to the certificate or certificates alleged to have been lost or destroyed.

6.3 TRANSFER OF SHARES. Shares of stock of the Corporation shall be transferable only on the books of the Corporation by the holders thereof in person or by their duly authorized attorneys or legal representatives. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate representing shares duly endorsed or accompanied by proper evidence of succession, assignment, or authority to transfer, the Corporation or its transfer agent shall issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction upon its books.

6.4 REGISTERED STOCKHOLDERS. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

6.5 REGULATIONS. The Board of Directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer, and registration or the replacement of certificates for shares of stock of the Corporation.

6.6 LEGENDS. The Board of Directors shall have the power and authority to provide that certificates representing shares of stock bear such legends as the Board of Directors deems appropriate to assure that the Corporation does not become liable for violations of federal or state securities laws or other applicable law.

ARTICLE SEVEN: INDEMNIFICATION

7.1 GENERAL INDEMNIFICATION. The Board of Directors may, in such cases or categories of cases as it deems appropriate, indemnify and hold harmless, or make provision for indemnifying and holding harmless, members of the Board of Directors, officers, employees, and agents of the corporation, and persons who formerly held such positions, and the estates of any of them against any or all claims and liabilities (including reasonable legal fees and other expenses incurred in connection with such claims or liabilities) to which any such person shall have become subject by reason of his having held such a position or having allegedly taken or omitted to take any action in connection with such position.

7.2. INDEMNIFICATION OF BOARD MEMBERS AND OFFICERS.

(a) To the fullest extent permitted by the Delaware General Corporation Law for a corporation subject to such law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits a

Delaware corporation to provide broader indemnification rights than said law permitted such corporation to provide prior to such amendment), the Corporation will indemnify and hold harmless each member of the Board of Directors and officer of the Corporation or any subsidiary against any and all claims, liabilities, and expenses (including attorneys' fees, judgments, fines, and amounts paid in settlement) actually and reasonably incurred and arising from any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, to which any such person shall have become subject by reason of having held such a position or having allegedly taken or omitted to take any action in connection with any such position. However, the foregoing shall not apply to:

- i. any breach of such person's duty of loyalty to the corporation or its stockholders;
- ii. any act or omission by such person not in good faith or which involves intentional misconduct or where such person had reasonable cause to believe his conduct was unlawful, or
- iii. any transaction from which such person derived any improper personal benefit.

(b) The decision concerning whether a particular indemnitee has satisfied the foregoing shall be made by (i) the Board of Directors by a majority vote of a quorum consisting of members who are not parties to the action, suit, or proceeding giving rise to the claim for indemnity ("Disinterested Directors"), whether or not such majority constitutes a quorum; (ii) a committee of Disinterested Directors designated by a majority vote of Disinterested Directors, whether or not such majority constitutes a quorum; (iii) if there are no Disinterested Directors, or if the Disinterested Directors so direct, by independent legal counsel in a written opinion; or (iv) a vote of the stockholders.

(c) The Board of Directors may authorize the advancement of expenses to any member of the Board of Directors or officer, subject to a written undertaking to repay such advance if it is later determined that the indemnitee does not satisfy the standard of conduct required for indemnification. The Chairman of the Board is authorized to enter into contracts of indemnification with each member of the Board of Director and officer of the Corporation with respect to the indemnification provided in the by-laws and to renegotiate such contracts as necessary to reflect changing laws and business circumstances.

ARTICLE EIGHT: MISCELLANEOUS PROVISIONS

8.1 DIVIDENDS. Subject to provisions of law and the Certificate of Incorporation, dividends may be declared by the Board of Directors at any regular or special meeting and may be paid in cash, in property, or in shares of stock of the Corporation. Such declaration and payment shall be at the discretion of the Board of Directors.

8.2 RESERVES. There may be created by the Board of Directors out of funds of the Corporation legally available therefor such reserve or reserves as the directors from time to time, in their discretion, consider proper to provide for contingencies, to equalize dividends, or to repair or maintain any property of the Corporation, or for such other purpose as the Board of Directors

shall consider beneficial to the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

8.3 BOOKS AND RECORDS. The Corporation shall keep correct and complete books and records of account, shall keep minutes of the proceedings of its stockholders and Board of Directors and shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of the shares held by each.

8.4 FISCAL YEAR. The fiscal year of the Corporation shall be fixed by the Board of Directors; provided, that if such fiscal year is not fixed by the Board of Directors and the selection of the fiscal year is not expressly deferred by the Board of Directors, the fiscal year shall be the calendar year.

8.5 SEAL. The seal of the Corporation shall be such as from time to time may be approved by the Board of Directors.

8.6 RESIGNATIONS. Any director, committee member, or officer may resign by so stating at any meeting of the Board of Directors or by giving written notice to the Board of Directors, the Chairman of the Board, the President, or the Secretary. Such resignation shall take effect at the time specified therein or, if no time is specified therein, immediately upon its receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

8.7 SECURITIES OF OTHER CORPORATION. The Chairman of the Board, the President, or any Vice President of the Corporation shall have the power and authority to transfer, endorse for transfer, vote, consent, or take any other action with respect to any securities of another issuer which may be held or owned by the Corporation and to make, execute, and deliver any waiver, proxy, or consent with respect to any such securities.

8.8 MEETINGS BY REMOTE COMMUNICATION. Stockholders (acting for themselves or through a proxy), members of the Board of Directors, and members of a committee of the Board of Directors may participate in and hold a meeting of such stockholders, Board of Directors, or committee by means of remote communication, including but not limited to a conference telephone, videoconference transmission, internet chat room, or similar communications capability, provided that the Corporation implement reasonable measures to (i) verify the attendance and eligibility of remote participants, (ii) provide participants a reasonable opportunity to participate and vote, and (iii) record the votes and other actions taken by remote participants during the meeting. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

8.9 ACTION WITHOUT A MEETING. Unless otherwise restricted by the Certificate of Incorporation or by these by-laws, any action required or permitted to be taken at a meeting of

the Board of Directors, or of any committee of the Board of Directors, may be taken without a meeting if a consent or consents in writing, setting forth the action so taken, shall be signed by all the directors or all the committee members, as the case may be, entitled to vote with respect to the subject matter thereof, and such consent shall have the same force and effect as a vote of the Board of Directors or a committee thereof, as the case may be, and may be stated as such in any certificate or document filed with the Secretary of State of the State of Delaware or in any certificate delivered to any person. Such consent or consents shall be filed with the minutes of proceedings of the Board or committee, as the case may be.

8.10 INVALID PROVISIONS. If any part of these by-laws shall be held invalid or inoperative for any reason, the remaining parts, so far as it is possible and reasonable, shall remain valid and operative.

8.11 MORTGAGES, ETC. With respect to any deed, deed of trust, mortgage, or other instrument executed by the Corporation through its duly authorized officer or officers, the attestation to such execution by the Secretary of the Corporation shall not be necessary to constitute such deed, deed of trust, mortgage, or other instrument a valid and binding obligation against the Corporation unless the resolutions, if any, of the Board of Directors authorizing such execution expressly state that such attestation is necessary.

8.12 HEADINGS. The headings used in these by-laws have been inserted for administrative convenience only and do not constitute matter to be construed in interpretation.

8.13 REFERENCES. Whenever herein the singular number is used, the same shall include the plural where appropriate, and words of any gender shall include each other gender where appropriate.

8.14 AMENDMENTS. These by-laws may be altered, amended, or repealed or new by-laws may be adopted by the Board of Directors, or by the affirmative vote of the holders of not less than two-thirds of the shares of the Corporation then entitled to be voted in an election of directors, voting together as a single class.

8.15 FORUM FOR ADJUDICATION OF DISPUTES.

(a) Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware) shall, to the fullest extent permitted by law, be the sole and exclusive forum for:

- i. any derivative action or proceeding brought on behalf of the Corporation;
- ii. any action asserting a claim for breach of a fiduciary duty owed by any director, officer, employee, or agent of the Corporation to the Corporation or the Corporation's stockholders;
- iii. any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, the Certificate of Incorporation, or these by-laws; or

- iv. any action asserting a claim governed by the internal affairs doctrine;

in each case, subject to said court having personal jurisdiction over the indispensable parties named as defendants therein. If any action the subject matter of which is within the scope of this Section 8.15 is filed in a court other than a court located within the State of Delaware (a “Foreign Action”) in the name of any stockholder, such stockholder shall be deemed to have consented to: (i) the personal jurisdiction of the state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce this Section 8.15 (an “Enforcement Action”); and (ii) having service of process made upon such stockholder in any such Enforcement Action by service upon such stockholder’s counsel in the Foreign Action as agent for such stockholder. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section 8.15.

(b) Unless the Corporation consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall, to the fullest extent permitted by law, be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933, as amended. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section 8.15(b).

8.16 CERTAIN DEFINITIONAL PROVISIONS.

- (a) In these by-laws:

“*Board*” or “*Board of Directors*” means the Board of directors of the Corporation.

“*Exchange Act*” means the U.S. Securities Exchange Act of 1934, as amended.

“*Lead Director*” means the director elected by the Board by the affirmative vote of a majority of the non-management directors for a three-year term commensurate with that person’s term as director in accordance with the Corporation’s Corporate Governance Guidelines.

DESCRIPTION OF REGISTERED SECURITIES

As of February 25, 2022, Carriage Services, Inc. (the “Company,” “us,” “we,” or “our”) has one class of securities, our common stock, registered under Section 12 of the Securities Exchange Act of 1934, as amended.

Description of Common Stock

The following description of our common stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Amended and Restated Certificate of Incorporation dated July 2, 1996 (as amended, the “Charter”), and our Second Amended and Restated Bylaws dated July 28, 2021 (as amended, the “Bylaws”), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.10 is a part. We encourage you to read our Certificate of Incorporation, our Bylaws, and the applicable provisions of the General Corporation Law of the State of Delaware (the “DGCL”) for additional information.

General

As of February 25, 2022, our authorized capital consisted of 80,000,000 shares of common stock, par value \$.01, of which 15,326,738 shares were issued and outstanding, and 40,000,000 shares of preferred stock, par value \$.01, of which no shares were issued and outstanding. Our common stock is quoted on the New York Stock Exchange under the symbol “CSV.”

The holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of common stockholders. Our common stock does not have cumulative voting rights, which means that the holders of a majority of the voting power of shares of common stock outstanding can elect all the directors, and the holders of the remaining shares will not be able to elect any directors. Each share of common stock is entitled to participate equally in dividends, if, as and when declared by our Board of Directors (the “Board”), and in the distribution of assets in the event of liquidation, subject in all cases to any prior rights of outstanding shares of preferred stock outstanding. Our shares of common stock have no preemptive rights, redemption rights or sinking fund provisions.

Holders of our common stock are entitled to one vote per share in the election of directors and on all other matters submitted to a vote of stockholders. Such holders do not have the right to cumulate their votes in the election of directors. Holders of our common stock have no redemption or conversion rights, no preemptive or other rights to subscribe for our securities and are not entitled to the benefits of any sinking fund provisions. In the event of our liquidation, dissolution or winding-up, holders of our common stock are entitled to share equally and ratably in all of the assets remaining, if any, after satisfaction of all our debts and liabilities, and of the preferential rights of any series of preferred stock then outstanding. Subject to preferences that may be applicable to any then outstanding preferred stock, holders of our common stock are entitled to receive dividends when, as and if declared by the Board out of funds legally available therefor.

Preferred Stock

Our preferred stock may be issued in series, and shares of each series will have such rights and preferences as may be fixed by the Board in the resolution authorizing the issuance of that particular series. In designating any series of preferred stock, the Board has the authority, without further action by the holders of our common stock, to fix the rights, dividend rate, conversion rights, rights and terms of redemption, and the liquidation preferences of that series of preferred stock, including:

- the title of the preferred stock;
- the maximum number of shares of the series;
- the dividend rate or the method of calculating the dividend, the date from which dividends will accrue and whether dividends will be cumulative;
- any liquidation preference;
- any optional redemption provisions;
- any terms for the conversion or exchange of the preferred stock for other securities of us or any other entity;
- any voting rights; and
- any other preferences and relative, participating, optional or other special rights or any qualifications, limitations or restrictions on the rights of the shares.

The authorized shares of preferred stock, as well as shares of common stock, are available for issuance without further action by our stockholders, unless stockholder action is required by the rules of any stock exchange or automated quotation system on which our securities are listed or traded. If the approval of our stockholders is not required for the issuance of shares of preferred stock or common stock, the Board may determine not to seek stockholder approval.

Although the Board has no intention at the present time of doing so, it could issue a series of preferred stock that could, depending on the terms of that series, impede the completion of a merger, tender offer or other takeover attempt. The Board will make any determination to issue shares based on its judgment as to our best interests and the best interests of our stockholders. The Board, in so acting, could issue preferred stock having terms that could discourage an acquisition attempt, including a tender offer or other transaction that some, or a majority of, our stockholders might believe to be in their best interests or that might result in stockholders receiving a premium for their stock over the then current market price of the stock.

Anti-Takeover Provisions

DGCL

We are a Delaware corporation and are subject to Section 203 of the DGCL (“Section 203”). In general, Section 203 prevents an “interested stockholder” (defined generally as a person owning 15% or more of our outstanding voting stock) from engaging in a business combination with us for three years following the date that person becomes an interested stockholder, with the following exceptions:

- before such date, the Board approved either the business combination or the transaction that resulted in the stockholder becoming an interested holder;

- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned (i) by persons who are directors and also officers and (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- on or after such date, the business combination is approved by the Board and authorized at an annual or special meeting of the stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

In general, Section 203 of the DGCL defines business combination to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;

- the sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or

- the receipt by the interested stockholder of the benefit of any loss, advances, guarantees, pledges or other financial benefits by or through the corporation.

EXHIBIT 4.10

In general, Section 203 of the DGCL defines an “interested stockholder” as an entity or person who, together with the person’s affiliates and associates, beneficially owns, or is an affiliate or associate of the corporation and within three years prior to the time of determination of interested stockholder status did own, 15% or more of the outstanding voting stock of the corporation.

Charter and Bylaw Provisions

The Charter provides that the Board is divided into three classes. The directors of each class are elected for three-year terms, with the terms of the three classes staggered so that directors from a single class are elected at each annual meeting of stockholders. Stockholders may remove a director only for cause upon the vote of holders of at least 80% of voting power of the outstanding shares of common stock. In general, the Board, not the stockholders, has the right to appoint persons to fill vacancies on the Board.

The Bylaws provide that special meetings of holders of common stock may be called only by the Board and that only such business proposed by the Board may be considered at special meetings of holders of common stock.

The Bylaws provide that the only business (including election of directors) that may be considered at an annual meeting of holders of common stock, in addition to business proposed (or persons nominated to be directors) by the directors of the Company, is business proposed (or persons nominated to be directors) by holders of common stock who comply with the notice and disclosure requirements set forth in the Bylaws. In general, the Bylaws require that a stockholder give the Company notice of proposed business or nominations in advance of the annual meetings in accordance with the deadlines for such notices set forth therein. In general, the notice must also contain information about the stockholder proposing the business or nomination, the stockholder’s interest in the business, and (with respect to nominations for director) information about the nominee of the nature ordinarily required to be disclosed in public proxy solicitation statements.

