

**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 year ended, December 31, 2019

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 Blvd., Suite 300, Houston, Texas

(Address of principal executive offices)

77056

(Zip Code)

Registrant's telephone number, including area code: (713) 332-8400

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

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

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the 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 28, 2019 was approximately \$308.0 million based on the closing price of \$19.01 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 21, 2020 was 17,873,388.

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,” “believe,” “expect,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would,” “could” or other similar 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, revenues, asset sales, cash flow, debt levels or other financial items; any statements of the plans, strategies and objectives of management for future operations; 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;
- our ability to execute our growth strategy;
- the effects of competition;
- the execution of our Standards Operating, 4E Leadership and Strategic Acquisition Models;
- changes in the number of deaths in our markets;
- changes in consumer preferences;
- our ability to generate preneed sales;
- 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 consummate the divestiture of certain businesses as currently expected, if at all;
- our ability to meet the timing, objectives and cost saving expectations related to anticipated financing activities;
- 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 litigation and burial practice claims;
- effects of the application of other applicable laws and regulations, including changes in such regulations or the interpretation thereof;
- consolidation of the funeral and cemetery industry;
- our ability to integrate acquired businesses with our existing business; 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 80% of our total revenue, and cemetery operations, which currently accounts for approximately 20% of our total revenue.

At December 31, 2019, we operated 186 funeral homes in 29 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.

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.

CURRENT YEAR DEVELOPMENTS

Acquisitions. On October 9, 2019, we acquired four funeral home businesses in Buffalo, New York. On October 28, 2019, we acquired one funeral home and cemetery combination business, three funeral home businesses and three ancillary service businesses, which include a flower shop, a pet cremation business and an online cremation business, in the Dallas, Texas area. On December 31, 2019, we acquired a funeral home and cemetery combination business in Fairfax, Virginia. The pro forma impact of these 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.

Executive Leadership Changes. On December 2, 2019, William (Bill) Goetz joined our executive leadership team as President and Chief Operating Officer and was also elected to serve as a member of our Board of Directors.

Share Repurchase Program. On July 31, 2019, our Board approved a share repurchase program authorizing us to purchase an additional \$25.0 million of our common stock in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). During the year ended December 31, 2019, we repurchased 400,000 shares of common stock for a total cost of approximately \$7.8 million at an average cost of \$19.39 per share pursuant to this share repurchase program. Based on all repurchases to the date of this Annual Report on Form 10-K and increases in authorization, we have approximately \$25.6 million available for repurchase under our approved program.

Dividends. During 2019, we paid \$5.4 million in dividends.

Additional Senior Notes. On December 19, 2019, we issued an additional \$75.0 million in aggregate principal amount of 6.625% Senior Notes due 2026 (the “Additional Senior Notes”) and related guarantees by our subsidiary guarantors in a private offering under Rule 144A and Regulation S of the Securities Act of 1933, as amended (the “Securities Act”). The Additional Senior Notes were issued as additional securities under the indenture by and among us, our subsidiary guarantors and Wilmington Trust, National Association, as trustee, pursuant to which \$325.0 million in aggregate principal amount of 6.625% Senior Notes due 2026 (the “Initial Senior Notes” and, together with the Additional Senior Notes, the “Senior Notes”) issued by us in May 2018.

Divestitures. During 2019, we divested three funeral home businesses whose building leases expired and sold a funeral home business for \$0.9 million. In addition, we merged a funeral home business with a business in an existing market.

FUNERAL AND CEMETERY INDUSTRY

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.

The funeral and cemetery industry in the United States is characterized by the following fundamental attributes (the industry statistics and information included in this Form 10-K are from reports compiled by Sundale Research based on information as of September 30, 2019 from the United States Department of Commerce).

Deaths and Death Trends

During 2019, the number of deaths in the United States increased by approximately 2.2% following a 1.3% and a 2.5% increase in 2018 and 2017, respectively. The rapidly growing and aging population is expected to result in an increase in the number of deaths in the future. The number of Americans age 55 to 64 totaled 42.8 million in 2018 and is expected to grow 2.0% to 47.2 million by 2023, making this the second fastest-growing age group, while the fastest-growing segment of the population is Americans aged 65 and older, with 52.3 million in 2018. This age group is expected to increase to 60.0 million in 2023, reflecting an average annual growth rate of 2.8%. Overall, from 2018 to 2023, the number of deaths in the United States is expected to increase by an average of 2.0% per year, reaching an estimated 3.15 million in 2023.

Burial and Cremation Trends

While the number of deaths is expected to increase over the next few years, the burial rate is expected to continue to decline. In 2019, the number of burials in the United States decreased by an estimated 1.2%, following declines of 2.2% and 0.5% in 2018 and 2017 respectively. The number of burials in the United States is estimated to fall by an average of 1.0% per year from 2018 through 2023. In 2023, it is estimated that there will be approximately 1.26 million burials in the United States and a burial rate of 40.2%.

In 2019, the number of cremations in the United States increased by an estimated 5.2%, following increases of 4.5% and 5.6% in 2018 and 2017, respectively. Slower growth is expected through 2023, due in part to the sheer size of the market for cremations; however, shifting preferences will continue to lead to a considerable rise in cremations. The number of cremations in the United States is expected to grow by an average of 4.4% per year from 2018 through 2023. In 2023, it is estimated that there will be approximately 1.88 million cremations in the United States and a cremation rate of 59.8%.

Highly Fragmented Ownership

Our industry remains highly fragmented, and succession planning issues for privately-owned funeral and cemetery businesses have become more difficult and complex than ever. We believe Carriage provides a unique consolidation and operating framework that offers a highly attractive succession planning solution for owners who want their legacy family business to remain operationally prosperous in their local communities. We also believe that our decentralized operating model will continue to attract the top entrepreneurial talent in our industry. Our focus is on partnering with the best of the remaining independent funeral home and cemetery owners in major strategic markets around the country where the potential for future revenue growth is the highest.

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 Partners L.P. (“StoneMor”), Park Lawn Corporation, traded on the Toronto Stock Exchange (“Park Lawn”) and Carriage. We believe these four companies collectively represent approximately 20% 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 80% share of revenue.

Heritage and Tradition

Funeral home and cemetery businesses have traditionally been family-owned businesses that have built a local heritage and tradition through successive generations, providing a foundation for ongoing business opportunities from established client family relationships and related referrals. Given the sensitive nature of our business, we believe that relationships fostered at the local level build trust in the community and are a key driver of market share. While new entrants may enter any given market, the time and resources required to develop local heritage and tradition serve as important barriers to entry.

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 operating framework linked with incentive compensation programs that attract top-quality industry talent to our organization.

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 cultural, 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. Our five year incentive award, called the “**Good To Great Award**,” which began in 2012, rewards Managing Partners with a bonus at the end of five years, equal to a ratio of four to six times their average annual bonus, if they are able to achieve an annual compound growth rate of 2% over a five year period. The growth rate was changed to 1% beginning with the 2019 payout year, which impacts all five-year performance periods ending on or after December 31, 2019. After each five year incentive plan is achieved and paid out, a new five year plan period begins. To date, we have had four performance periods in which we have paid \$5.1 million to the Managing Partners who have earned a bonus under this program.
- *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 local Managing Partners that have the 4E Leadership skills to entrepreneurially grow the business by hiring, training and developing highly motivated and productive local teams.

Strategic Acquisition Model

Our Standards Operating Model led to the development of our Strategic Acquisition Model, which guides our acquisition strategy. We believe that both models, when executed effectively, will drive long-term, sustainable increases in market share, revenue, earnings and cash flow. We believe a primary driver of higher revenue and profits in the future will be the execution of our Strategic Acquisition Model using strategic 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** that define us and proper execution of the three models that define our strategy have given us the competitive advantage in any market in which 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.

Other elements of our overall business strategy include the following:

Enhancement of Burial and Cremation Services. Personalization and pre-planning continue to be two of the most 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.

The percentage of funeral services performed by our funeral homes for which cremation was chosen as the method of disposition was 51.4% for the year ended December 31, 2017, 52.2% for the year ended December 31, 2018 and 53.7% for the year ended December 31, 2019. 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 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.

Preneed Funeral Sales Program. We operate under a local, decentralized preneed sales strategy whereby each business location customizes its preneed program to its local needs. Approximately 20% 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.

Preneed Cemetery Sales Program. 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. Approximately 50% of our cemetery operating revenue is derived from preneed property sales. Our goal is to build broader and deeper teams of sales leaders and counselors in our larger and more strategically located cemeteries in order to focus on growth of our preneed property sales. 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.

OUR STRENGTHS

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 Managing Partners with extensive funeral and cemetery industry experience, often within their local markets. Our Managing Partners have responsibility for day-to-day operations, but are required to follow operating and financial standards based on our Standards Operating Model that are custom designed for distinct business groupings based on the size (number of funerals) and average revenue per funeral. This strategy allows each local business to maintain its unique identity within its local market and to capitalize on its reputation and heritage while a range of support services is provided from our home office in Houston, Texas. We believe our culture is very attractive to owners of premier independent businesses that fit our profile of suitable acquisition candidates.

Flexible Capital Structure. We believe that our capital structure provides us with financial flexibility by allowing us to invest our cash flow in growth opportunities, such as business acquisitions and cemetery inventory projects. 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.

Stable Cash Flow. We have demonstrated the ability to generate strong and stable cash flow. Cash flow from operations for 2019 totaled \$43.2 million, which was used primarily for the acquisition of funeral home and cemetery businesses, capital expenditures and our working capital needs, including payment of dividends and our debt obligations. During 2020, we intend to focus on integrating our newly acquired businesses and to use our cash flow to fund internal growth projects, such as cemetery inventory development and funeral home expansion projects, and for payment of dividends and our debt obligations. From time to time, we may also use available cash flow to repurchase shares of our common stock and remaining 2.75% convertible subordinated notes due 2021. 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 net cash flow in growth opportunities that generate a return on invested capital in excess of our weighted average cost of capital.

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. All of our funeral homes and cemeteries are connected to our home office in Houston, 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. Our businesses are supported by a broader team of High Performance leaders across multiple disciplines located in our home office in Houston. 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.

OUR OPERATIONS

We conduct our funeral and cemetery operations only in the United States. Our operations are reported in two segments: funeral home operations and cemetery operations. Information for each of our segments is presented below and in our financial statements set forth herein.

Funeral Home Operations

At December 31, 2019, we operated 186 funeral homes in 29 states. Funeral home revenue currently accounts for approximately 80% of our total revenue. The funeral home operations are managed by a team of experienced industry professionals and regional leadership with substantial management experience in our industry. See Part II, Item 8, Financial Statements and Supplementary Data, Note 23 for segment data related to our funeral home operations.

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 remembrance 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.

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 packaging complimentary services and merchandise;
- 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.

Cemetery Operations

At December 31, 2019, we operated 31 cemeteries in 11 states. Cemetery revenue currently accounts for approximately 20% of our total revenue. The cemetery operations are led by a team of experienced industry and sales professionals and regional leadership with substantial management experience in our industry. See Part II, Item 8, Financial Statements and Supplementary Data, Note 23 for segment data related to our cemetery operations.

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).

Our cemetery operations are subject to many of the 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.

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. 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 issues 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.

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 issues 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.

We sold 8,303 and 8,410 preneed funeral contracts, net of cancellations, during the years ended December 31, 2018 and 2019, respectively. At December 31, 2019, we had a backlog of 98,493 preneed funeral contracts and 58,256 preneed cemetery contracts to be delivered in the future. Approximately 20% of our funeral contract volumes during the years ended December 31, 2018 and 2019 originated through preneed contracts. Cemetery revenue that originated from preneed contracts represented approximately 65% and 66% of our total cemetery revenue for 2018 and 2019, respectively.

At December 31, 2019, we employed a staff of 126 advance-planning and family service representatives for the sale of preneed products and services. Our advance-planning and family service representatives primarily assist families in making atneed and preneed funeral, memorialization and cemetery arrangements through the selection and purchase of cemetery property, merchandise and services and ensuring that the expectations of our client families and their guests are exceeded.

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 selected by us. 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, 2019, CSV RIA provided these services to approximately 71% 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 gives 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 is in compliance with applicable laws.

Preneed funeral 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 the insurance contracts are not on our Consolidated Balance Sheet. 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. The aggregate balance of our preneed funeral contracts held in trust, insurance contracts and receivables from preneed trusts was \$523.1 million as of December 31, 2019.