The DGCL provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation’s certificate of incorporation or bylaws, unless the corporation’s certificate of incorporation or bylaws requires a greater percentage. The Charter and the Bylaws provide that approval by the holders of at least 66.67% of the voting power of the outstanding voting stock of the Company is required to amend the provisions of the Charter and the Bylaws previously discussed, respectively, and certain other provisions. The combination of our staggered Board, the lack of cumulative voting and the 66.67% stockholder voting requirements will make it more difficult for existing stockholders to replace the Board as well as for another party to obtain control of us by replacing the Board. Because the Board has the power to retain and discharge our officers, these provisions could also make it more difficult for existing stockholders or another party to effect a change in management. In addition, the authorization of undesignated preferred stock makes it possible for the Board to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us.

These provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of us. These provisions are intended to enhance the likelihood of continued stability in the composition of the Board and its policies and to discourage certain types of transactions that may involve an actual or threatened acquisition of us. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. Such provisions may also have the effect of preventing changes in our management.

CARRIAGE SERVICES, INC.
("Carriage")
Director Compensation Policy
(Revised and Effective February 19, 2020)

1. Definitions.

A. Independent Director – Any Carriage director who meets the independence requirements of the New York Stock Exchange (or such other exchange or quotation system upon which the shares of its Common Stock are listed or quoted).

B. Management Director - Any Carriage director who does not qualify as an Independent Director. No Management Director shall receive compensation pursuant to this policy.

2. Retainer.

A. Generally. Each Independent Director is entitled to an annual retainer of \$140,000, payable in quarterly installments of \$35,000 each at the end of each quarter. The amount of the retainer is subject to proration if the individual is an Independent Director eligible to receive the retainer for less than the full period in question.

B. Lead Director. The Lead Director shall be entitled to an additional annual retainer of \$10,000, payable in quarterly installments of \$2,500 each at the end of each quarter. The amount of the retainer is subject to proration if the individual is a Lead Director eligible to receive the retainer for less than the full period in question.

C. Committee Chair. The Chair of the Audit Committee shall be entitled to an additional annual retainer of \$10,000, payable in quarterly installments of \$2,500 each at the end of each quarter. The Chair of the Corporate Governance/Nominating Committee and the Chair of the Compensation Committee will receive an additional annual retainer of \$5,000 payable in quarterly installments of \$1,250 each at the end of each quarter. The amount of each retainer is subject to proration if the individual is a Committee Chairperson eligible to receive the retainer for less than the full period in question.

D. Common Stock Election. Any Carriage director entitled to a retainer as set forth under A, B, and C, may elect to receive such retainer, in total or a designated portion, in unrestricted shares of Carriage's Common Stock, \$.01 par value ("Common Stock") by providing written notice to Carriage in the form set forth on Exhibit A hereto. The number of shares of such Common Stock shall be determined by dividing the elected amount by the closing price of Carriage's Common Stock on the date of grant, which shall be the last business day of each quarter. Such Common Stock, shall vest immediately. Any written notice to receive the retainer in Common Stock shall remain effective until notice otherwise is made in writing to Carriage.

E. The measurement period for the services provided under A, B & C commences on the date of the Annual Meeting of Stockholders.

3. Attendance at Board Meetings.

A. Reimbursement. All Directors are entitled to be reimbursed for reasonable out-of-pocket travel and lodging expenses in attending Board and Committee meetings in person, in accordance with Carriage's travel and entertainment policies.

B. All meeting fees and reimbursement shall be made at the end of the quarter in which the meeting was held and the request for reimbursement made.

4. New Directorship. Any new Independent Director will receive, upon admission to the Board, a grant of \$25,000 (in addition to the independent director annual retainer prorated at the time the new director is admitted to the Board) which grant can be taken in cash, unrestricted shares of Common Stock, or a combination thereof. The number of shares of such Common Stock shall be determined by dividing the cash amount by the closing price of Carriage's Common Stock on the date of grant, which shall be the date of admission to the Board. Such Common Stock, shall vest immediately.
5. Registration. It is intended that Common Stock issued under Paragraphs 4 hereof will be registered under federal and state securities laws in accordance with any Registration Statement which is filed and becomes effective in connection with any Incentive Plan under which such Common Stock is issued.
6. Effectiveness. This Policy becomes effective immediately and applies to meetings attended February 19, 2020 and thereafter.

EXHIBIT A

To the Principal Financial Officer of Carriage Services, Inc.:

Pursuant to Section Two of the Director Compensation Policy, I hereby elect to receive my applicable retainers in unrestricted shares of Carriage's Common Stock, \$.01 par value. I understand that this is a standing election, which will remain in effect until I provide written notice otherwise to the Principal Financial Officer of Carriage Services, Inc.

By: _____

Printed Name: _____

Date: _____

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), is made and entered into as of November __, 2019 (the "Effective Date"), by and between Carriage Services, Inc., a Delaware corporation (the "Company") and Steve Metzger (hereafter "Executive"). The Company and Executive may sometimes hereafter be referred to singularly as a "Party" or collectively as the "Parties."

WITNESSETH:

WHEREAS, the Company desires to continue to secure the employment services of Executive subject to the terms and conditions hereafter set forth;

NOW, THEREFORE, in consideration of Executive's continued employment with the Company, and the premises and mutual covenants contained herein, the Parties hereto agree as follows:

1. **Employment Position and Defined Terms.** During the Employment Period (as defined in Section 4), the Company shall employ Executive, and Executive shall serve, as Senior Vice President and General Counsel of the Company. Executive shall also serve as an officer of any subsidiary of the Company as may be requested by the Company. Executive shall perform such other duties which are from time to time assigned to him and are not inconsistent with the provisions hereof. Executive's principal place of Employment shall be at the main business offices of the Company in Houston, Texas. Defined terms used in the Agreement that are not otherwise defined herein when first used are defined in Sections 6(g) and 10(d).

2. **Compensation.**

(a) **Base Salary.** The Company shall pay to Executive during the Employment Period an annual salary at a rate of not less than Two Hundred Fifty Thousand Dollars (\$250,000.00) per full calendar year of service (the "Base Salary"). Executive's Base Salary may increase at the discretion of the Compensation Committee or its duly authorized delegate and shall be paid in equal installments in accordance with the Company's standard policy regarding payment of compensation to similarly situated employees, but no less frequently than monthly. Nothing contained herein shall preclude the payment of any other compensation to Executive at any time as determined by the Compensation Committee.

(b) **Annual Bonus.** In addition to the Base Salary in Section 2(a), Executive shall be eligible for an annual, discretionary incentive award (the "Annual Bonus") for each full calendar year that he is employed hereunder, as determined in the sole discretion of the Compensation Committee (or its duly authorized delegate) upon consideration of, among other things, corporate and individual performance for the year. The Annual Bonus shall be payable before March 15 of the year following the calendar year to which the Annual Bonus relates, following the certification of applicable year-end financial results. Executive must be employed by the Company on the payment date in order to earn and receive an Annual Bonus and thus Executive shall have no entitlement to any Annual Bonus before that date. The Executive's "Target Annual Bonus" shall be established by

the Compensation Committee, or its duly authorized delegate, at the beginning of each year and shall be a percentage of Executive's Base Salary, not to be less than 50% (it being understood that the actual Annual Bonus eventually earned could be lesser or greater than the Target Annual Bonus).

3. Duties and Responsibilities of Executive. During the Employment Period, Executive shall devote his full working time to (a) the business of the Company and its Affiliates and (b) performance of the duties and responsibilities assigned to Executive to the best of Executive's ability and with reasonable diligence. Executive's Employment shall also be subject to the policies maintained and established by the Company, as such policies may be amended from time to time. Executive shall at all times use his best efforts to comply in good faith with laws applicable to Executive's actions on behalf of the Company and its Affiliates.

4. Term of Employment; Termination Rights.

(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 three (3) years from the Effective Date (the "Initial Term").

On the third 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."

(b) **Continued Availability Post-Termination.** Executive agrees to remain available for twelve (12) months beyond the Employment Period during normal business hours to provide reasonable assistance to the Company or its Affiliates in the event that the Company or an Affiliate become involved in litigation (or another type of dispute or controversy) regarding matters of which Executive has relevant knowledge resulting from Executive's Employment; provided that such assistance does not unreasonably interfere with the employment duties of Executive with another employer following the Termination Date. Such post-termination assistance shall be provided by Executive in the capacity of an independent contractor at an agreed-upon, reasonable consulting fee, and shall not be deemed to create or continue an employee-employer or fiduciary relationship, or to represent a continuation of this Agreement.

5. Benefits. Subject to the terms and conditions of this Agreement, during the Employment Period, Executive shall be entitled to all of the following:

(a) **Reimbursement of Business Expenses.** The Company shall reimburse Executive for all reasonable travel, entertainment and other business expenses paid or incurred by Executive in the performance of duties hereunder, provided that such expenses are incurred and accounted for in accordance with the expense reimbursement policies and procedures established by the Company from time to time. Such reimbursement shall in all cases be made in compliance with Section 30.

(b) **Discretionary Vacation Time.** Executive's work is routinely performed outside of a traditional work schedule and Executive is required to manage his own work schedule and time away from work, including vacation and personal time, in a manner that allows Executive to fulfill his duties and does not negatively impact the Company. Executive is not entitled to a fixed amount of vacation or personal time and will not accrue vacation or personal time balances.

(c) **Other Employee Benefits.** Executive shall be entitled to participate in any retirement, 401(k), profit-sharing, and other employee benefits plans or programs of the Company to the same

extent as available to other similarly situated employees of the Company under the terms of such plans or programs. Executive shall also be entitled to participate in any group insurance, hospitalization, medical, dental, health, life, accident, disability and other employee benefits plans or programs of the Company to the extent available to other similarly situated employees of the Company, and their spouses and eligible dependents, under the terms of such plans or programs including, without limitation, any medical expense reimbursement account and post-retirement medical program as made available to other similarly situated employees of the Company.

(d) **Equity Incentive Awards.** Executive shall be eligible to participate in the Company's 2017 Omnibus Incentive Plan, as it may be amended from time to time (the "LTIP"), or any other incentive plan sponsored by the Company which provides for equity grants of incentive awards. The terms and conditions of any equity incentive award granted to Executive shall be set forth in the incentive plan document and award agreement governing such award.

6. Rights and Payments upon Termination. The Executive's right to compensation and benefits for periods after the Termination Date shall be determined in accordance with this Section 6. Except as otherwise expressly required by law or as specifically provided in an employee benefit plan or under this Agreement, all of Executive's rights to salary, severance, benefits, bonuses and other compensatory amounts under this Agreement shall cease upon the Termination Date.

(a) **Minimum Payments.** As of the Termination Date, Executive shall be entitled to the following minimum payments under this Section 6(a), in addition to any other payments or benefits which Executive is entitled to receive under the terms of any employee benefit plan or program, state law, Company policy, or under Section 6(b):

(1) accrued but unpaid Base Salary through the Termination Date; provided that, if Executive's termination is due to Disability, such amount shall be net of the amount of any benefits received or payable under any disability insurance policy maintained by the Company for Executive, if applicable, which policy provides for income replacement benefits due to the Executive's inability to work as the result of his qualifying Disability; and

(2) reimbursement of reasonable business expenses that were incurred but unpaid as of the Termination Date.

Amounts payable under this Section 6(a) shall be paid in accordance with the Company's normal procedures for making payments following termination of Employment by a similarly situated employee.

(b) **Severance Payments.**

(1) **Death.** If Executive dies during the Initial Term or any then-existing Renewal Term and while in Employment, the Company shall pay Executive's Designated Beneficiary (A) the Executive's Base Salary, in installments, through the end of the Initial Term or any then-existing Renewal Term which was in effect at the time of Executive's death; and (B) a pro rata amount of the Target Annual Bonus described in Section 2(b) for the year in which the death occurred, based on the number of days Executive was employed in such year in comparison to 365, and based on actual performance of any applicable performance metrics through the end of the performance period. Such amounts shall be paid to Executive's Designated Beneficiary by no later than the date necessary to qualify each such payment as a "short-term deferral" within the meaning of Treas. Reg. § 1.409A 1(b)(4).

(2) Disability. If, during the Initial Term or any then-existing Renewal Term, Executive's Employment is terminated by the Company due to Executive's Disability, the Company shall, subject to Section 6(e), pay Executive (A) the Executive's Base Salary, in installments, through the end of the Initial Term or any then-existing Renewal Term which was in effect at the time of Executive's disability; and (B) pay Executive a pro rata amount of the Target Annual Bonus described in Section 2(b) for the year in which the Termination Date occurred, based on the number of days Executive was employed in such year in comparison to 365, and based on actual performance of any applicable performance metrics through the end of the performance period. Such pro rata amount of the Target Annual Bonus shall be paid on the later of (1) the Company's first regular payroll date that occurs after the Release (as defined in Section 6(e), below) is no longer revocable (the "First Payment Date"), or (2) the payment date that an Annual Bonus for the year of termination otherwise would have been payable pursuant to Section 2(b), had Executive's Employment not been terminated (provided, that, in no event shall such payment occur later than the date necessary to qualify such payment as a "short-term deferral" within the meaning of Treas. Reg. § 1.409A l(b)(4)).

(3) Involuntary Termination Without Cause (Other than Due to Death or Disability) Not Within Corporate Change Period. If Executive's Employment is terminated by the Company without Cause (other than on account of Executive's death or Disability), and such Termination Date does not occur within a Corporate Change Period, the Company shall, subject to Section 6(e), provide to Executive (A) continued payment of Executive's Base Salary as in effect on the Termination Date, in arrears, for a period of 24 months following the Termination Date, where the first such payment shall be made on the First Payment Date and shall include all payments, if any, without interest, that would have otherwise been made pursuant to this Section 6(b)(3)(A) between the Termination Date and the First Payment Date; and (B) a pro rata amount of the Target Annual Bonus described in Section 2(b), for the year in which the Termination Date occurred, based on the number of days Executive was employed in such year in comparison to 365, and based on actual performance of any applicable performance metrics through the end of the performance period, where such pro rata amount of the Target Annual Bonus shall be paid on the later of (i) the First Payment Date or (ii) the payment date that an Annual Bonus for the year of termination otherwise would have been payable pursuant to Section 2(b), had Executive's Employment not been terminated (provided, that, in no event shall such payment occur later than the date necessary to qualify such payment as a "short-term deferral" within the meaning of Treas. Reg. § 1.409A l(b)(4)).

(4) Involuntary Termination Without Cause (Other than Due to Death or Disability) Within Corporate Change Period or Termination by Executive for Good Reason Within Corporate Change Period. If Executive's Employment is terminated by the Company without Cause (other than on account of Executive's death or Disability) during a Corporate Change Period, or if Executive terminates his Employment due to Good Reason during a Corporate Change Period, the Company shall, subject to Section 6(e), provide to Executive (A) a lump sum equal to two times the sum of (i) Executive's Base Salary as in effect on the Termination Date (or as of the date of the Corporate Change, if higher), plus (ii) Executive's Target Annual Bonus, with such total amount to be paid on the First Payment Date.

(5) Other Termination of Employment. For purposes of clarity, in the event that (A) Executive voluntarily resigns or otherwise voluntarily terminates Employment, except due to Good Reason within a Corporate Change Period, or (B) Executive's Employment is terminated due to Cause then, in any such event under clause (A) or (B), the Company shall have no obligation to provide the severance benefits described in this Section 6(b) or the coverage described in Section 6(c), except to offer COBRA coverage (as required by COBRA law) but not at the rate described in Section 6(c). However, Executive shall still be entitled to the minimum benefits provided under Section 6(a).