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. The related trust fund income earned is recognized when the related merchandise and services are delivered. We are generally permitted to withdraw the trust principal and accrued income when the merchandise is actually delivered, when the service is provided or when the contract is canceled. However, certain states allow the withdrawal of income prior to delivery when the regulations identify excess earnings in the trusts. We did not withdraw any trust income in 2018 and 2019. Cemetery merchandise and service trust fund balances totaled \$72.4 million as of December 31, 2019.

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. This trust fund income is recognized, as earned and is reflected in our Consolidated Financial Statements as *Other revenue*. While we are entitled to withdraw the income from perpetual care trusts to provide for maintenance of cemetery property and memorials, we are restricted from withdrawing any of the principal balances of the trust fund. Perpetual care trust balances totaled \$64.0 million at December 31, 2019.

For additional information with respect to our trusts, see Part II, Item 8, Financial Statements and Supplementary Data, Notes 7, 9 and 11.

SEASONALITY

Our business can be affected by seasonal fluctuations in the death rate. 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.

COMPETITION

The operating environment in the funeral and cemetery industry has been highly competitive. Publicly held companies with operations in the United States include SCI, StoneMor, Park Lawn and Carriage. In addition, a number of smaller private consolidators have been active in acquiring and operating funeral homes and cemeteries.

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.

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. 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.

Environmental. Our operations are also subject to stringent 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 aboveground 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 substantial 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 substantial compliance with all applicable laws and regulations relating to worker health and safety.

EMPLOYEES

As of December 31, 2019, we and our subsidiaries employed 2,797 employees, of whom 1,137 were full-time and 1,660 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, 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

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 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.

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.

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 on 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. Also, increased use of the internet by customers to research and/or purchase products and services could cause us to lose potential revenue.

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

In January, 2012, in order to continue to align our Managing Partners’ incentives with long-term value creation, we implemented our “Good To Great” incentive program, which 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. The Minimum Growth Rate was changed from 2% to 1% beginning with the 2019 payout year, which impacts all five-year performance periods ending on or after December 31, 2019. 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.

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 funeral 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.

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 short-run. 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 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 reducing 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.

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, 2017, 2018 and 2019:

	2017	2018	2019
Preneed funeral trust funds	11.5%	(6.5)%	21.2%
Preneed cemetery trust funds	13.1%	(8.4)%	26.0%
Perpetual care trust funds	12.8%	(8.0)%	25.2%

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, Notes 7, 9 and 11.

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, 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.

In certain states, we have withdrawn allowable distributable earnings including gains prior to the maturity or cancellation of the related contract. Additionally, 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.

Increased or unanticipated costs, such as insurance or other taxes, may have a negative impact on our earnings and cash flow.

We may experience material increases in certain costs, such as insurance or other taxes. Future cost increases are difficult to quantify and could materially and adversely affect our results of operations and cash flows.

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.

Covenant restrictions under our debt instruments may limit our flexibility in operating and growing our business.

The terms of our Credit Facility and the indenture governing our Senior Notes limit our ability and the ability of our subsidiaries to, among other things: incur additional debt (including guarantees thereof); pay dividends or make distributions or redeem or repurchase stock; make investments; grant liens; make capital expenditures; enter into transactions with affiliates; enter into sale-leaseback transactions; sell assets; and acquire the assets of, or merge or consolidate with, other companies.

Our Credit Facility also requires us to maintain certain financial ratios. Complying with these restrictive covenants and financial ratios, as well as those that may be contained in any future debt agreements, may limit our ability to finance our future operations or capital needs or to take advantage of other favorable business opportunities. Our ability to comply with these restrictive covenants and financial ratios 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 when they apply could result in a default under any future debt instrument, which could result in 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. 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 be entitled to sell certain of our funeral assets to satisfy our obligations under the agreement.

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, 2019, we had \$497.1 million of total debt (excluding debt issuance costs, debt discounts, debt premium and lease obligations), consisting of \$7.0 million of acquisition debt (consisting of deferred purchase price and promissory notes payable to sellers of businesses we purchased), \$6.3 million of our Convertible Notes, \$400.0 million of our Senior Notes and \$83.8 million of outstanding borrowings under our Credit Facility, with \$104.2 million of availability under our Credit Facility after giving effect to \$2.0 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.

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. Based on the results of our annual goodwill and intangible assets impairment test we performed as of August 31, 2019 and our annual review of long-lived assets as of December 31, 2019, we recorded an impairment for tradenames of \$0.2 million and concluded that there was no impairments of our goodwill or other long-lived assets. However, we recorded an impairment of \$0.5 million during 2019, related to a funeral home business that we divested in the fourth quarter of 2019 and \$0.2 million related to a funeral home business we intend to sell in 2020, as the carrying value exceeded fair value. 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.

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 substantial 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 cyberattacks, which are rapidly evolving and becoming increasingly sophisticated, or by other means) might defeat our security measures in the future and obtain the personal information of customers, their loved ones, our employees, and our vendors that we hold. If we fail to protect our own information, we could experience significant costs and expenses as well as damage to our reputation. Additionally, legislation relating to cyber security threats could impose additional requirements on our operations.

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.

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. 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 funeral 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.

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. 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.

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.

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 do. 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.

Companies in the funeral home and cemetery business 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, declines in sales can cause margins, profits and cash flow to decline at a greater rate than the decline in revenue.

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 home 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 stringent 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.

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.

Burial practice claims could have a material adverse impact on our financial results.

From time to time, we are party to various claims and legal proceedings, including improper burial practices. When disputes occur, we may be subjected to litigation and liability for improper burial practices. We may be subject to litigation and liability based upon actions or events that occurred before we acquired or managed the cemeteries. Claims or litigation based upon our burial practices could have a material adverse impact on our financial condition, results of operations and cash flows.