(6) **No Duplication of Severance Benefits.** The severance payments provided under this Section 6(b) shall supersede and replace any severance payments under any severance pay plan or similar agreement that the Company or any Affiliate maintains for key management employees or employees generally.

(c) **Subsidized COBRA Coverage for Certain Terminations.**

The provisions of this Section 6(c) shall apply only with respect to an Executive who becomes entitled to receive benefits under Section 6(b)(1), (2), (3) or (4) on account of his qualifying termination from Employment:

(1) In the event that Executive timely elects continuation coverage under any of the Company's "group health plans" within the meaning of Treasury Regulations Section 54.4980B-2 Q/A-1 (collectively, the "Health Plan") on behalf of himself and any of his eligible covered dependents (including his spouse) pursuant to COBRA, following the Termination Date, the Company shall, subject to Section 6(e), pay on Executive's behalf or reimburse Executive for an amount equal to the monthly premium for such COBRA coverage for each month during which such COBRA coverage is in effect during the period commencing on the Termination Date and ending upon the earliest of (x) the date that is eighteen (18) months following the Termination Date, (y) the date that Executive and Executive's covered dependents become no longer eligible for COBRA coverage, or (z) the date Executive becomes eligible to receive group healthcare coverage from a subsequent employer (and Executive agrees to promptly notify the Company of such eligibility). In all other respects, Executive and his dependents shall be treated the same as any other qualified beneficiaries under the Health Plan and COBRA.

(2) Notwithstanding Section 6(c)(1) to the contrary, the Company may alter the manner in which health benefits are provided to Executive under such Section following termination of Executive's Employment to the extent the Company reasonably determines is necessary for purposes of satisfying Code Section 105(h)(2) or avoiding the imposition of an excise tax on the Company or any of its Affiliates, provided that such alterations do not materially decrease coverage or increase the after-tax cost to Executive of such benefits.

(d) **Accelerated Vesting of Equity Awards.** To the extent Executive received any equity incentive award that is not fully vested as of the Termination Date, the following shall apply with respect to each such award, unless the applicable award agreement provides for more generous treatment of such award:

(1) subject to compliance with the Release requirements in Section 6(e), if Executive becomes entitled to receive benefits under Section 6(b)(1), (2) or (4) on account of his qualifying termination from Employment, (i) Executive shall become immediately 100% vested in any outstanding awards of restricted stock, stock options and any other equity incentive awards granted under the LTIP (or any other equity incentive plan of the Company) that vest solely based on the passage of time, and (ii) with respect to any awards that vest based on the attainment of performance-based vesting conditions, Executive shall be considered to have remained in Employment through the end of the applicable performance period (with any such award being paid out within 60 days following the end of the applicable performance period, provided that applicable performance targets have been met); and

(2) except as specifically provided in Section 6(d)(1), all unvested equity incentive awards shall be treated in accordance with the terms of the outstanding award agreement or plan document, as applicable.

(e) **Release Agreement.** Notwithstanding any provision of the Agreement to the contrary, in order to receive the vesting acceleration provided under Section 6(d), or the severance payments and benefits provided under Sections 6(b) or (c), the Executive must first execute an appropriate

release agreement (on a form provided by the Company) (a “Release”) whereby the Executive agrees to release and waive, in return for such vesting acceleration or severance benefits, any claims that Executive may have against the Company or any of its Affiliates including, without limitation, for unlawful discrimination (e.g., Title VII of the Civil Rights Act); provided, however, such release agreement shall not release any claim or cause of action by or on behalf of the Executive for (a) any payment or benefit that may be due or payable under this Agreement or any vested benefits under any employee benefit plan or program or (b) non-payment of salary or benefits to which Executive is entitled from the Company as of the Termination Date. The Release must be provided to Executive within five (5) days following the Termination Date, and signed by Executive and returned to the Company, and any applicable revocation period must have expired, no later than thirty (30) days following the Termination Date.

(f) **Reduction of Payments.** Notwithstanding anything to the contrary in this Agreement, if Executive is a “disqualified individual” (as defined in Code Section 280G(c)), and the payments and benefits provided for in this Agreement, together with any other payments and benefits which Executive has the right to receive from the Company or any of its Affiliates, would constitute a “parachute payment” (as defined in Code Section 280G(b)(2)), then the payments and benefits provided for in this Agreement shall be reduced (but not below zero) so that the present value of such total amounts and benefits received by Executive from the Company and its Affiliates will be one dollar (\$1.00) less than three times Executive’s “base amount” (as defined in Code Section 280G(b)(3)) and so that no portion of such amounts and benefits received by Executive shall be subject to the excise tax imposed by Code Section 4999. The reduction of payments and benefits hereunder, if applicable, shall be made by reducing, first, payments or benefits to be paid in cash hereunder in the order in which such payment or benefit would be paid or provided (beginning with such payment or benefit that would be made last in time and continuing, to the extent necessary, through to such payment or benefit that would be made first in time) and, then, reducing any benefit to be provided in-kind hereunder in a similar order. The determination as to the extent of any such reduction in the amount of the payments and benefits provided hereunder shall be made by the Company in good faith. If a reduced payment or benefit is made or provided and through error or otherwise that payment or benefit, when aggregated with other payments and benefits from the Company (or its affiliates) used in determining if a “parachute payment” exists, exceeds one dollar (\$1.00) less than three times Executive’s base amount, then Executive shall immediately repay such excess to the Company upon notification that an overpayment has been made. Nothing in this Section 6(f) shall require the Company to be responsible for, or have any liability or obligation with respect to, Executive’s excise tax liabilities under Code Section 4999.

(g) **Definitions.**

(1) “Affiliate” means any incorporated or unincorporated trade or business or other entity or person, other than the Company, that along with the Company is considered a single employer under Code Section 414(b) or Code Section 414(c); provided, however, (a) in applying Code Section 1563(a)(1), (2), and (3) for purposes of determining a controlled group of corporations under Code Section 414(b), the phrase “at least 50 percent” shall be used instead of the phrase “at least 80 percent” in each place the phrase “at least 80 percent” appears in Code Section 1563(a)(1), (2), and (3), and (b) in applying Treasury Regulation Section 1.414(c)-2 for the purposes of determining trades or businesses (whether or not incorporated) that are under common control for the purposes of Code Section 414(c), the phrase “at least 50 percent” shall be used instead of the phrase “at least 80 percent” in each place the phrase “at least 80 percent” appears in Treasury Regulation Section 1.414(c)-2.

(2) “Board” means the then-current Board of Directors of the Company.

(3) “Cause” means any of the following: (A) Executive’s conviction of, or plea of no contest to, a misdemeanor involving moral turpitude or a felony; (B) Executive’s repeated failure or refusal to perform all of his duties, obligations and agreements herein contained or imposed by law, including his fiduciary duties, to the reasonable satisfaction of the Board; (C) Executive’s commission of acts amounting to gross negligence or willful misconduct to

the material detriment of the Company; or (D) Executive's material breach of any provision of this Agreement or uniformly applied provision of the Company's employee handbook or other personnel policies, including without limitation, its Code of Business Conduct and Ethics. Such determination of "Cause" shall be made by the Board and, in the event of circumstances described in clause (B) or (D) above, the Board shall give written notice to Executive specifying such circumstances and providing a period of 30 days in which Executive shall be allowed to cure such circumstances, if capable of cure.

(4) "COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(5) "Code" means the Internal Revenue Code of 1986, as amended.

(6) "Compensation Committee" means the Compensation Committee of the Board.

(7) "Corporate Change" means a "Corporate Transaction" or "Change in Control" (as defined in the LTIP).

(8) "Corporate Change Period" means the 24-month period following the occurrence of a Corporate Change.

(9) "Designated Beneficiary" means the Executive's surviving spouse, if any. If there is no such surviving spouse at the time of Executive's death, then the Designated Beneficiary hereunder shall be Executive's estate after the legal representative of such estate provides satisfactory evidence thereof to the Company (or its delegate) within the one-year period following Executive's date of death.

(10) "Director" means a Board member.

(11) "Disabled" or "Disability" shall mean that Executive has become incapacitated by accident, illness or other circumstance which has rendered him mentally or physically incapable of performing the duties and services required of him hereunder on a full-time basis for a period of at least 365 consecutive days. Evidence of such Disability shall be certified by a physician acceptable to both the Company and Executive. In the event that the Parties are not able to agree on the choice of a physician, each shall select one physician who, in turn, shall select a third physician to render such certification. All reasonable costs directly relating to the determination of whether Executive has incurred a Disability for purposes of this Agreement shall be paid by the Company.

(12) "Dispute" means any dispute, disagreement, claim, or controversy arising from, in connection with, or relating to (A) the Employment, or termination of Employment, of Executive, or (B) the Agreement, or the validity, interpretation, performance, breach or termination of the Agreement.

(13) "Employment" means employment by the Company or any Affiliate.

(14) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(15) "Good Reason" means the occurrence of any of the following actions if taken without Executive's prior written consent: (A) any material breach by the Company to comply with its obligations under the terms of the Agreement; (B) any material diminution in the Executive's responsibilities, authority or duties, (C) a 10% or greater reduction of the sum of Executive's Base Salary and Target Annual Bonus; or (D) any change greater than 50 miles in the permanent location at which Executive performs services for the Company. The Executive shall give written notice to the Board specifying such actions within 90 days of the initial existence of such action and providing a period of 30 days in which the Company shall

be allowed to cure such circumstances. Provided that the condition purporting to give rise to the Good Reason event is not cured within the 30-day cure period, Executive must exercise his right to terminate this Agreement for Good Reason within 120 days after the initial existence of the Good Reason event.

(16) “Termination Date” means the date on which Executive’s Employment terminates for whatever reason.

7. **Notice of Termination.** Any termination of Executive’s Employment by the Company or the Executive other than for death shall be communicated by Notice of Termination to the other Party hereto. For purposes of this Agreement, the term “Notice of Termination” means (a) a written notice which indicates the specific termination provision of this Agreement relied upon, (b) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s Employment under the provision so indicated, and (c) specifies a Termination Date which, if submitted by Executive, shall be at least thirty (30) days following the date of such Notice of Termination unless such termination is for Good Reason within a Corporate Change Period (in which case the requirements for a termination due to Good Reason shall apply); provided, however, that in the event that Executive delivers a Notice of Termination to the Company, the Company may, in its sole discretion, change the Termination Date to any date that occurs following the date of receipt of such Notice of Termination and is prior to the date specified in such Notice of Termination. A Notice of Termination submitted by the Company may provide for a Termination Date on the date Executive receives the Notice of Termination, or any date thereafter elected by the Company in its sole discretion. The failure by the Company or Executive to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Cause or Good Reason shall not waive or otherwise prejudice any right of such Party hereunder or preclude such Party from asserting such fact or circumstance in enforcing such Party’s rights hereunder.

8. **No Mitigation.** Except as provided in Section 6(f) regarding excess parachute payments, Executive shall not be required to mitigate the amount of any payment or other benefits provided under this Agreement by seeking other employment or in any other manner.

9. **Restrictive Covenants.** As an inducement to the Company to enter into this Agreement, Executive represents to, and covenants with or in favor of, the Company that Executive will comply with all of the restrictive covenants in Sections 10 through 16, as a condition to the Company’s obligation to provide any benefits to Executive under this Agreement.

10. **Trade Secrets.**

(a) **Access to Trade Secrets.** As of the Effective Date and on an ongoing basis, the Company agrees to give Executive access to Trade Secrets which the Executive did not have access to, or knowledge of, before Executive’s commencement of Employment.

(b) **Agreement Not to Use or Disclose Trade Secrets.** In exchange for the Company’s promises to provide Executive with access to Trade Secrets, and the other consideration and benefits provided to Executive under this Agreement, Executive agrees that, during the Employment Period and any time thereafter, not to disclose to anyone, including, without limitation, any person, firm, corporation or other entity, or publish or use for any purpose, any Trade Secrets, except (1) as required in the ordinary course of the business of the Company or an Affiliate or (2) as authorized by the Company or Affiliate, as applicable. Executive acknowledges that Trade Secrets (A) have been and will be developed or acquired by the Company (or an Affiliate) through the expenditure of substantial time, effort and money and (B) provide the Company (or an Affiliate) with an advantage over competitors who do not know or use Trade Secrets.

Executive shall hold in a fiduciary capacity for the benefit of the Company (or its Affiliate, as applicable) any Trade Secret relating to the Company or any of its Affiliates, and their respective businesses, which (a) has been obtained by Executive during his Employment and (b) is not public knowledge other than via an unauthorized disclosure made by Executive in violation of this

Agreement. Executive acknowledges and agrees that all Trade Secrets are, and will continue to be, the exclusive property of the Company or Affiliate, as applicable.

Executive shall not at any time disclose to any person or entity, or publish, or use for any unauthorized purpose, any Trade Secret, except as the Company directs or under compulsion of law. Executive agrees to give notice to the Company of any attempt to compel disclosure of any Trade Secret within five (5) business days after Executive is informed that such disclosure is being, or will be, compelled. Any such notice shall contain a copy of the subpoena, order or other process used to compel disclosure.

The agreements and covenants in this Section 10(b) apply to all Trade Secrets, whether now known or later to become known to Executive. In addition, these provisions shall be in addition to, and not limit or restrict in any way, any other confidentiality agreement or covenant between the Executive and the Company or any of its Affiliates.

(c) **Agreement to Refrain from Defamatory Statements.** Executive shall refrain, both during the Employment Period and thereafter, from publishing any oral or written statements about any directors, partners, officers, employees, agents, investors or representatives of the Company or any Affiliate that are (1) slanderous, libelous, or defamatory; (2) disclose private or confidential information about the business affairs, directors, partners, officers, employees, agents, investors or representatives of the Company or any Affiliate; (3) constitute an intrusion into the seclusion or private lives of any such person; (4) give rise to unreasonable publicity about the private life of any such person; (5) place any such person in a false light before the public; or (6) constitute a misappropriation of the name or likeness of any such person.

(d) **Definitions.** The following terms, when used in this Agreement, are defined below:

(1) “Restricted Territory” means any county, or equivalent political or governmental subdivision, of any state, district, or territory of the continental United States in which the Company or any of its Affiliates conducts its business; and any area adjacent to such counties, or equivalent political or governmental subdivision, to the extent such adjacent areas are within a 50-mile radius of any funeral home, cemetery or other death care business owned or operated by the Company or any of its Affiliates as of the Termination Date.

(2) “Trade Secrets” means any and all information and materials (in any form or medium) that are proprietary to the Company or an Affiliate, or are treated as confidential by the Company or an Affiliate as part of, or relating to, any portion of its or their businesses (whether or not owned or developed by the Company or an Affiliate) and that are not generally known by other persons or entities in the same type of business.

For purposes of the Agreement, Trade Secrets include, without limitation, the following: all of the Company’s or Affiliate’s research, technical and business information, whether patentable or not, which is of a confidential, trade secret or proprietary character, and which is either developed by the Executive alone, or with others or by others; all non-public information that the Company or an Affiliate has marked as confidential or has otherwise described to Executive (either in writing or orally) as confidential; all non-public information concerning the Company’s or Affiliate’s products, services, prospective products or services, research, prospects, leases, designs, prices, costs, marketing plans, marketing techniques, studies, customers, investors, suppliers and contracts; all business records and plans; all personnel files; all financial information of or concerning the Company or an Affiliate; all information relating to the Company’s operating system software, application software, software and system methodology, hardware platforms, technical information, inventions, computer programs and listings, source codes, object codes, copyrights and other intellectual property; all technical specifications; any proprietary information belonging to the Company or an Affiliate; all computer hardware or software manuals of the Company or an Affiliate; all Company or Affiliate training or instruction manuals; all Company or Affiliate electronic data; and all computer system passwords and user codes.

11. Duty to Return Company Documents and Property. Upon the Termination Date, Executive shall immediately return and deliver to the Company any and all papers, books, records, documents, memoranda and manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, belonging to the Company or relating to its business, in Executive's possession, whether prepared by Executive or others. If at any time after the Termination Date, Executive determines that Executive has any Trade Secrets in Executive's possession or control, Executive shall immediately return them to the Company, including all copies thereof.

12. Best Efforts and Disclosure. Executive agrees that, while employed with the Company under this Agreement, Executive's services shall be devoted on a full time basis to the Company's business, and Executive shall use best efforts to promote its success. Further, Executive shall promptly disclose to the Company all ideas, inventions, computer programs, and discoveries, whether or not patentable or copyrightable, which Executive may conceive or make, alone or with others, during Executive's period of Employment, whether or not during working hours, and which directly or indirectly:

- (a) relate to a matter within the scope, field, duties or responsibility of Executive's Employment or within the scope or field of the Company's or an Affiliate's business; or
- (b) are based on any knowledge of the actual or anticipated business or interests of the Company; or
- (c) are aided by the use of time, materials, facilities or information of the Company or an Affiliate.

Executive assigns to the Company, without further compensation, any and all rights, titles and interest in all such ideas, inventions, computer programs and discoveries in all countries of the world.

13. Inventions and Other Works. Any and all writings, computer software, inventions, improvements, processes, procedures and/or techniques which Executive may make, conceive, discover, or develop, either solely or jointly with any other person or persons, at any time during Executive's period of Employment, whether at the request or upon the suggestion of the Company or otherwise, which relate to or are useful in connection with any business now or hereafter carried on or contemplated by the Company, including developments or expansions of its present fields of operations, shall be the sole and exclusive property of the Company. Executive agrees to take any and all actions necessary or appropriate so that the Company can prepare and present applications for copyright or letters patent therefor, and secure such copyright or letters patent wherever possible, as well as reissue renewals, and extensions thereof, and obtain the record title to such copyright or patents. Executive shall not be entitled to any additional or special compensation or reimbursement regarding any such writings, computer software, inventions, improvements, processes, procedures and techniques. Executive acknowledges that the Company from time to time may have agreements with other persons or entities which impose obligations or restrictions on the Company regarding inventions made during the course of work thereunder or regarding the confidential nature of such work. Executive agrees to be bound by all such obligations and restrictions, and to take all action necessary to discharge the obligations of the Company.

14. Non-Solicitation Restriction. Executive hereby agrees that in order to protect Trade Secrets, it is necessary to enter into the following restrictive covenant, which is ancillary to the enforceable promises between the Company and Executive in [Sections 9](#) through [13](#) and other provisions of this Agreement. During the Executive's Employment and for a period of two (2) years following the Termination Date (regardless of the reason for termination), Executive hereby covenants and agrees that he will not, directly or indirectly, without obtaining the express written consent of the Board, either individually or as a principal, partner, agent, consultant, contractor, employee, or as a director or officer of any entity, or in any other manner or capacity whatsoever, except on behalf of the Company, solicit business, attempt to solicit business, or conduct business, in products or services

competitive with any products or services offered or performed by the Company or its Affiliates as of the Termination Date within the Restricted Territory.

15. Non-Competition Restriction. Executive hereby agrees that in order to protect Trade Secrets, it is necessary to enter into the following restrictive covenant, which is ancillary to the enforceable promises between the Company and Executive in Sections 9 through 14 and other provisions of this Agreement. Executive hereby covenants and agrees that during Executive's period of Employment, and for a period of two (2) years following the Termination Date (regardless of the reason for termination), Executive will not, without obtaining the express written consent of the Company, engage in any capacity, directly or indirectly (whether as proprietor, stockholder, director, partner, employee, agent, independent contractor, consultant, trustee, or in any other capacity), with respect to any entity which is or may be in the funeral, mortuary, crematory, cemetery or burial insurance business or in any business related thereto (a) as part of any of the companies or entities listed on Schedule I hereto, or (b) within the Restricted Territory (in each case, a "Competing Enterprise"); provided, however, Executive shall not be deemed to be participating or engaging in a Competing Enterprise solely by virtue of the ownership of not more than one percent (1%) of any class of stock or other securities which are publicly traded on a national securities exchange or in a recognized over-the-counter market.

16. No Recruitment Restriction. Executive agrees that during Executive's period of employment with the Company or its Affiliates, and for a period of two (2) years following the Termination Date (regardless of the reason for termination), without obtaining the express written consent of the Company, Executive shall not, either directly or indirectly, or by acting in concert with another person or entity, (a) hire any employee or independent contractor performing services for the Company or any Affiliate, or any such individual who performed services for the Company or any Affiliate at any time during the one-year period ending on the Termination Date, or (b) solicit or influence or seek to solicit or influence, any employee or independent contractor performing services for the Company or any Affiliate, or any such individual who performed services for the Company or any Affiliate at any time during the one-year period ending on the Termination Date, to terminate, reduce or otherwise adversely affect such individual's employment or other relationship with the Company or any Affiliate.

17. Tolling. If Executive violates any of the restrictions contained in Sections 9 through 16, then notwithstanding any provision hereof to the contrary, the restrictive period will be suspended and will not run in favor of Executive from the time of the commencement of any such violation, unless and until such time when the Executive cures the violation to the reasonable satisfaction of the Company.

18. Reformation. If a court or arbitrator rules that any time period or the geographic area specified in any restrictive covenant in Sections 9 through 16 is unenforceable, then the time period will be reduced by the number of months, or the geographic area will be reduced by the elimination of such unenforceable portion, or both, so that the restrictions may be enforced in the geographic area and for the time to the full extent permitted by law.

19. No Previous Restrictive Agreements. Executive represents that, except as disclosed in writing to the Company as of the Effective Date, Executive is not bound by the terms of any agreement with any previous employer or other third party to (a) refrain from using or disclosing any confidential or proprietary information in the course of Executive's Employment or (b) refrain from competing, directly or indirectly, with the business of such previous employer or any other person or entity. Executive further represents that Executive's performance under this Agreement and work duties for the Company do not, and will not, breach any agreement to keep in confidence any proprietary information, knowledge or data acquired by Executive in confidence or in trust prior to Executive's Employment, and Executive will not disclose to the Company or induce the Company to use any confidential or proprietary information or material belonging to any previous employer or others.

20. Conflicts of Interest. In keeping with Executive's fiduciary duties to the Company, Executive hereby agrees that Executive shall not become involved in a conflict of interest, or upon discovery thereof, allow such a conflict to continue at any time during Executive's period of Employment. In this respect, Executive agrees to fully comply with the conflict of interest agreement entered into by Executive as an employee, officer or director of the Company or an Affiliate. In the instance of a violation of the conflict of interest agreement to which Executive is a party, it may be necessary for the Company to terminate Executive's Employment for Cause.

21. Remedies. Executive acknowledges that the restrictions contained in Sections 9 through 20 of this Agreement, in view of the nature of the Company's business, are reasonable and necessary to protect the Company's legitimate business interests, and that any violation of this Agreement would result in irreparable injury to the Company. In the event of a breach or a threatened breach by Executive of any provision of Sections 9 through 20 of this Agreement, the Company shall be entitled to a temporary restraining order and injunctive relief restraining Executive from the commission of any breach, and to recover the Company's attorneys' fees, costs and expenses related to the breach or threatened breach. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any such breach or threatened breach, including, without limitation, the recovery of money damages, attorneys' fees, and costs. These covenants and agreements shall each be construed as independent of any other provisions in this Agreement, and the existence of any claim or cause of action by Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants and agreements.

22. No Interference. Notwithstanding any other provision of this Agreement, (a) Executive may disclose confidential information when required to do so by a court of competent jurisdiction, by any governmental agency having authority over Executive or the business of the Company or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information, in each case, subject to Executive's obligations to notify the Company under Section 10(b); and (b) nothing in this Agreement is intended to interfere with Executive's right to (1) report possible violations of state or federal law or regulation to any governmental or law enforcement agency or entity; (2) make other disclosures that are protected under the whistleblower provisions of state or federal law or regulation (including the right to receive an award for information provided to any such government agencies); (3) file a claim or charge any governmental agency or entity; or (4) testify, assist, or participate in an investigation, hearing, or proceeding conducted by any governmental or law enforcement agency or entity, or any court. For purposes of clarity, in making or initiating any such reports or disclosures or engaging in any of the conduct outlined in subsection (b) above, Executive may disclose confidential information to the extent necessary to such governmental or law enforcement agency or entity or such court, need not seek prior authorization from the Company, and is not required to notify the Company of any such reports, disclosures or conduct.

23. Defend Trade Secrets Act. Executive is hereby notified in accordance with the Defend Trade Secrets Act of 2016 that Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (a) is made (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (2) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If Executive files a lawsuit for retaliation against the Company for reporting a suspected violation of law, Executive may disclose the Company's trade secrets to Executive's attorney and use the trade secret information in the court proceeding if Executive files any document containing the trade secret under seal, and does not disclose the trade secret, except pursuant to court order.

24. Withholdings; Right of Offset. The Company may withhold and deduct from any benefits and payments made or to be made pursuant to this Agreement (a) all federal, state, local and other taxes as may be required pursuant to any law or governmental regulation or ruling, (b) all other normal employee deductions made with respect to Company's employees generally, and (c) any advances made to Executive and owed to Company.

25. **Severability.** It is the desire of the Parties hereto that this Agreement be enforced to the maximum extent permitted by law, and should any provision contained herein be held unenforceable by a court of competent jurisdiction, the Parties hereby agree and consent that such provision shall be reformed to create a valid and enforceable provision to the maximum extent permitted by law; provided, however, if such provision cannot be reformed, it shall be deemed ineffective and deleted herefrom without affecting any other provision of this Agreement. This Agreement should be construed by limiting and reducing it only to the minimum extent necessary to be enforceable under then applicable law.

26. **Title and Headings; Construction.** In the interpretation of the Agreement, except where the context clearly otherwise requires:

- (a) “including” or “include” does not denote or imply any limitation;
- (b) “or” has the inclusive meaning “and/or”;
- (c) the singular includes the plural, and vice versa, and each gender includes each of the others;
- (d) captions or headings are only for reference and are not to be considered in interpreting the Agreement;
- (e) “Section” refers to a Section of the Agreement, unless otherwise stated in the Agreement;
- (f) the words “herein”, “hereof”, “hereunder” and other compounds of the word “here” shall refer to the entire Agreement and not to any particular provision; and
- (g) a reference to any statute, rule, or regulation includes any amendment thereto or any statute, rule, or regulation enacted or promulgated in replacement thereof or as the successor thereto.

27. **Governing Law; Jurisdiction.** All matters or issues relating to the interpretation, construction, validity, and enforcement of this Agreement shall be governed by the laws of the State of Texas, without giving effect to any choice-of-law principle that would cause the application of the laws of any jurisdiction other than Texas. Jurisdiction and venue of any action or proceeding relating to this Agreement or any Dispute must be brought, if at all, in a state district court in Harris County, Texas or federal district court in the Southern District of Texas, Houston Division. Each party submits to the jurisdiction of such courts and agrees not to raise any objection to such jurisdiction.

28. **Binding Effect; Third Party Beneficiaries.** Subject to [Section 33](#), this Agreement shall be binding upon and inure to the benefit of the Parties hereto, and to their respective heirs, executors, beneficiaries, personal representatives, successors and permitted assigns hereunder; otherwise this Agreement shall not be for the benefit of any third parties.

29. **Entire Agreement; Amendment and Termination.** This Agreement replaces and merges all previous agreements, amendments and discussions relating to the same or similar subject matters between Executive and Company (or any of its Affiliates) and constitutes the entire agreement between the Executive and the Company (and any of its Affiliates) with respect to the subject matter of this Agreement. Any existing employment agreement between the Executive and the Company (or any of its Affiliates) is hereby terminated, effective immediately. This Agreement may be amended, waived or terminated only by a written instrument that is identified as an amendment, waiver or termination hereto, and is executed on behalf of both Parties. Executive hereby acknowledges and represents that in executing this Agreement, he did not rely on, has not relied on, and specifically disavows any reliance on any communications, promises, statements, inducements, or representation(s), oral or written, by the Company, except as expressly contained in this Agreement. The Parties represent that they relied on their own judgment, and on the advice of legal counsel for such Party, if applicable, in entering into this Agreement.

30. Section 409A.

(a) **General.** Any provisions of the Agreement that are subject to Section 409A of the Code and the regulations and other authoritative guidance issued thereunder (“Section 409A”), are intended to comply with all applicable requirements of Section 409A, or an exemption from the application of Section 409A, and shall be interpreted and administered accordingly. Notwithstanding any provision of this Agreement to the contrary, a termination of Employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amount or benefit that constitutes “non-qualified deferred compensation” (within the meaning of Section 409A) upon or following a termination of the Executive’s Employment unless such termination is also a “separation from service” (as defined under Section 409A) (a “Separation from Service”) and, for purposes of any such provision, references herein to a “termination,” “termination of employment” or like terms shall mean a Separation from Service, if applicable. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A. In no event may the Executive, directly or indirectly, designate the calendar year of any payment to be made under this Agreement.

(b) **Specified Employee.** Notwithstanding any provision of this Agreement to the contrary, if any payment or other benefit provided hereunder would be subject to additional taxes and interest under Section 409A because the timing of such payment is not delayed as required by Section 409A for a “specified employee” (as defined under Section 409A), then if the Executive is on the date of Executive’s Separation from Service a specified employee, any such payment or benefit that Executive would otherwise be entitled to receive during the first six months following the Separation from Service shall be accumulated and paid in a lump sum within ten (10) days after the date that is six months following the date of the Separation from Service, or such earlier date upon which such amount can be paid under Section 409A without being subject to such additional taxes and interest such as, for example, upon the Executive’s death. Any remaining payments due to Executive under this Agreement shall be paid as otherwise provided in this Agreement.

(c) **Reimbursements and In-Kind Benefits.** Notwithstanding any provision of this Agreement to the contrary, any reimbursements or in-kind benefits provided under this Agreement that constitute “deferred compensation” within the meaning of Section 409A shall be paid to Executive no later than December 31 of the year following the year in which the expense was incurred, the amount of expenses reimbursed in one year shall not affect the amount eligible for reimbursement in any subsequent year, other than medical expenses referred to in Section 105(b) of the Code, and Executive’s right to reimbursement under this Agreement will not be subject to liquidation or exchange for other benefits.

(d) **No Section 409A Representations.** Notwithstanding the foregoing, the Company makes no representations, warranties, or guarantees regarding the tax consequences of this Agreement, or any payments made hereunder, under Section 409A or otherwise, and has advised the Executive to consult with Executive’s own tax advisor.

31. **Survival of Certain Provisions.** Provisions of this Agreement which by their terms must survive the termination of this Agreement shall survive any such termination of this Agreement or termination of Executive’s Employment, as applicable, including, without limitation, Executive’s obligations under Sections 9 through 16 and the Company’s obligations under Section 6.