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, 2019, we operated 186 funeral homes in 29 states and 31 cemeteries in 11 states. We own the real estate and buildings for 165 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 129,000 and 152,000 units available-for-sale at December 31, 2018 and 2019, 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, 2019, 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	23	5	4	—
Colorado	2	—	—	—
Connecticut	8	2	—	—
Florida	11	5	5	—
Georgia	3	—	—	—
Idaho	5	1	3	—
Illinois	2	—	1	—
Kansas	2	—	—	—
Kentucky	7	1	1	—
Louisiana	3	1	1	—
Maryland	1	—	—	—
Massachusetts	12	—	—	—
Michigan	2	—	—	—
Montana	2	1	1	—
Nevada	2	—	2	1
New Jersey	4	1	—	—
New Mexico	1	—	—	—
New York	10	1	—	—
North Carolina	7	1	1	—
Ohio	5	—	—	—
Oklahoma	6	—	2	—
Pennsylvania	2	—	—	—
Rhode Island	4	—	—	—
Tennessee	5	—	—	—
Texas	24	1	8	—
Virginia	8	1	1	—
Washington	2	—	—	—
West Virginia	1	—	—	—
Wisconsin	1	—	—	—
Total	165	21	30	1

(1) The leases, with respect to these funeral homes, generally have remaining terms ranging from one to fifteen 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 home office occupies approximately 48,000 square feet of leased office space in Houston, Texas. At December 31, 2019, we owned and operated 806 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,		
	2017	2018	2019
Funeral homes at beginning of period	170	178	182
Acquisitions	7	4	9
Constructed funeral homes	2	—	—
Divestitures	(1)	—	(4)
Mergers of funeral homes	—	—	(1)
Funeral homes at end of period	<u>178</u>	<u>182</u>	<u>186</u>
Cemeteries at beginning of period	32	32	29
Acquisitions	—	—	2
Divestitures	—	(3)	—
Cemeteries at end of period	<u>32</u>	<u>29</u>	<u>31</u>

ITEM 3. LEGAL PROCEEDINGS.

We and our subsidiaries are parties to a number of legal proceedings that arise from time to time in the ordinary course of our business. While the outcome of these proceedings cannot be predicted with certainty, we do not expect these matters to have a material adverse effect on our financial statements. Information regarding litigation is set forth in Part II, Item 8, Financial Statements and Supplementary Data, Note 18.

Faria, et al. v. Carriage Funeral Holdings, Inc., Superior Court of California, Contra Costa County, Case No. MSC18-00606. On March 26, 2018, six Plaintiffs filed a putative class action against Carriage Funeral Holdings, Inc., our subsidiary, their alleged employer, on behalf of themselves and all similarly situated current and former employees. Plaintiffs seek monetary damages and claim that Carriage Funeral Holdings, Inc. failed to pay minimum wages, provide meal and rest breaks, provide accurately itemized wage statements, reimburse employees for required expenses, and provide wages when due. Plaintiffs also claim that Carriage Funeral Holdings, Inc. violated California Business and Professions Code §17200 et seq. On June 5, 2018, Plaintiffs filed a First Amended Complaint to add a claim under the California Private Attorney General Act. On October 23, 2018, the parties mediated this matter and executed a Memorandum of Understanding for class settlement. In February 2019, a Class Action Settlement Agreement was fully executed and was approved by the Court in October 2019. We paid \$0.7 million under the settlement agreement in November 2019.

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

ITEM 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." As of February 21, 2020, there were 17,873,388 shares of our common stock outstanding. The shares of common stock outstanding are held by approximately 400 stockholders of record. Each share is entitled to one vote on matters requiring the vote of stockholders. We believe there are approximately 5,300 beneficial owners of our common stock.

RECENT SALES OF UNREGISTERED SECURITIES

During the year ended December 31, 2019, we did not have any sales of securities in transactions that were not registered under 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

On February 25, 2016, our Board approved a share repurchase program authorizing us to purchase up to an aggregate of \$25.0 million of our common stock in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). On October 25, 2017, our Board approved a \$15.0 million increase in its authorization for repurchases bringing the total authorized repurchase amount to \$40.0 million. On July 31, 2019, our Board approved an additional \$25.0 million for repurchases of our common stock in accordance with the Exchange Act.

During the year ended December 31, 2019, we repurchased 400,000 shares of common stock for a total cost of \$7.8 million at an average cost of \$19.39 per share pursuant to our share repurchase program. During the year ended December 31, 2018, we repurchased 1,101,969 shares of common stock for a total cost of approximately \$17.7 million at an average cost of \$16.03 per share pursuant to our share repurchase program. During the year ended December 31, 2017, we repurchased 574,054 shares of common stock for a total cost of \$14.0 million at an average cost of \$24.35 per share pursuant to our share repurchase program.

Our shares were purchased in the open market. Purchases were at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury shares.

At December 31, 2019, we had approximately \$25.6 million available for repurchase under our share repurchase program.

The following table sets forth certain information with respect to repurchases of our common stock during the quarter ended December 31, 2019:

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, 2019 - October 31, 2019	—	\$ —	—	\$ 25,601,446
November 1, 2019 - November 30, 2019	—	\$ —	—	\$ 25,601,446
December 1, 2019 - December 31, 2019	—	\$ —	—	\$ 25,601,446
Total for quarter ended December 31, 2019	—	—	—	—

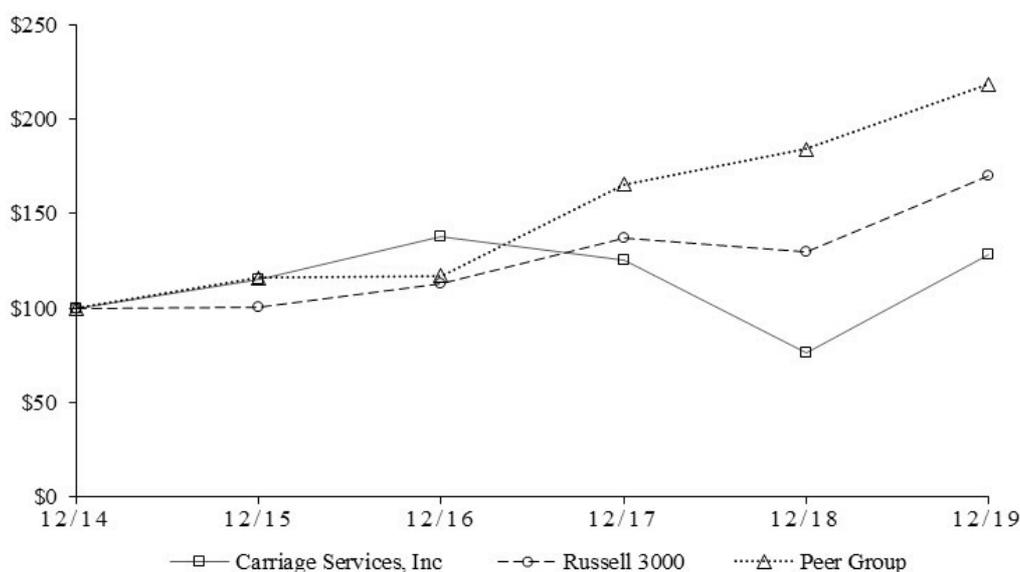
(1) See the first paragraph under the caption “– Purchases of Equity Securities by the Issuer” for more information on our publicly announced share repurchase program.