32. **Waiver of Breach.** No waiver by any party hereto of a breach of any provision of this Agreement by any other party, or of compliance with any condition or provision of this Agreement to be performed by such other party, will operate or be construed as a waiver of any subsequent breach by such other party or any similar or dissimilar provision or condition at the same or any subsequent time. The failure of any party hereto to take any action by reason of any breach will not deprive such party of the right to take action at any time while such breach continues.

33. **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the Company and its Affiliates (and its and their successors), as well as upon any person or entity

acquiring, whether by merger, consolidation, purchase of assets, dissolution or otherwise, all or substantially all of the capital stock, business and/or assets of the Company (or its successor) regardless of whether the Company is the surviving or resulting entity. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, dissolution or otherwise) to all or substantially all of the capital stock, business or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had occurred; provided, however, no such assumption shall relieve the Company or any of its Affiliates (or any successor thereof) of any of its duties or obligations hereunder unless otherwise agreed, in writing, by Executive.

This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representative, executors, administrators, successors, and heirs. In the event of the death of Executive while any amount is payable hereunder, all such amounts shall be paid to the Designated Beneficiary.

34. Notice. Each notice or other communication required or permitted under this Agreement shall be in writing and transmitted, delivered, or sent by personal delivery, prepaid courier or messenger service (whether overnight or same-day), or prepaid certified United States mail (with return receipt requested), addressed (in any case) to the other party at the address for that party set forth below that party's signature on this Agreement, or at such other address as the recipient has designated by Notice to the other party, by electronic mail, delivery and read receipt required, or by facsimile, confirmation of delivery required.

Each notice or communication so transmitted, delivered, or sent (a) in person, by courier or messenger service, or by certified United States mail shall be deemed given, received, and effective on the date delivered to or refused by the intended recipient (with the return receipt, or the equivalent record of the courier or messenger, being deemed conclusive evidence of delivery or refusal), or (b) by telecopy or facsimile shall be deemed given received) and effective on the date of actual receipt (with the confirmation of transmission being deemed conclusive evidence of receipt, except where the intended recipient has promptly notified the other party that the transmission is illegible). Nevertheless, if the date of delivery or transmission is not a business day, or if the delivery or transmission is after 5:00 p.m. (local time) on a business day, the notice or other communication shall be deemed given, received, and effective on the next business day.

35. Deemed Resignations. Unless otherwise agreed to in writing by the Company and Executive prior to the termination of Executive's Employment, any termination of Executive's Employment shall constitute: (a) an automatic resignation of Executive as an officer of the Company and each Affiliate and subsidiary of the Company, as applicable, and (b) an automatic resignation of Executive from the Board (if applicable), from the board of directors of any Affiliate and subsidiary of the Company (if applicable), and from the board of directors or any similar governing body of any corporation, limited liability entity or other entity (i) in which the Company or any Affiliate or subsidiary holds an equity interest and (ii) with respect to which board or similar governing body the Executive serves as the Company's or such Affiliate's or subsidiary's designee or other representative (if applicable).

36. Executive Acknowledgment. Executive acknowledges (a) being knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, (b) having read this Agreement and understanding its terms and conditions, (c) having been given an ample opportunity to discuss this Agreement with his personal legal counsel prior to execution, and (d) that no strict rules of construction shall apply for or against the drafter or any other party. Executive hereby represents that he is free to enter into this Agreement including, without limitation, that he is not subject to any covenant not to compete, confidentiality agreement or other restrictive agreement or covenant, with former employer or otherwise, that could conflict with this Agreement or his duties hereunder.

37. **Counterparts.** This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a copy hereof containing multiple signature pages, each signed by one party hereto, but together signed by both Parties.

IN WITNESS WHEREOF, Executive has executed this Agreement, the Company has caused this Agreement to be executed in its name and on its behalf by its duly authorized officer, to be effective as of the Effective Date.

EXECUTIVE:

/s/ Steven D. Metzger
Steve Metzger

Address for Notices:
6332 Schiller Street
Houston, Texas 77055

COMPANY:

CARRIAGE SERVICES, INC.

By: /s/ Melvin C. Payne

Name: **Mel Payne**
Title: **Chairman of the Board &
Chief Executive Officer**

Address for Notices:
Carriage Services, Inc.
3040 Post Oak Blvd, Suite 300
Houston, Texas 77056
Attn: General Counsel

[End of Signatures.]

Schedule I

1. The following entities, together with all Affiliated Parties thereof:

Service Corporation International
StoneMor Partners LP
NorthStar Memorial Group, LLC
Park Lawn Corporation
Legacy Funeral Group, LLC
Foundation Partners Group, LLC

For purposes of this Schedule I, an “Affiliated Party” of an entity is an entity that directly or indirectly controls, is under the control of or is under common control with such entity.

2. Any new entity which may hereafter be established which acquires any combination of ten or more funeral homes and/or cemeteries from any of the entities described in Section 1 of this Schedule I.
3. Any funeral home, cemetery or other death care enterprise which is managed by any entity described in Section 1 or 2 of this Schedule I.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), is made and entered into as of June __, 2020 (the "Effective Date"), by and between Carriage Services, Inc., a Delaware corporation (the "Company") and Carlos Quezada (hereafter "Executive"). The Company and Executive may sometimes hereafter be referred to singularly as a "Party" or collectively as the "Parties."

WITNESSETH:

WHEREAS, the Company desires to continue to secure the employment services of Executive subject to the terms and conditions hereafter set forth;

NOW, THEREFORE, in consideration of Executive's continued employment with the Company, and the premises and mutual covenants contained herein, the Parties hereto agree as follows:

1. **Employment Position and Defined Terms.** During the Employment Period (as defined in Section 4), the Company shall employ Executive, and Executive shall serve, as Vice President of Cemetery Sales and Marketing of the Company. Executive shall also serve as an officer of any subsidiary of the Company as may be requested by the Company. Executive shall perform such other duties which are from time to time assigned to him and are not inconsistent with the provisions hereof. Executive's principal place of Employment shall be at the main business offices of the Company in Houston, Texas. Defined terms used in the Agreement that are not otherwise defined herein when first used are defined in Sections 6(g) and 10(d).

2. **Compensation.**

(a) **Base Salary.** The Company shall pay to Executive during the Employment Period an annual salary at a rate of not less than Three Hundred Thousand Dollars (\$300,000.00) per full calendar year of service (the "Base Salary"). Executive's Base Salary may increase at the discretion of the Compensation Committee or its duly authorized delegate and shall be paid in equal installments in accordance with the Company's standard policy regarding payment of compensation to similarly situated employees, but no less frequently than monthly. Nothing contained herein shall preclude the payment of any other compensation to Executive at any time as determined by the Compensation Committee.

(b) **Annual Bonus.** In addition to the Base Salary in Section 2(a), Executive shall be eligible for an annual, discretionary incentive award (the "Annual Bonus") for each full calendar year that he is employed hereunder, as determined in the sole discretion of the Compensation Committee (or its duly authorized delegate) upon consideration of, among other things, corporate and individual performance for the year. The Annual Bonus shall be payable before March 15 of the year following the calendar year to which the Annual Bonus relates, following the certification of applicable year-end financial results. Executive must be employed by the Company on the payment date in order to earn and receive an Annual Bonus and thus Executive shall have no entitlement to any Annual Bonus before that date. The Executive's "Target Annual Bonus" shall be established by

the Compensation Committee, or its duly authorized delegate, at the beginning of each year. For 2020, Executive's Annual Bonus shall be guaranteed at a rate of \$150,000. After 2020, Executive's Target Annual Bonus shall be a percentage of Executive's Base Salary, not to be less than 50% (it being understood that the actual Annual Bonus eventually earned could be lesser or greater than the Target Annual Bonus).

3. Duties and Responsibilities of Executive. During the Employment Period, Executive shall devote his full working time to (a) the business of the Company and its Affiliates and (b) performance of the duties and responsibilities assigned to Executive to the best of Executive's ability and with reasonable diligence. Executive's Employment shall also be subject to the policies maintained and established by the Company, as such policies may be amended from time to time. Executive shall at all times use his best efforts to comply in good faith with laws applicable to Executive's actions on behalf of the Company and its Affiliates.

4. Term of Employment; Termination Rights.

(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 three (3) years from the Effective Date (the "Initial Term").

On the third 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."

(b) **Continued Availability Post-Termination.** Executive agrees to remain available for twelve (12) months beyond the Employment Period during normal business hours to provide reasonable assistance to the Company or its Affiliates in the event that the Company or an Affiliate become involved in litigation (or another type of dispute or controversy) regarding matters of which Executive has relevant knowledge resulting from Executive's Employment; provided that such assistance does not unreasonably interfere with the employment duties of Executive with another employer following the Termination Date. Such post-termination assistance shall be provided by Executive in the capacity of an independent contractor at an agreed-upon, reasonable consulting fee, and shall not be deemed to create or continue an employee-employer or fiduciary relationship, or to represent a continuation of this Agreement.

5. Benefits. Subject to the terms and conditions of this Agreement, during the Employment Period, Executive shall be entitled to all of the following:

(a) **Reimbursement of Business Expenses.** The Company shall reimburse Executive for all reasonable travel, entertainment and other business expenses paid or incurred by Executive in the performance of duties hereunder, provided that such expenses are incurred and accounted for in accordance with the expense reimbursement policies and procedures established by the Company from time to time. Such reimbursement shall in all cases be made in compliance with Section 30.

(b) **Discretionary Vacation Time.** Executive's work is routinely performed outside of a traditional work schedule and Executive is required to manage his own work schedule and time away from work, including vacation and personal time, in a manner that allows Executive to fulfill his duties and does not negatively impact the Company. Executive is not entitled to a fixed amount of vacation or personal time and will not accrue vacation or personal time balances.

(c) **Other Employee Benefits.** Executive shall be entitled to participate in any retirement, 401(k), profit-sharing, and other employee benefits plans or programs of the Company to the same extent as available to other similarly situated employees of the Company under the terms of such plans or programs. Executive shall also be entitled to participate in any group insurance, hospitalization, medical, dental, health, life, accident, disability and other employee benefits plans or programs of the Company to the extent available to other similarly situated employees of the Company, and their spouses and eligible dependents, under the terms of such plans or programs including, without limitation, any medical expense reimbursement account and post-retirement medical program as made available to other similarly situated employees of the Company.

(d) **Equity Incentive Awards.** Executive shall be eligible to participate in the Company's 2017 Omnibus Incentive Plan, as it may be amended from time to time (the "LTIP"), or any other incentive plan sponsored by the Company which provides for equity grants of incentive awards. The terms and conditions of any equity incentive award granted to Executive shall be set forth in the incentive plan document and award agreement governing such award.

6. Rights and Payments upon Termination. The Executive's right to compensation and benefits for periods after the Termination Date shall be determined in accordance with this Section 6. Except as otherwise expressly required by law or as specifically provided in an employee benefit plan or under this Agreement, all of Executive's rights to salary, severance, benefits, bonuses and other compensatory amounts under this Agreement shall cease upon the Termination Date.

(a) **Minimum Payments.** As of the Termination Date, Executive shall be entitled to the following minimum payments under this Section 6(a), in addition to any other payments or benefits which Executive is entitled to receive under the terms of any employee benefit plan or program, state law, Company policy, or under Section 6(b):

(1) accrued but unpaid Base Salary through the Termination Date; provided that, if Executive's termination is due to Disability, such amount shall be net of the amount of any benefits received or payable under any disability insurance policy maintained by the Company for Executive, if applicable, which policy provides for income replacement benefits due to the Executive's inability to work as the result of his qualifying Disability; and

(2) reimbursement of reasonable business expenses that were incurred but unpaid as of the Termination Date.

Amounts payable under this Section 6(a) shall be paid in accordance with the Company's normal procedures for making payments following termination of Employment by a similarly situated employee.

(b) **Severance Payments.**

(1) **Death.** If Executive dies during the Initial Term or any then-existing Renewal Term and while in Employment, the Company shall pay Executive's Designated Beneficiary (A) the Executive's Base Salary, in installments, through the end of the Initial Term or any then-existing Renewal Term which was in effect at the time of Executive's death; and (B) a pro rata amount of the Target Annual Bonus described in Section 2(b) for the year in which the death occurred, based on the number of days Executive was employed in such year in comparison to 365, and based on actual performance of any applicable performance metrics through the end of the performance period. Such amounts shall be paid to Executive's Designated Beneficiary by no later than the date necessary to qualify each such payment as a "short-term deferral" within the meaning of Treas. Reg. § 1.409A 1(b)(4).

(2) Disability. If, during the Initial Term or any then-existing Renewal Term, Executive's Employment is terminated by the Company due to Executive's Disability, the Company shall, subject to Section 6(e), pay Executive (A) the Executive's Base Salary, in installments, through the end of the Initial Term or any then-existing Renewal Term which was in effect at the time of Executive's disability; and (B) pay Executive a pro rata amount of the Target Annual Bonus described in Section 2(b) for the year in which the Termination Date occurred, based on the number of days Executive was employed in such year in comparison to 365, and based on actual performance of any applicable performance metrics through the end of the performance period. Such pro rata amount of the Target Annual Bonus shall be paid on the later of (1) the Company's first regular payroll date that occurs after the Release (as defined in Section 6(e), below) is no longer revocable (the "First Payment Date"), or (2) the payment date that an Annual Bonus for the year of termination otherwise would have been payable pursuant to Section 2(b), had Executive's Employment not been terminated (provided, that, in no event shall such payment occur later than the date necessary to qualify such payment as a "short-term deferral" within the meaning of Treas. Reg. § 1.409A l(b)(4)).

(3) Involuntary Termination Without Cause (Other than Due to Death or Disability) Not Within Corporate Change Period. If Executive's Employment is terminated by the Company without Cause (other than on account of Executive's death or Disability), and such Termination Date does not occur within a Corporate Change Period, the Company shall, subject to Section 6(e), provide to Executive (A) continued payment of Executive's Base Salary as in effect on the Termination Date, in arrears, for a period of 24 months following the Termination Date, where the first such payment shall be made on the First Payment Date and shall include all payments, if any, without interest, that would have otherwise been made pursuant to this Section 6(b)(3)(A) between the Termination Date and the First Payment Date; and (B) a pro rata amount of the Target Annual Bonus described in Section 2(b), for the year in which the Termination Date occurred, based on the number of days Executive was employed in such year in comparison to 365, and based on actual performance of any applicable performance metrics through the end of the performance period, where such pro rata amount of the Target Annual Bonus shall be paid on the later of (i) the First Payment Date or (ii) the payment date that an Annual Bonus for the year of termination otherwise would have been payable pursuant to Section 2(b), had Executive's Employment not been terminated (provided, that, in no event shall such payment occur later than the date necessary to qualify such payment as a "short-term deferral" within the meaning of Treas. Reg. § 1.409A l(b)(4)).

(4) Involuntary Termination Without Cause (Other than Due to Death or Disability) Within Corporate Change Period or Termination by Executive for Good Reason Within Corporate Change Period. If Executive's Employment is terminated by the Company without Cause (other than on account of Executive's death or Disability) during a Corporate Change Period, or if Executive terminates his Employment due to Good Reason during a Corporate Change Period, the Company shall, subject to Section 6(e), provide to Executive (A) a lump sum equal to two times the sum of (i) Executive's Base Salary as in effect on the Termination Date (or as of the date of the Corporate Change, if higher), plus (ii) Executive's Target Annual Bonus, with such total amount to be paid on the First Payment Date.

(5) Other Termination of Employment. For purposes of clarity, in the event that (A) Executive voluntarily resigns or otherwise voluntarily terminates Employment, except due to Good Reason within a Corporate Change Period, or (B) Executive's Employment is terminated due to Cause then, in any such event under clause (A) or (B), the Company shall have no obligation to provide the severance benefits described in this Section 6(b) or the coverage described in Section 6(c), except to offer COBRA coverage (as required by COBRA law) but not at the rate described in Section 6(c). However, Executive shall still be entitled to the minimum benefits provided under Section 6(a).

(6) **No Duplication of Severance Benefits.** The severance payments provided under this Section 6(b) shall supersede and replace any severance payments under any severance pay plan or similar agreement that the Company or any Affiliate maintains for key management employees or employees generally.

(c) **Subsidized COBRA Coverage for Certain Terminations.**

The provisions of this Section 6(c) shall apply only with respect to an Executive who becomes entitled to receive benefits under Section 6(b)(1), (2), (3) or (4) on account of his qualifying termination from Employment:

(1) In the event that Executive timely elects continuation coverage under any of the Company's "group health plans" within the meaning of Treasury Regulations Section 54.4980B-2 Q/A-1 (collectively, the "Health Plan") on behalf of himself and any of his eligible covered dependents (including his spouse) pursuant to COBRA, following the Termination Date, the Company shall, subject to Section 6(e), pay on Executive's behalf or reimburse Executive for an amount equal to the monthly premium for such COBRA coverage for each month during which such COBRA coverage is in effect during the period commencing on the Termination Date and ending upon the earliest of (x) the date that is eighteen (18) months following the Termination Date, (y) the date that Executive and Executive's covered dependents become no longer eligible for COBRA coverage, or (z) the date Executive becomes eligible to receive group healthcare coverage from a subsequent employer (and Executive agrees to promptly notify the Company of such eligibility). In all other respects, Executive and his dependents shall be treated the same as any other qualified beneficiaries under the Health Plan and COBRA.

(2) Notwithstanding Section 6(c)(1) to the contrary, the Company may alter the manner in which health benefits are provided to Executive under such Section following termination of Executive's Employment to the extent the Company reasonably determines is necessary for purposes of satisfying Code Section 105(h)(2) or avoiding the imposition of an excise tax on the Company or any of its Affiliates, provided that such alterations do not materially decrease coverage or increase the after-tax cost to Executive of such benefits.

(d) **Accelerated Vesting of Equity Awards.** To the extent Executive received any equity incentive award that is not fully vested as of the Termination Date, the following shall apply with respect to each such award, unless the applicable award agreement provides for more generous treatment of such award:

(1) subject to compliance with the Release requirements in Section 6(e), if Executive becomes entitled to receive benefits under Section 6(b)(1), (2) or (4) on account of his qualifying termination from Employment, (i) Executive shall become immediately 100% vested in any outstanding awards of restricted stock, stock options and any other equity incentive awards granted under the LTIP (or any other equity incentive plan of the Company) that vest solely based on the passage of time, and (ii) with respect to any awards that vest based on the attainment of performance-based vesting conditions, Executive shall be considered to have remained in Employment through the end of the applicable performance period (with any such award being paid out within 60 days following the end of the applicable performance period, provided that applicable performance targets have been met); and

(2) except as specifically provided in Section 6(d)(1), all unvested equity incentive awards shall be treated in accordance with the terms of the outstanding award agreement or plan document, as applicable.

(e) **Release Agreement.** Notwithstanding any provision of the Agreement to the contrary, in order to receive the vesting acceleration provided under Section 6(d), or the severance payments and benefits provided under Sections 6(b) or (c), the Executive must first execute an appropriate

release agreement (on a form provided by the Company) (a “Release”) whereby the Executive agrees to release and waive, in return for such vesting acceleration or severance benefits, any claims that Executive may have against the Company or any of its Affiliates including, without limitation, for unlawful discrimination (e.g., Title VII of the Civil Rights Act); provided, however, such release agreement shall not release any claim or cause of action by or on behalf of the Executive for (a) any payment or benefit that may be due or payable under this Agreement or any vested benefits under any employee benefit plan or program or (b) non-payment of salary or benefits to which Executive is entitled from the Company as of the Termination Date. The Release must be provided to Executive within five (5) days following the Termination Date, and signed by Executive and returned to the Company, and any applicable revocation period must have expired, no later than thirty (30) days following the Termination Date.

(f) **Reduction of Payments.** Notwithstanding anything to the contrary in this Agreement, if Executive is a “disqualified individual” (as defined in Code Section 280G(c)), and the payments and benefits provided for in this Agreement, together with any other payments and benefits which Executive has the right to receive from the Company or any of its Affiliates, would constitute a “parachute payment” (as defined in Code Section 280G(b)(2)), then the payments and benefits provided for in this Agreement shall be reduced (but not below zero) so that the present value of such total amounts and benefits received by Executive from the Company and its Affiliates will be one dollar (\$1.00) less than three times Executive’s “base amount” (as defined in Code Section 280G(b)(3)) and so that no portion of such amounts and benefits received by Executive shall be subject to the excise tax imposed by Code Section 4999. The reduction of payments and benefits hereunder, if applicable, shall be made by reducing, first, payments or benefits to be paid in cash hereunder in the order in which such payment or benefit would be paid or provided (beginning with such payment or benefit that would be made last in time and continuing, to the extent necessary, through to such payment or benefit that would be made first in time) and, then, reducing any benefit to be provided in-kind hereunder in a similar order. The determination as to the extent of any such reduction in the amount of the payments and benefits provided hereunder shall be made by the Company in good faith. If a reduced payment or benefit is made or provided and through error or otherwise that payment or benefit, when aggregated with other payments and benefits from the Company (or its affiliates) used in determining if a “parachute payment” exists, exceeds one dollar (\$1.00) less than three times Executive’s base amount, then Executive shall immediately repay such excess to the Company upon notification that an overpayment has been made. Nothing in this Section 6(f) shall require the Company to be responsible for, or have any liability or obligation with respect to, Executive’s excise tax liabilities under Code Section 4999.

(g) **Definitions.**

(1) “Affiliate” means any incorporated or unincorporated trade or business or other entity or person, other than the Company, that along with the Company is considered a single employer under Code Section 414(b) or Code Section 414(c); provided, however, (a) in applying Code Section 1563(a)(1), (2), and (3) for purposes of determining a controlled group of corporations under Code Section 414(b), the phrase “at least 50 percent” shall be used instead of the phrase “at least 80 percent” in each place the phrase “at least 80 percent” appears in Code Section 1563(a)(1), (2), and (3), and (b) in applying Treasury Regulation Section 1.414(c)-2 for the purposes of determining trades or businesses (whether or not incorporated) that are under common control for the purposes of Code Section 414(c), the phrase “at least 50 percent” shall be used instead of the phrase “at least 80 percent” in each place the phrase “at least 80 percent” appears in Treasury Regulation Section 1.414(c)-2.

(2) “Board” means the then-current Board of Directors of the Company.

(3) “Cause” means any of the following: (A) Executive’s conviction of, or plea of no contest to, a misdemeanor involving moral turpitude or a felony; (B) Executive’s repeated failure or refusal to perform all of his duties, obligations and agreements herein contained or imposed by law, including his fiduciary duties, to the reasonable satisfaction of the Board; (C) Executive’s commission of acts amounting to gross negligence or willful misconduct to

the material detriment of the Company; or (D) Executive's material breach of any provision of this Agreement or uniformly applied provision of the Company's employee handbook or other personnel policies, including without limitation, its Code of Business Conduct and Ethics. Such determination of "Cause" shall be made by the Board and, in the event of circumstances described in clause (B) or (D) above, the Board shall give written notice to Executive specifying such circumstances and providing a period of 30 days in which Executive shall be allowed to cure such circumstances, if capable of cure.

(4) "COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(5) "Code" means the Internal Revenue Code of 1986, as amended.

(6) "Compensation Committee" means the Compensation Committee of the Board.

(7) "Corporate Change" means a "Corporate Transaction" or "Change in Control" (as defined in the LTIP).

(8) "Corporate Change Period" means the 24-month period following the occurrence of a Corporate Change.

(9) "Designated Beneficiary" means the Executive's surviving spouse, if any. If there is no such surviving spouse at the time of Executive's death, then the Designated Beneficiary hereunder shall be Executive's estate after the legal representative of such estate provides satisfactory evidence thereof to the Company (or its delegate) within the one-year period following Executive's date of death.

(10) "Director" means a Board member.

(11) "Disabled" or "Disability" shall mean that Executive has become incapacitated by accident, illness or other circumstance which has rendered him mentally or physically incapable of performing the duties and services required of him hereunder on a full-time basis for a period of at least 365 consecutive days. Evidence of such Disability shall be certified by a physician acceptable to both the Company and Executive. In the event that the Parties are not able to agree on the choice of a physician, each shall select one physician who, in turn, shall select a third physician to render such certification. All reasonable costs directly relating to the determination of whether Executive has incurred a Disability for purposes of this Agreement shall be paid by the Company.

(12) "Dispute" means any dispute, disagreement, claim, or controversy arising from, in connection with, or relating to (A) the Employment, or termination of Employment, of Executive, or (B) the Agreement, or the validity, interpretation, performance, breach or termination of the Agreement.

(13) "Employment" means employment by the Company or any Affiliate.

(14) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(15) "Good Reason" means the occurrence of any of the following actions if taken without Executive's prior written consent: (A) any material breach by the Company to comply with its obligations under the terms of the Agreement; (B) any material diminution in the Executive's responsibilities, authority or duties, (C) a 10% or greater reduction of the sum of Executive's Base Salary and Target Annual Bonus; or (D) any change greater than 50 miles in the permanent location at which Executive performs services for the Company. The Executive shall give written notice to the Board specifying such actions within 90 days of the initial existence of such action and providing a period of 30 days in which the Company shall

be allowed to cure such circumstances. Provided that the condition purporting to give rise to the Good Reason event is not cured within the 30-day cure period, Executive must exercise his right to terminate this Agreement for Good Reason within 120 days after the initial existence of the Good Reason event.

(16) “Termination Date” means the date on which Executive’s Employment terminates for whatever reason.

7. **Notice of Termination.** Any termination of Executive’s Employment by the Company or the Executive other than for death shall be communicated by Notice of Termination to the other Party hereto. For purposes of this Agreement, the term “Notice of Termination” means (a) a written notice which indicates the specific termination provision of this Agreement relied upon, (b) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s Employment under the provision so indicated, and (c) specifies a Termination Date which, if submitted by Executive, shall be at least thirty (30) days following the date of such Notice of Termination unless such termination is for Good Reason within a Corporate Change Period (in which case the requirements for a termination due to Good Reason shall apply); provided, however, that in the event that Executive delivers a Notice of Termination to the Company, the Company may, in its sole discretion, change the Termination Date to any date that occurs following the date of receipt of such Notice of Termination and is prior to the date specified in such Notice of Termination. A Notice of Termination submitted by the Company may provide for a Termination Date on the date Executive receives the Notice of Termination, or any date thereafter elected by the Company in its sole discretion. The failure by the Company or Executive to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Cause or Good Reason shall not waive or otherwise prejudice any right of such Party hereunder or preclude such Party from asserting such fact or circumstance in enforcing such Party’s rights hereunder.

8. **No Mitigation.** Except as provided in Section 6(f) regarding excess parachute payments, Executive shall not be required to mitigate the amount of any payment or other benefits provided under this Agreement by seeking other employment or in any other manner.

9. **Restrictive Covenants.** As an inducement to the Company to enter into this Agreement, Executive represents to, and covenants with or in favor of, the Company that Executive will comply with all of the restrictive covenants in Sections 10 through 16, as a condition to the Company’s obligation to provide any benefits to Executive under this Agreement.

10. **Trade Secrets.**

(a) **Access to Trade Secrets.** As of the Effective Date and on an ongoing basis, the Company agrees to give Executive access to Trade Secrets which the Executive did not have access to, or knowledge of, before Executive’s commencement of Employment.

(b) **Agreement Not to Use or Disclose Trade Secrets.** In exchange for the Company’s promises to provide Executive with access to Trade Secrets, and the other consideration and benefits provided to Executive under this Agreement, Executive agrees that, during the Employment Period and any time thereafter, not to disclose to anyone, including, without limitation, any person, firm, corporation or other entity, or publish or use for any purpose, any Trade Secrets, except (1) as required in the ordinary course of the business of the Company or an Affiliate or (2) as authorized by the Company or Affiliate, as applicable. Executive acknowledges that Trade Secrets (A) have been and will be developed or acquired by the Company (or an Affiliate) through the expenditure of substantial time, effort and money and (B) provide the Company (or an Affiliate) with an advantage over competitors who do not know or use Trade Secrets.

Executive shall hold in a fiduciary capacity for the benefit of the Company (or its Affiliate, as applicable) any Trade Secret relating to the Company or any of its Affiliates, and their respective businesses, which (a) has been obtained by Executive during his Employment and (b) is not public knowledge other than via an unauthorized disclosure made by Executive in violation of this

Agreement. Executive acknowledges and agrees that all Trade Secrets are, and will continue to be, the exclusive property of the Company or Affiliate, as applicable.

Executive shall not at any time disclose to any person or entity, or publish, or use for any unauthorized purpose, any Trade Secret, except as the Company directs or under compulsion of law. Executive agrees to give notice to the Company of any attempt to compel disclosure of any Trade Secret within five (5) business days after Executive is informed that such disclosure is being, or will be, compelled. Any such notice shall contain a copy of the subpoena, order or other process used to compel disclosure.

The agreements and covenants in this Section 10(b) apply to all Trade Secrets, whether now known or later to become known to Executive. In addition, these provisions shall be in addition to, and not limit or restrict in any way, any other confidentiality agreement or covenant between the Executive and the Company or any of its Affiliates.

(c) **Agreement to Refrain from Defamatory Statements.** Executive shall refrain, both during the Employment Period and thereafter, from publishing any oral or written statements about any directors, partners, officers, employees, agents, investors or representatives of the Company or any Affiliate that are (1) slanderous, libelous, or defamatory; (2) disclose private or confidential information about the business affairs, directors, partners, officers, employees, agents, investors or representatives of the Company or any Affiliate; (3) constitute an intrusion into the seclusion or private lives of any such person; (4) give rise to unreasonable publicity about the private life of any such person; (5) place any such person in a false light before the public; or (6) constitute a misappropriation of the name or likeness of any such person.

(d) **Definitions.** The following terms, when used in this Agreement, are defined below:

(1) **“Restricted Territory”** means any county, or equivalent political or governmental subdivision, of any state, district, or territory of the continental United States in which the Company or any of its Affiliates conducts its business; and any area adjacent to such counties, or equivalent political or governmental subdivision, to the extent such adjacent areas are within a 50-mile radius of any funeral home, cemetery or other death care business owned or operated by the Company or any of its Affiliates as of the Termination Date.

(2) **“Trade Secrets”** means any and all information and materials (in any form or medium) that are proprietary to the Company or an Affiliate, or are treated as confidential by the Company or an Affiliate as part of, or relating to, any portion of its or their businesses (whether or not owned or developed by the Company or an Affiliate) and that are not generally known by other persons or entities in the same type of business.