PERFORMANCE

The following graph compares the cumulative 5-year total return provided to shareholders on our common stock relative to the cumulative total returns of the Russell 3000 Index, and a customized peer group of two companies that includes SCI and StoneMor. The returns of each member of the peer group are weighted according to each member's 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 2014, 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 Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference.

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



	12/14	12/15	12/16	12/17	12/18	12/19
Carriage Services, Inc.	\$ 100.00	\$ 115.53	\$ 138.18	\$ 125.14	\$ 76.46	\$ 128.08
Russell 3000	100.00	100.47	113.26	137.17	129.98	170.28
Peer Group	100.00	116.01	117.18	165.56	184.01	218.67

(1) Fiscal year ending December 31. \$100 invested on December 31, 2014 in stock or index, including reinvestment of dividends. Peer Group above includes SCI and StoneMor. Park Lawn is publicly listed on the Toronto Stock Exchange, which is quoted in Canadian Dollars and is excluded from the graph above. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6. SELECTED FINANCIAL DATA.

The table below sets forth selected consolidated financial information for us that has been derived from the audited Consolidated Financial Statements of the Company as of and for each of the years ended December 31, 2015, 2016, 2017, 2018 and 2019. These historical results are not indicative of our future performance.

This historical financial data should be read together with the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Form 10-K and our Consolidated Financial Statements and notes thereto included elsewhere in this Form 10-K.

	Years ended December 31,				
	2015	2016	2017	2018	2019
(dollars in thousands, except per share amounts)					
INCOME STATEMENT DATA:					
Revenue	\$ 242,502	\$ 248,200	\$ 258,139	\$ 267,992	\$ 274,107
Gross profit	77,508	79,650	76,799	75,947	79,585
Operating income	48,648	50,204	48,941	43,307	52,289
Income before income taxes	34,590	32,241	32,782	18,266	22,416
Net income attributable to common shareholders	20,853	19,581	37,193	11,645	14,533
Basic earnings per common share	\$ 1.16	\$ 1.18	\$ 2.25	\$ 0.64	\$ 0.81
Diluted earnings per common share	\$ 1.12	\$ 1.12	\$ 2.09	\$ 0.63	\$ 0.80
Dividends declared per common share	\$ 0.100	\$ 0.150	\$ 0.225	\$ 0.300	\$ 0.300
Weighted average number of common and common equivalent shares outstanding:					
Basic	17,791	16,515	16,438	17,971	17,877
Diluted	18,317	17,460	17,715	18,374	18,005
BALANCE SHEET DATA:					
Total assets	\$ 833,139	\$ 885,069	\$ 921,533	\$ 917,502	\$ 1,129,755
Long-term debt and credit facility, net of current maturities	195,009	204,404	212,154	33,070	87,840
Convertible subordinated notes due 2021	115,227	119,596	124,441	5,732	5,971
Senior notes due 2026	—	—	—	319,108	395,447
Stockholders’ equity	157,594	175,734	197,656	221,492	226,569

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

We operate in two business segments: funeral home operations, which accounts for approximately 80% of our revenue, and cemetery operations, which accounts for approximately 20% 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, 2019, we operated 186 funeral homes in 29 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. 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” in our Annual Report on Form 10-K for the year ended December 31, 2019.

During 2020, we intend to focus on integrating our newly acquired businesses and to use cash on hand and borrowings under our Credit Facility primarily for internal growth projects, such as cemetery inventory development and funeral home expansion projects, and for payment of dividends and our debt obligations. From time to time we may also use available cash resources (including borrowings under our Credit Facility) to repurchase shares of our common stock and our remaining 2.75% convertible subordinated notes due 2021 (“Convertible Notes”) in open market or privately-negotiated transactions. We have the ability to draw on our Credit Facility, subject to its customary terms and conditions. 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, dividends and acquisitions for the foreseeable future.

Cash Flows

We began 2019 with \$0.6 million in cash and other liquid investments and ended the year with \$0.7 million in cash. At December 31, 2019, we had borrowings of \$83.8 million outstanding on our Credit Facility compared to \$27.1 million as of December 31, 2018 and \$92.0 million as of December 31, 2017.

The following table sets forth the elements of cash flow for the years ended December 31, 2017, 2018 and 2019 (in thousands):

	2017	2018	2019
Cash at beginning of year	\$ 3,286	\$ 952	\$ 644
Cash flow from operating activities	45,230	48,994	43,216
Acquisitions and land for new construction	(28,799)	(37,970)	(140,907)
Deposit on pending acquisition	—	—	(5,000)
Proceeds from insurance reimbursements	—	—	1,433
Net proceeds from the sale of businesses and other assets	5,731	—	967
Growth capital expenditures	(7,973)	(4,260)	(6,584)
Maintenance capital expenditures	(8,422)	(9,266)	(8,795)
Cash flow from investing activities	(39,463)	(51,496)	(158,886)
Net borrowings (payments) on long-term debt obligations	11,088	(194,340)	54,413
Payment of debt issuance costs related to long-term debt	—	(1,751)	(891)
Acquisition of Convertible Notes	—	(98,266)	(27)
Transaction costs related to the acquisition of Convertible Notes	—	(885)	—
Proceeds from the issuance of the Senior Notes	—	320,125	76,688
Payment of debt issuance costs related to the Senior Notes	—	(1,367)	(980)
Dividends paid on common stock	(3,709)	(5,513)	(5,398)
Net proceeds from employee equity plans	987	595	1,251
Purchase of treasury stock	(16,366)	(16,266)	(9,152)
Other financing costs	(101)	(138)	(162)
Cash flow from financing activities	(8,101)	2,194	115,742
Cash at end of year	\$ 952	\$ 644	\$ 716

Operating Activities

For the year ended December 31, 2019, cash provided by operating activities was \$43.2 million compared to \$49.0 million for the year ended December 31, 2018 and \$45.2 million for the year ended December 31, 2017. The decrease of \$5.8 million for the year ended December 31, 2019 compared to the year ended December 31, 2018 was due primarily to approximately \$5.0 million in more cash interest paid in 2019 compared to 2018, as well as additional unfavorable working capital changes.