For purposes of the Agreement, Trade Secrets include, without limitation, the following: all of the Company’s or Affiliate’s research, technical and business information, whether patentable or not, which is of a confidential, trade secret or proprietary character, and which is either developed by the Executive alone, or with others or by others; all non-public information that the Company or an Affiliate has marked as confidential or has otherwise described to Executive (either in writing or orally) as confidential; all non-public information concerning the Company’s or Affiliate’s products, services, prospective products or services, research, prospects, leases, designs, prices, costs, marketing plans, marketing techniques, studies, customers, investors, suppliers and contracts; all business records and plans; all personnel files; all financial information of or concerning the Company or an Affiliate; all information relating to the Company’s operating system software, application software, software and system methodology, hardware platforms, technical information, inventions, computer programs and listings, source codes, object codes, copyrights and other intellectual property; all technical specifications; any proprietary information belonging to the Company or an Affiliate; all computer hardware or software manuals of the Company or

an Affiliate; all Company or Affiliate training or instruction manuals; all Company or Affiliate electronic data; and all computer system passwords and user codes.

11. Duty to Return Company Documents and Property. Upon the Termination Date, Executive shall immediately return and deliver to the Company any and all papers, books, records, documents, memoranda and manuals, e-mail, electronic or magnetic recordings or data, including all copies thereof, belonging to the Company or relating to its business, in Executive's possession, whether prepared by Executive or others. If at any time after the Termination Date, Executive determines that Executive has any Trade Secrets in Executive's possession or control, Executive shall immediately return them to the Company, including all copies thereof.

12. Best Efforts and Disclosure. Executive agrees that, while employed with the Company under this Agreement, Executive's services shall be devoted on a full time basis to the Company's business, and Executive shall use best efforts to promote its success. Further, Executive shall promptly disclose to the Company all ideas, inventions, computer programs, and discoveries, whether or not patentable or copyrightable, which Executive may conceive or make, alone or with others, during Executive's period of Employment, whether or not during working hours, and which directly or indirectly:

- (a) relate to a matter within the scope, field, duties or responsibility of Executive's Employment or within the scope or field of the Company's or an Affiliate's business; or
- (b) are based on any knowledge of the actual or anticipated business or interests of the Company; or
- (c) are aided by the use of time, materials, facilities or information of the Company or an Affiliate.

Executive assigns to the Company, without further compensation, any and all rights, titles and interest in all such ideas, inventions, computer programs and discoveries in all countries of the world.

13. Inventions and Other Works. Any and all writings, computer software, inventions, improvements, processes, procedures and/or techniques which Executive may make, conceive, discover, or develop, either solely or jointly with any other person or persons, at any time during Executive's period of Employment, whether at the request or upon the suggestion of the Company or otherwise, which relate to or are useful in connection with any business now or hereafter carried on or contemplated by the Company, including developments or expansions of its present fields of operations, shall be the sole and exclusive property of the Company. Executive agrees to take any and all actions necessary or appropriate so that the Company can prepare and present applications for copyright or letters patent therefor, and secure such copyright or letters patent wherever possible, as well as reissue renewals, and extensions thereof, and obtain the record title to such copyright or patents. Executive shall not be entitled to any additional or special compensation or reimbursement regarding any such writings, computer software, inventions, improvements, processes, procedures and techniques. Executive acknowledges that the Company from time to time may have agreements with other persons or entities which impose obligations or restrictions on the Company regarding inventions made during the course of work thereunder or regarding the confidential nature of such work. Executive agrees to be bound by all such obligations and restrictions, and to take all action necessary to discharge the obligations of the Company.

14. Non-Solicitation Restriction. Executive hereby agrees that in order to protect Trade Secrets, it is necessary to enter into the following restrictive covenant, which is ancillary to the enforceable promises between the Company and Executive in [Sections 9](#) through [13](#) and other provisions of this Agreement. During the Executive's Employment and for a period of two (2) years following the Termination Date (regardless of the reason for termination), Executive hereby covenants and agrees that he will not, directly or indirectly, without obtaining the express written consent of the Board,

either individually or as a principal, partner, agent, consultant, contractor, employee, or as a director or officer of any entity, or in any other manner or capacity whatsoever, except on behalf of the Company, solicit business, attempt to solicit business, or conduct business, in products or services competitive with any products or services offered or performed by the Company or its Affiliates as of the Termination Date within the Restricted Territory.

15. Non-Competition Restriction. Executive hereby agrees that in order to protect Trade Secrets, it is necessary to enter into the following restrictive covenant, which is ancillary to the enforceable promises between the Company and Executive in Sections 9 through 14 and other provisions of this Agreement. Executive hereby covenants and agrees that during Executive's period of Employment, and for a period of two (2) years following the Termination Date (regardless of the reason for termination), Executive will not, without obtaining the express written consent of the Company, engage in any capacity, directly or indirectly (whether as proprietor, stockholder, director, partner, employee, agent, independent contractor, consultant, trustee, or in any other capacity), with respect to any entity which is or may be in the funeral, mortuary, crematory, cemetery or burial insurance business or in any business related thereto (a) as part of any of the companies or entities listed on Schedule I hereto, or (b) within the Restricted Territory (in each case, a "Competing Enterprise"); provided, however, Executive shall not be deemed to be participating or engaging in a Competing Enterprise solely by virtue of the ownership of not more than one percent (1%) of any class of stock or other securities which are publicly traded on a national securities exchange or in a recognized over-the-counter market.

16. No Recruitment Restriction. Executive agrees that during Executive's period of employment with the Company or its Affiliates, and for a period of two (2) years following the Termination Date (regardless of the reason for termination), without obtaining the express written consent of the Company, Executive shall not, either directly or indirectly, or by acting in concert with another person or entity, (a) hire any employee or independent contractor performing services for the Company or any Affiliate, or any such individual who performed services for the Company or any Affiliate at any time during the one-year period ending on the Termination Date, or (b) solicit or influence or seek to solicit or influence, any employee or independent contractor performing services for the Company or any Affiliate, or any such individual who performed services for the Company or any Affiliate at any time during the one-year period ending on the Termination Date, to terminate, reduce or otherwise adversely affect such individual's employment or other relationship with the Company or any Affiliate.

17. Tolling. If Executive violates any of the restrictions contained in Sections 9 through 16, then notwithstanding any provision hereof to the contrary, the restrictive period will be suspended and will not run in favor of Executive from the time of the commencement of any such violation, unless and until such time when the Executive cures the violation to the reasonable satisfaction of the Company.

18. Reformation. If a court or arbitrator rules that any time period or the geographic area specified in any restrictive covenant in Sections 9 through 16 is unenforceable, then the time period will be reduced by the number of months, or the geographic area will be reduced by the elimination of such unenforceable portion, or both, so that the restrictions may be enforced in the geographic area and for the time to the full extent permitted by law.

19. No Previous Restrictive Agreements. Executive represents that, except as disclosed in writing to the Company as of the Effective Date, Executive is not bound by the terms of any agreement with any previous employer or other third party to (a) refrain from using or disclosing any confidential or proprietary information in the course of Executive's Employment or (b) refrain from competing, directly or indirectly, with the business of such previous employer or any other person or entity. Executive further represents that Executive's performance under this Agreement and work duties for the Company do not, and will not, breach any agreement to keep in confidence any proprietary information, knowledge or data acquired by Executive in confidence or in trust prior to Executive's Employment, and Executive will not disclose to the Company or induce the Company to

use any confidential or proprietary information or material belonging to any previous employer or others.

20. Conflicts of Interest. In keeping with Executive's fiduciary duties to the Company, Executive hereby agrees that Executive shall not become involved in a conflict of interest, or upon discovery thereof, allow such a conflict to continue at any time during Executive's period of Employment. In this respect, Executive agrees to fully comply with the conflict of interest agreement entered into by Executive as an employee, officer or director of the Company or an Affiliate. In the instance of a violation of the conflict of interest agreement to which Executive is a party, it may be necessary for the Company to terminate Executive's Employment for Cause.

21. Remedies. Executive acknowledges that the restrictions contained in Sections 9 through 20 of this Agreement, in view of the nature of the Company's business, are reasonable and necessary to protect the Company's legitimate business interests, and that any violation of this Agreement would result in irreparable injury to the Company. In the event of a breach or a threatened breach by Executive of any provision of Sections 9 through 20 of this Agreement, the Company shall be entitled to a temporary restraining order and injunctive relief restraining Executive from the commission of any breach, and to recover the Company's attorneys' fees, costs and expenses related to the breach or threatened breach. Nothing contained in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available to it for any such breach or threatened breach, including, without limitation, the recovery of money damages, attorneys' fees, and costs. These covenants and agreements shall each be construed as independent of any other provisions in this Agreement, and the existence of any claim or cause of action by Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants and agreements.

22. No Interference. Notwithstanding any other provision of this Agreement, (a) Executive may disclose confidential information when required to do so by a court of competent jurisdiction, by any governmental agency having authority over Executive or the business of the Company or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information, in each case, subject to Executive's obligations to notify the Company under Section 10(b); and (b) nothing in this Agreement is intended to interfere with Executive's right to (1) report possible violations of state or federal law or regulation to any governmental or law enforcement agency or entity; (2) make other disclosures that are protected under the whistleblower provisions of state or federal law or regulation (including the right to receive an award for information provided to any such government agencies); (3) file a claim or charge any governmental agency or entity; or (4) testify, assist, or participate in an investigation, hearing, or proceeding conducted by any governmental or law enforcement agency or entity, or any court. For purposes of clarity, in making or initiating any such reports or disclosures or engaging in any of the conduct outlined in subsection (b) above, Executive may disclose confidential information to the extent necessary to such governmental or law enforcement agency or entity or such court, need not seek prior authorization from the Company, and is not required to notify the Company of any such reports, disclosures or conduct.

23. Defend Trade Secrets Act. Executive is hereby notified in accordance with the Defend Trade Secrets Act of 2016 that Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (a) is made (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (2) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If Executive files a lawsuit for retaliation against the Company for reporting a suspected violation of law, Executive may disclose the Company's trade secrets to Executive's attorney and use the trade secret information in the court proceeding if Executive files any document containing the trade secret under seal, and does not disclose the trade secret, except pursuant to court order.

24. Withholdings; Right of Offset. The Company may withhold and deduct from any benefits and payments made or to be made pursuant to this Agreement (a) all federal, state, local and other

taxes as may be required pursuant to any law or governmental regulation or ruling, (b) all other normal employee deductions made with respect to Company's employees generally, and (c) any advances made to Executive and owed to Company.

25. Severability. It is the desire of the Parties hereto that this Agreement be enforced to the maximum extent permitted by law, and should any provision contained herein be held unenforceable by a court of competent jurisdiction, the Parties hereby agree and consent that such provision shall be reformed to create a valid and enforceable provision to the maximum extent permitted by law; provided, however, if such provision cannot be reformed, it shall be deemed ineffective and deleted herefrom without affecting any other provision of this Agreement. This Agreement should be construed by limiting and reducing it only to the minimum extent necessary to be enforceable under then applicable law.

26. Title and Headings; Construction. In the interpretation of the Agreement, except where the context clearly otherwise requires:

- (a) "including" or "include" does not denote or imply any limitation;
- (b) "or" has the inclusive meaning "and/or";
- (c) the singular includes the plural, and vice versa, and each gender includes each of the others;
- (d) captions or headings are only for reference and are not to be considered in interpreting the Agreement;
- (e) "Section" refers to a Section of the Agreement, unless otherwise stated in the Agreement;
- (f) the words "herein", "hereof", "hereunder" and other compounds of the word "here" shall refer to the entire Agreement and not to any particular provision; and
- (g) a reference to any statute, rule, or regulation includes any amendment thereto or any statute, rule, or regulation enacted or promulgated in replacement thereof or as the successor thereto.

27. Governing Law; Jurisdiction. All matters or issues relating to the interpretation, construction, validity, and enforcement of this Agreement shall be governed by the laws of the State of Texas, without giving effect to any choice-of-law principle that would cause the application of the laws of any jurisdiction other than Texas. Jurisdiction and venue of any action or proceeding relating to this Agreement or any Dispute must be brought, if at all, in a state district court in Harris County, Texas or federal district court in the Southern District of Texas, Houston Division. Each party submits to the jurisdiction of such courts and agrees not to raise any objection to such jurisdiction.

28. Binding Effect; Third Party Beneficiaries. Subject to [Section 33](#), this Agreement shall be binding upon and inure to the benefit of the Parties hereto, and to their respective heirs, executors, beneficiaries, personal representatives, successors and permitted assigns hereunder; otherwise this Agreement shall not be for the benefit of any third parties.

29. Entire Agreement; Amendment and Termination. This Agreement replaces and merges all previous agreements, amendments and discussions relating to the same or similar subject matters between Executive and Company (or any of its Affiliates) and constitutes the entire agreement between the Executive and the Company (and any of its Affiliates) with respect to the subject matter of this Agreement. Any existing employment agreement between the Executive and the Company (or any of its Affiliates) is hereby terminated, effective immediately. This Agreement may be amended, waived or terminated only by a written instrument that is identified as an amendment, waiver or termination hereto, and is executed on behalf of both Parties. Executive hereby acknowledges and represents that in executing this Agreement, he did not rely on, has not relied on,

and specifically disavows any reliance on any communications, promises, statements, inducements, or representation(s), oral or written, by the Company, except as expressly contained in this Agreement. The Parties represent that they relied on their own judgment, and on the advice of legal counsel for such Party, if applicable, in entering into this Agreement.

30. Section 409A.

(a) **General.** Any provisions of the Agreement that are subject to Section 409A of the Code and the regulations and other authoritative guidance issued thereunder (“Section 409A”), are intended to comply with all applicable requirements of Section 409A, or an exemption from the application of Section 409A, and shall be interpreted and administered accordingly. Notwithstanding any provision of this Agreement to the contrary, a termination of Employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amount or benefit that constitutes “non-qualified deferred compensation” (within the meaning of Section 409A) upon or following a termination of the Executive’s Employment unless such termination is also a “separation from service” (as defined under Section 409A) (a “Separation from Service”) and, for purposes of any such provision, references herein to a “termination,” “termination of employment” or like terms shall mean a Separation from Service, if applicable. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A. In no event may the Executive, directly or indirectly, designate the calendar year of any payment to be made under this Agreement.

(b) **Specified Employee.** Notwithstanding any provision of this Agreement to the contrary, if any payment or other benefit provided hereunder would be subject to additional taxes and interest under Section 409A because the timing of such payment is not delayed as required by Section 409A for a “specified employee” (as defined under Section 409A), then if the Executive is on the date of Executive’s Separation from Service a specified employee, any such payment or benefit that Executive would otherwise be entitled to receive during the first six months following the Separation from Service shall be accumulated and paid in a lump sum within ten (10) days after the date that is six months following the date of the Separation from Service, or such earlier date upon which such amount can be paid under Section 409A without being subject to such additional taxes and interest such as, for example, upon the Executive’s death. Any remaining payments due to Executive under this Agreement shall be paid as otherwise provided in this Agreement.

(c) **Reimbursements and In-Kind Benefits.** Notwithstanding any provision of this Agreement to the contrary, any reimbursements or in-kind benefits provided under this Agreement that constitute “deferred compensation” within the meaning of Section 409A shall be paid to Executive no later than December 31 of the year following the year in which the expense was incurred, the amount of expenses reimbursed in one year shall not affect the amount eligible for reimbursement in any subsequent year, other than medical expenses referred to in Section 105(b) of the Code, and Executive’s right to reimbursement under this Agreement will not be subject to liquidation or exchange for other benefits.

(d) **No Section 409A Representations.** Notwithstanding the foregoing, the Company makes no representations, warranties, or guarantees regarding the tax consequences of this Agreement, or any payments made hereunder, under Section 409A or otherwise, and has advised the Executive to consult with Executive’s own tax advisor.

31. Survival of Certain Provisions. Provisions of this Agreement which by their terms must survive the termination of this Agreement shall survive any such termination of this Agreement or termination of Executive’s Employment, as applicable, including, without limitation, Executive’s obligations under Sections 9 through 16 and the Company’s obligations under Section 6.

32. Waiver of Breach. No waiver by any party hereto of a breach of any provision of this Agreement by any other party, or of compliance with any condition or provision of this Agreement to be performed by such other party, will operate or be construed as a waiver of any subsequent breach by such other party or any similar or dissimilar provision or condition at the same or any

subsequent time. The failure of any party hereto to take any action by reason of any breach will not deprive such party of the right to take action at any time while such breach continues.

33. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Company and its Affiliates (and its and their successors), as well as upon any person or entity acquiring, whether by merger, consolidation, purchase of assets, dissolution or otherwise, all or substantially all of the capital stock, business and/or assets of the Company (or its successor) regardless of whether the Company is the surviving or resulting entity. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, dissolution or otherwise) to all or substantially all of the capital stock, business or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had occurred; provided, however, no such assumption shall relieve the Company or any of its Affiliates (or any successor thereof) of any of its duties or obligations hereunder unless otherwise agreed, in writing, by Executive.

This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representative, executors, administrators, successors, and heirs. In the event of the death of Executive while any amount is payable hereunder, all such amounts shall be paid to the Designated Beneficiary.

34. Notice. Each notice or other communication required or permitted under this Agreement shall be in writing and transmitted, delivered, or sent by personal delivery, prepaid courier or messenger service (whether overnight or same-day), or prepaid certified United States mail (with return receipt requested), addressed (in any case) to the other party at the address for that party set forth below that party's signature on this Agreement, or at such other address as the recipient has designated by Notice to the other party, by electronic mail, delivery and read receipt required, or by facsimile, confirmation of delivery required.

Each notice or communication so transmitted, delivered, or sent (a) in person, by courier or messenger service, or by certified United States mail shall be deemed given, received, and effective on the date delivered to or refused by the intended recipient (with the return receipt, or the equivalent record of the courier or messenger, being deemed conclusive evidence of delivery or refusal), or (b) by teletype or facsimile shall be deemed given received) and effective on the date of actual receipt (with the confirmation of transmission being deemed conclusive evidence of receipt, except where the intended recipient has promptly notified the other party that the transmission is illegible). Nevertheless, if the date of delivery or transmission is not a business day, or if the delivery or transmission is after 5:00 p.m. (local time) on a business day, the notice or other communication shall be deemed given, received, and effective on the next business day.

35. Deemed Resignations. Unless otherwise agreed to in writing by the Company and Executive prior to the termination of Executive's Employment, any termination of Executive's Employment shall constitute: (a) an automatic resignation of Executive as an officer of the Company and each Affiliate and subsidiary of the Company, as applicable, and (b) an automatic resignation of Executive from the Board (if applicable), from the board of directors of any Affiliate and subsidiary of the Company (if applicable), and from the board of directors or any similar governing body of any corporation, limited liability entity or other entity (i) in which the Company or any Affiliate or subsidiary holds an equity interest and (ii) with respect to which board or similar governing body the Executive serves as the Company's or such Affiliate's or subsidiary's designee or other representative (if applicable).

36. Executive Acknowledgment. Executive acknowledges (a) being knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, (b) having read this Agreement and understanding its terms and conditions, (c) having been given an ample opportunity to discuss this Agreement with his personal legal counsel prior to execution, and (d) that no strict rules of construction shall apply for or against the drafter or any other party. Executive hereby represents that he is free to enter into this Agreement including, without limitation, that he is

not subject to any covenant not to compete, confidentiality agreement or other restrictive agreement or covenant, with former employer or otherwise, that could conflict with this Agreement or his duties hereunder.

37. **Counterparts.** This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a copy hereof containing multiple signature pages, each signed by one party hereto, but together signed by both Parties.

IN WITNESS WHEREOF, Executive has executed this Agreement, the Company has caused this Agreement to be executed in its name and on its behalf by its duly authorized officer, to be effective as of the Effective Date.

EXECUTIVE:

/s/ Carlos Quezada
Carlos Quezada

Address for Notices:
2019 Morse Street
Houston, Texas 77019

COMPANY:

CARRIAGE SERVICES, INC.

By: /s/ William W. Goetz

Name: **William W. Goetz**
Title: **President & Chief Operating Officer**

Address for Notices:
Carriage Services, Inc.
3040 Post Oak Blvd, Suite 300
Houston, Texas 77056
Attn: General Counsel

[End of Signatures.]

Schedule I

1. The following entities, together with all Affiliated Parties thereof:

Service Corporation International
StoneMor Partners LP
NorthStar Memorial Group, LLC
Park Lawn Corporation
Legacy Funeral Group, LLC
Foundation Partners Group, LLC

For purposes of this Schedule I, an “Affiliated Party” of an entity is an entity that directly or indirectly controls, is under the control of or is under common control with such entity.

2. Any new entity which may hereafter be established which acquires any combination of ten or more funeral homes and/or cemeteries from any of the entities described in Section 1 of this Schedule I.
3. Any funeral home, cemetery or other death care enterprise which is managed by any entity described in Section 1 or 2 of this Schedule I.

**FIRST AMENDMENT TO CARL BENJAMIN BRINK'S
EMPLOYMENT AGREEMENT**

This FIRST AMENDMENT TO CARL BENJAMIN BRINK'S EMPLOYMENT AGREEMENT (this "First Amendment") is executed and agreed to by and between Carriage Services, Inc., a Delaware corporation (the "Company"), and Carl Benjamin Brink ("Executive"), effective as of June 1, 2021 (the "Amendment Effective Date").

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

WHEREAS, Executive has been promoted to a new position and 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" with "Executive Vice President" where such figure appears in Section 1.

2. Section 2(a) of the Employment Agreement is hereby amended by replacing "Three Hundred Thousand Dollars (\$300,000.00)" with "Four Hundred Thousand Dollars (\$400,000.00)" where such figure appears in Section 2(a).

3. Section 2(b) of the Employment Agreement is hereby amended by replacing "50%" with "75%" where such figure appears in Section 2(b).

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.

/s/ Melvin C. Payne
By: Melvin C. Payne

Chairman of the Board and Chief Executive Officer

EXECUTIVE:

/s/ C. Benjamin Brink

Carl Benjamin Brink

Signature page to
First amendment to Carl Benjamin Brink's Employment Agreement

**FIRST AMENDMENT TO STEVE METZGER'S
EMPLOYMENT AGREEMENT**

This FIRST AMENDMENT TO STEVE METZGER'S EMPLOYMENT AGREEMENT (this "First Amendment") is executed and agreed to by and between Carriage Services, Inc., a Delaware corporation (the "Company"), and Steve Metzger ("Executive"), effective as of June 1, 2021 (the "Amendment Effective Date").

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

WHEREAS, Executive has been promoted to a new position and 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 General Counsel" with "Executive Vice President, Chief Administrative Officer, General Counsel and Secretary" where such figure appears in Section 1.

2. Section 2(a) of the Employment Agreement is hereby amended by replacing "Two Hundred Fifty Thousand Dollars (\$250,000.00)" with "Four Hundred Thousand Dollars (\$400,000.00)" where such figure appears in Section 2(a).

3. Section 2(b) of the Employment Agreement is hereby amended by replacing "50%" with "75%" where such figure appears in Section 2(b).

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.

/s/ Melvin C. Payne
By: Melvin C. Payne

Chairman of the Board and Chief Executive Officer

EXECUTIVE:

/s/ Steven D. Metzger
Steve Metzger

Signature page to
First amendment to Steve Metzger's Employment Agreement

**FIRST AMENDMENT TO CARLOS QUEZADA'S
EMPLOYMENT AGREEMENT**

This FIRST AMENDMENT TO CARLOS QUEZADA'S EMPLOYMENT AGREEMENT (this "First Amendment") is executed and agreed to by and between Carriage Services, Inc., a Delaware corporation (the "Company"), and Carlos Quezada ("Executive"), effective as of June 1, 2021 (the "Amendment Effective Date").

WHEREAS, Executive and the Company entered into an Employment Agreement dated June 25, 2020 (the "Employment Agreement"); and

WHEREAS, Executive has been promoted to a new position and 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 "Vice President of Cemetery Sales and Marketing" with "Executive Vice 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 "Three Hundred Thousand Dollars (\$300,000.00)" with "Four Hundred Thousand Dollars (\$400,000.00)" where such figure appears in Section 2(a).

3. Section 2(b) of the Employment Agreement is hereby amended by replacing "50%" with "75%" where such figure appears in Section 2(b).

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.

/s/ Melvin C. Payne
By: Melvin C. Payne

Chairman of the Board and Chief Executive Officer

Carlos Quezada

EXECUTIVE:

/s/ Carlos Quezada

Carlos Quezada

Signature page to
First amendment to Carlos Quezada's Employment Agreement

**FIRST AMENDMENT TO THE
GOOD TO GREAT II SHAREHOLDER VALUE CREATION PERFORMANCE AWARD AGREEMENT**

This FIRST AMENDMENT TO THE GOOD TO GREAT II SHAREHOLDER VALUE CREATION PERFORMANCE AWARD AGREEMENT (this “First Amendment”) is executed and agreed to by and between Carriage Services, Inc., a Delaware corporation (the “Company”), and _____ (“Employee”), effective as of June 1, 2021 (the “Amendment Effective Date”).

WHEREAS, Employee and the Company entered into the Good To Great II Shareholder Value Creation Performance Award Agreement dated May 19, 2020 (the “Performance Award Agreement”); and

WHEREAS, Employee has been promoted to the position[s] of _____; and

WHEREAS, the parties now desire to amend the Performance Award Agreement accordingly.

NOW, THEREFORE, in consideration of the premises above, as well as other good and valuable consideration, the parties hereto agree as follows:

1. Section 1 of the Performance Award Agreement is hereby amended by replacing “____%” with “____%”.

2. Exhibit 1 to the Performance Award Agreement is hereby amended by deleting the “Payout Determination” section in its entirety and replacing it with the following language:

“Payout Determination”

The “Payout” shall be determined by the performance of the Company’s common stock during the Performance Period. If the Company Stock Price Average reaches any of the Performance Tiers listed below, the Employee will be entitled to the corresponding Payout, subject to Section 4 and other provisions of the Agreement.

Performance Tiers	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Company Stock Price Average	\$35.78	\$43.88	\$53.39	\$64.48	\$77.34
Payout (in shares of Company common stock)	X	Y	Z	XX	YY

The Employee will only be entitled to the highest Payout achieved during the Performance Period, regardless of the closing price of the Company’s common stock on the Vesting Date, and may not receive multiple Payouts. By way of example:

Example 1: The Company Stock Price Average reaches a high of \$40 in the second year of the Performance Period, before closing at \$30 on the Vesting Date. The Employee will be eligible to receive a Payout of X shares.

Example 2: The Company Stock Price Average reaches \$55 in the second year of the Performance Period, and then reaches \$67 in the third year, before closing at \$50 on the Vesting Date. The Employee will be eligible to receive a Payout of XX shares.”

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

4. This 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.

5. This 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.

By: Melvin C. Payne

Chairman of the Board and Chief Executive Officer

EMPLOYEE:

CARRIAGE SERVICES, INC.

SUBSIDIARIES AS OF DECEMBER 31, 2021

NAME	JURISDICTION OF INCORPORATION
Carriage Services, Inc.	Delaware
Carriage Funeral Holdings, Inc.	Delaware
CFS Funeral Services, Inc.	Delaware
Carriage Holding Company, Inc.	Delaware
Carriage Funeral Services of Michigan, Inc.	Michigan
Carriage Funeral Services of Kentucky, Inc.	Kentucky
Carriage Funeral Services of California, Inc.	California
Carriage Cemetery Services of Idaho, Inc.	Idaho
Wilson & Kratzer Mortuaries	California
Rolling Hills Memorial Park	California
Carriage Services of Connecticut, Inc.	Connecticut
CSI Funeral Services of Massachusetts, Inc.	Massachusetts
CHC Insurance Agency of Ohio, Inc.	Ohio
Carriage Services of New Mexico, Inc.	New Mexico
Forastiere Family Funeral Service, Inc.	Massachusetts
Carriage Cemetery Services, Inc.	Texas
Carriage Services of Oklahoma, LLC	Oklahoma
Carriage Services of Nevada, Inc.	Nevada
Hubbard Funeral Home, Inc.	Maryland
Carriage Team California (Cemetery), LLC	Delaware
Carriage Team California (Funeral), LLC	Delaware
Carriage Team Florida (Cemetery), LLC	Delaware
Carriage Team Florida (Funeral), LLC	Delaware
Carriage Services of Ohio, LLC	Delaware
Carriage Team Kansas, LLC	Delaware
Carriage Municipal Cemetery Services of Nevada, Inc.	Nevada
Carriage Cemetery Services of California, Inc.	California
Carriage Insurance Agency of Massachusetts, Inc.	Massachusetts
Carriage Internet Strategies, Inc.	Delaware
Carriage Management, Inc.	Delaware
Cochrane's Chapel of the Roses, Inc.	California
Horizon Cremation Society, Inc.	California
Carriage Life Events, Inc.	Delaware
Carriage Pennsylvania Holdings, Inc.	Delaware
Carriage Funeral Management, Inc.	Delaware
Carriage Florida Holdings, Inc.	Delaware
Cloverdale Park, Inc.	Idaho
Cataudella Funeral Home, Inc.	Massachusetts
Carriage Services Investment Advisors, Inc.	Delaware
Carriage Merger VI, Inc.	Delaware
CSRE Holdings, Inc.	Delaware
PNCA, Inc.	Delaware
Carriage Operations, Inc.	Delaware
Carriage Services of Tennessee, Inc.	Delaware
Carriage Services of Louisiana, Inc.	Louisiana
Calvary Memorial Park, Inc.	Virginia
Fairfax Memorial Funeral Home, LLC	Virginia

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 2, 2022, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of Carriage Services, Inc. on Form10-K for the year ended December 31, 2021. We consent to the incorporation by reference of said reports in the Registration Statements of Carriage Services, Inc. on Form S-3 (File No. 333-238862) and on Forms S-8 (File No. 333-162408, File No. 333-181724, File No. 333-218115, File No. 333-225142 and File No. 333-262913).

/s/GRANT THORNTON LLP

Dallas, Texas
March 2, 2022

I, Melvin C. Payne, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 2, 2022

/s/ Melvin C. Payne

Melvin C. Payne

Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

I, C. Benjamin Brink, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 2, 2022

/s/ C. Benjamin Brink

C. Benjamin Brink

Executive Vice President, Chief Financial Officer and Treasurer

(Principal Financial Officer)

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

In connection with the Annual Report 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, 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: March 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)