The increase of \$3.8 million for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily due to the favorable impact of working capital changes.

Investing Activities

Our investing activities resulted in a net cash outflow of \$158.9 million for the year ended December 31, 2019 compared to \$51.5 million for the year ended December 31, 2018 and \$39.5 million for the year ended December 31, 2017, an increase of \$107.4 million and \$12.0 million, respectively.

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 October 2019, we acquired the following: (i) four funeral home businesses in Buffalo, New York; and (ii) one funeral home and cemetery combination business, three funeral home businesses and three ancillary service businesses, which consist of a flower shop, a pet cremation business and an online cremation business in the Dallas, Texas area. In December 2019, we acquired one funeral home and cemetery combination business in Fairfax, Virginia.

During the year ended December 31, 2019, we paid a \$5.0 million deposit for a funeral home and cemetery combination business that we acquired in January 2020.

During the year ended December 31, 2019, we received proceeds of \$1.4 million from our property insurance policy for the reimbursement of renovation costs for our funeral and cemetery businesses that were damaged by Hurricane Michael.

During the year ended December 31, 2019, 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.

During the year ended December 31, 2018, we acquired four funeral home businesses, two in Virginia, one in Tennessee, and one in North Carolina, for an aggregate purchase price of \$38.0 million.

During the year ended December 31, 2017, we acquired seven funeral home businesses, two in Colorado and five in New York, for the aggregate purchase price of \$27.5 million. We also purchased real estate for a funeral home parking lot expansion projects for \$1.3 million. Additionally, we sold a funeral home business for \$0.6 million and land for \$5.1 million.

For the year ended December 31, 2019, capital expenditures totaled \$15.4 million compared to \$13.5 million for the year ended December 31, 2018, and \$16.4 million for the year ended December 31, 2017, an increase of \$1.9 million and a decrease of \$2.9 million, respectively.

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

	2017	2018	2019
<i>Growth</i>			
Cemetery development	\$ 3,688	\$ 3,149	\$ 4,348
Construction for new funeral facilities	3,117	11	—
Renovations at certain businesses ⁽¹⁾	1,168	1,100	2,236
Total Growth	\$ 7,973	\$ 4,260	\$ 6,584

⁽¹⁾ 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.

	2017	2018	2019
<i>Maintenance</i>			
Facility repairs and improvements	\$ 2,239	\$ 2,591	\$ 1,820
General equipment and furniture	2,010	2,247	3,032
Vehicles	1,928	2,556	1,950
Paving roads and parking lots	1,287	674	795
Information technology infrastructure improvements	915	1,172	977
Other	43	26	221
Total Maintenance	\$ 8,422	\$ 9,266	\$ 8,795

Financing Activities

Our financing activities resulted in a net cash inflow of \$115.7 million for the year ended December 31, 2019 compared to \$2.2 million for the year ended December 31, 2018 and net cash outflow of \$8.1 million for the year ended December 31, 2017, an increase of \$113.5 million and \$10.3 million, respectively.

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

For the year ended December 31, 2018, we had net proceeds related to the issuance of our Initial Senior Notes of \$318.8 million, offset by net payments on our long-term debt obligations of \$196.1 million and payments of \$99.2 million to acquire our Convertible Notes. We purchased treasury stock for \$16.3 million and paid \$5.5 million in dividends on our common stock.

For the year ended December 31, 2017, we had net borrowings on our long-term debt obligations of \$11.1 million. We purchased treasury stock for \$16.4 million and paid \$3.7 million in dividends on our common stock.

Dividends

On October 25, 2017, our Board approved an increase in our quarterly dividend on our common stock from \$0.050 to \$0.075 per share, effective with respect to dividends payable on December 1, 2017 and later.

For the years ended December 31, 2019, 2018 and 2017, our Board declared the following dividends payable on the dates below (in thousands, except per share amounts):

	<u>2019</u>	<u>Per Share</u>	<u>Dollar Value</u>
March 1st	\$	0.075	\$ 1,360
June 1st	\$	0.075	\$ 1,365
September 1st	\$	0.075	\$ 1,336
December 1st	\$	0.075	\$ 1,337

	<u>2018</u>	<u>Per Share</u>	<u>Dollar Value</u>
March 1st	\$	0.075	\$ 1,207
June 1st	\$	0.075	\$ 1,433
September 1st	\$	0.075	\$ 1,436
December 1st	\$	0.075	\$ 1,430

	<u>2017</u>	<u>Per Share</u>	<u>Dollar Value</u>
March 1st	\$	0.050	\$ 833
June 1st	\$	0.050	\$ 835
September 1st	\$	0.050	\$ 835
December 1st	\$	0.075	\$ 1,206

Share Repurchases

On February 25, 2016, our Board approved a share repurchase program authorizing us to purchase up to an aggregate of \$25.0 million of our common stock in accordance with Rule 10b-18 of the Exchange Act. On October 25, 2017, our Board approved a \$15.0 million increase in its authorization for repurchases bringing the total authorized repurchase amount to \$40.0 million. On July 31, 2019, our Board approved an additional \$25.0 million for repurchases of our common stock in accordance with the Exchange Act.

During the year ended December 31, 2019, we repurchased 400,000 shares of common stock for a total cost of \$7.8 million at an average cost of \$19.39 per share pursuant to our share repurchase program. During the year ended December 31, 2018, we repurchased 1,101,969 shares of common stock for a total cost of approximately \$17.7 million at an average cost of \$16.03 per share pursuant to our share repurchase program. During the year ended December 31, 2017, we repurchased 574,054 shares of common stock for a total cost of \$14.0 million at an average cost of \$24.35 per share pursuant to our share repurchase program.

Our shares were purchased in the open market. Purchases were at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury shares.

At December 31, 2019, we had approximately \$25.6 million available for repurchase under our share repurchase program.

Long-term Debt and Lease Obligations

The outstanding principal of our long-term debt and lease obligations at December 31, 2018 and 2019 is as follows (in thousands):

	<u>December 31, 2018</u>		<u>December 31, 2019</u>	
Credit Facility	\$	27,100	\$	83,800
Finance leases		6,143		5,854
Operating leases		—		21,533
Acquisition debt		6,925		5,658
Total long-term debt and lease obligations	\$	40,168	\$	116,845

Credit Facility

On May 31, 2018, we completed the issuance of \$325.0 million in aggregate principal amount of our Initial Senior Notes.

We used \$291.4 million of the net proceeds from the sale of the Initial Senior Notes to repay all amounts outstanding under our former credit agreement. In connection with the repayment in full of all amounts due thereunder, the former credit agreement was retired and \$2.0 million of letters of credit previously issued under the former credit agreement were deemed issued under (and remain outstanding under) the senior secured revolving credit facility (as defined below).

On May 31, 2018, we entered into a \$150.0 million senior secured revolving credit facility with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent, which we subsequently amend in November 2018 and July 2019.

For the year ended December 31, 2018, we recognized a loss of \$1.6 million, recorded in *Net loss on early extinguishment of debt*, related to the termination of our former credit agreement, which consisted of a write-off of \$0.7 million of transaction costs and a write-off of \$0.9 million of unamortized debt issuance costs. Additionally, we incurred \$1.1 million in transaction costs related to our senior secured revolving credit facility, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

On December 19, 2019, we entered into a third amendment and commitment increase (“Credit Facility”) to our \$150.0 million senior secured revolving credit facility with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent (in such capacity, the “Administrative Agent”) to increase our commitment to \$190.0 million. The Credit Facility is comprised of:

- (i) a \$190.0 million revolving credit facility, which includes a \$15.0 million subfacility for letters of credit and a \$10.0 million swingline, and
- (ii) an accordion or incremental option allowing for future increases in the facility size by an additional amount of up to \$75.0 million in the form of increased revolving commitments or incremental term loans.

The final maturity of the Credit Facility will occur on May 31, 2023.

For the year ended December 31, 2019, we incurred \$0.9 million in transactions costs related to our Credit Facility, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

The Company’s 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 the Company’s Credit Facility Guarantors.

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 Credit Facility Guarantors. 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, at the discretion of the Administrative Agent, the Administrative Agent may unilaterally compel the Company and the Credit Facility Guarantors to grant and perfect first-priority mortgage liens on fee-owned real property assets which account for no less than 50% of funeral operations EBITDA.

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 Credit Facility Guarantors to incur indebtedness, grant liens, make investments, engage in acquisitions, mergers or consolidations, and pay dividends and other restricted payments, and the following financial maintenance covenants: (A) a Total Leverage Ratio not to exceed (i) 6.00 to 1.00 for the quarter ended December 31, 2019, (ii) 5.75 to 1.00 for the quarters ended March 31, 2020, June 30, 2020 and September 30, 2020 and (iii) 5.50 to 1.00 for the quarter ended December 31, 2020 and each quarter ended thereafter, (B) a Senior Secured Leverage Ratio (as defined in the Credit Facility) not to exceed 2.00 to 1.00 as of the end of any period of four consecutive fiscal quarters, and (C) 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. Effective with the Credit Facility, an applicable rate premium shall be set forth in reference to the Total Leverage Ratio and increases by 0.500% whenever the most recent compliance certificate delivered indicates that the Total Leverage Ratio is greater than 5.00 to 1.00. The financial maintenance covenants will be calculated for the Company and its subsidiaries on a consolidated basis.

As of December 31, 2019, we had outstanding borrowings under our Credit Facility of \$83.8 million. We had one letter of credit issued on November 25, 2019 and outstanding under the Credit Facility for approximately \$2.0 million, which bears interest at 2.125% and will expire on November 25, 2020. The letter of credit automatically renews annually and secures our obligations under our various self-insured policies. 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. As of December 31, 2019, the prime rate margin was

equivalent to 1.500% and the LIBOR rate margin was 2.500%. The weighted average interest rate on our Credit Facility for the years ended December 31, 2018 and 2019 was 4.0% and 2.9%, respectively.

We have no material assets or operations independent of our subsidiaries. All assets and operations are held and conducted by subsidiaries, each of which have fully and unconditionally guaranteed our obligations under the Credit Facility. Additionally, we do not currently have any significant restrictions on our ability to receive dividends or loans from any Credit Facility Guarantors.

We are in compliance with the covenants contained in our Credit Facility as of December 31, 2019, with a leverage ratio of 5.66 to 1.00, a fixed charge coverage ratio of 2.70 to 1.00 and a senior secured leverage ratio of 0.94 to 1.00.

Interest expense related to our Credit Facility was \$6.9 million, \$4.3 million and \$1.6 million for the years ended December 31, 2017, 2018 and 2019, respectively. Amortization of debt issuance costs related to our Credit Facility was \$0.3 million, \$0.2 million and \$0.2 million for the years ended December 31, 2017, 2018 and 2019, respectively.

Lease Obligations

On January 1, 2019, we adopted Topic 842 using the modified retrospective method for all lease arrangements at the beginning of the period of adoption. As a result, we recorded operating lease right-of-use (“ROU”) assets of \$16.5 million and operating lease liabilities of \$17.3 million related to real estate and equipment leases, based on the present value of the future lease payments on the date of adoption. Lease expense related to our operating leases and short-term leases was \$3.7 million and \$0.3 million, respectively for the year ended December 31, 2019. Depreciation expense related to our finance leases was \$0.5 million for the year ended December 31, 2019. Interest expense related to our finance leases was \$0.5 million for the year ended December 31, 2019.

During the year ended December 31, 2019, we modified an existing operating lease to extend the term through 2030. As a result of this modification, we increased our lease liabilities and right-of-use assets by \$8.2 million.

Acquisition Debt

Acquisition debt consists of deferred purchase price and promissory notes payable to sellers. A majority of the deferred purchase price and notes bear no interest and are discounted at imputed interest rates ranging from 7.3% to 10.0%. Original maturities range from five to twenty years. Imputed interest expense related to our acquisition debt was \$0.9 million, \$0.8 million and \$0.6 million for the years ended December 31, 2017, 2018 and 2019, respectively.

Convertible Notes

On March 19, 2014, we issued \$143.75 million aggregate principal amount of our Convertible Notes. The Convertible Notes bear interest at 2.75% per year. Interest on the Convertible Notes began to accrue on March 19, 2014 and is payable semi-annually in arrears on March 15 and September 15 of each year.

On May 7, 2018, we completed our exchange (the “Exchange”) of approximately \$115.0 million in aggregate principal amount of Convertible Notes in privately-negotiated exchange agreements with a limited number of convertible noteholders for \$74.8 million in cash (plus accrued interest of \$0.4 million totaling \$75.2 million) and 2,822,859 newly issued shares of our common stock, par value \$.01 per share, pursuant to a private placement in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”).

On December 24, 2018, we completed privately-negotiated repurchases of an additional \$22.4 million in aggregate principal amount of Convertible Notes for \$22.9 million in cash (plus accrued interest of approximately \$0.2 million totaling \$23.0 million). Following the Exchange and the December 2018 repurchases, the aggregate principal amount of our Convertible Notes outstanding was reduced to \$6.3 million.

For the year ended December 31, 2018, we recognized a net gain of \$1.7 million, recorded in *Net loss on early extinguishment of debt*, related to the Exchange and December 2018 repurchases of our Convertible Notes, which consisted of a gain of \$3.1 million on the difference between the fair value and the carrying amount of the liability component of our Convertible Notes immediately preceding each exchange and repurchase, and a loss of \$1.4 million related to the write-off of unamortized debt issuance costs due to the exchange and repurchase of our Convertible Notes.

We incurred \$0.9 million in transactions costs related to the Exchange and December 2018 repurchases of our Convertible Notes, of which \$0.6 million was expensed and recorded in *Net loss on early extinguishment of debt* and \$0.3 million was allocated to the equity component and recorded in *Additional paid-in capital*.

On April 4, 2019, we completed a privately-negotiated repurchase of an additional \$25,000 in aggregate principal amount of Convertible Notes then outstanding for \$27,163.

The Convertible Notes are general unsecured obligations and are subordinated in the right of payment to all of our existing and future senior indebtedness and equal in right of payment with our other existing and future subordinated indebtedness. The initial conversion rate of the Convertible Notes as of March 19, 2014, was 44.3169 shares of our common stock per \$1,000 principal

amount of Convertible Notes, equivalent to an initial conversion price of \$22.56 per share of common stock. The conversion rate is subject to adjustment upon the occurrence of certain events, as described in the indenture governing the Convertible Notes. During 2018, an adjustment to the conversion rate of the Convertible Notes was triggered when our Board increased the dividends declared per common share from \$0.05 per share to \$0.075 per share. At December 31, 2019, the adjusted conversion rate of the Convertible Notes is 45.4615 shares of our common stock per \$1,000 principal amount of Convertible Notes, equivalent to an adjusted conversion price of \$22.00 per share of common stock.

At December 31, 2019, the carrying amount of the equity component was \$0.8 million, the principal amount of the liability component was \$6.3 million and the net carrying amount was \$6.0 million. The remaining unamortized debt discount and the remaining unamortized debt issuance costs are being amortized using the effective interest method over the remaining term of approximately 14 months of the Convertible Notes. The effective interest rate on the unamortized debt discount for the years ended December 31, 2018 and 2019 was 11.3% and 11.4%, respectively. The effective interest rate on the debt issuance costs for both years ended December 31, 2018 and 2019 was 3.2%.

Interest expense on the Convertible Notes included contractual coupon interest expense of \$4.0 million, \$1.9 million and \$0.2 million for the years ended December 31, 2017, 2018 and 2019, respectively. Accretion of the discount on the Convertible Notes was \$4.3 million, \$2.2 million and \$0.2 million for the years ended December 31, 2017, 2018 and 2019, respectively. Amortization of debt issuance costs related to our Convertible Notes was \$517,000, \$245,000 and \$24,000 for the years ended December 31, 2017, 2018 and 2019, respectively.

Senior Notes

On May 31, 2018, we issued \$325.0 million in aggregate principal amount of our Initial Senior Notes and related guarantees in a private offering under Rule 144A and Regulation S under the Securities Act.

We received proceeds of \$320.1 million, net of a 1.5% debt discount of \$4.9 million, of which we used \$291.4 million to repay our existing indebtedness under our former credit agreement. We incurred \$1.4 million in debt issuance costs related to the Initial Senior Notes.

The Initial Senior Notes were issued under an indenture, dated as of May 31, 2018 (the "Indenture"), among us, certain of our existing subsidiaries (collectively, the "Subsidiary Guarantors"), as guarantors, and Wilmington Trust, National Association, as trustee.

On December 19, 2019, we issued an additional \$75.0 million in aggregate principal amount of our Initial Senior Notes (the "Additional Senior Notes" and, together with the Initial Senior Notes, the "Senior Notes") and related guarantees by the Subsidiary Guarantors in a private offering under Rule 144A and Regulation S of the Securities Act. The Additional Senior Notes were issued as additional securities under the Indenture.

We received proceeds of \$76.9 million, net of a debt premium of \$1.7 million (plus accrued interest of \$0.2 million). We incurred \$1.0 million in debt issuance costs related to the Additional Senior Notes. The additional issuance brings the total principal amount of Senior Notes outstanding to \$400.0 million. The Senior Notes are treated as a single class of securities under the Indenture, and the Additional Senior Notes have identical terms to the Initial Senior Notes, except with respect to the date of issuance, the issue price, the initial interest accrual date and the initial interest payment date.

The Senior Notes bear interest at 6.625% per year. Interest on the Senior Notes began to accrue on May 31, 2018 and is payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2018 with respect to the Initial Senior Notes and June 1, 2020 with respect to the Additional Senior Notes to holders of record on each May 15 and November 15 preceding an interest payment date. The Senior Notes mature on June 1, 2026, unless earlier redeemed or repurchased. 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 all or part of the Senior Notes at any time prior to June 1, 2021 at a redemption price equal to 100% of the principal amount of Senior Notes redeemed, plus a "make whole" premium, and accrued and unpaid interest, if any, to the date of redemption. We have the right to redeem the Senior Notes at any time on or after June 1, 2021 at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to the date of redemption. Additionally, at any time before June 1, 2021, we may redeem up to 40% of the aggregate principal amount of the Senior Notes issued with an amount equal to the net proceeds of certain equity offerings, at a price equal to 106.625% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to the date of redemption; provided that (1) at least 60% of the aggregate principal amount of the Senior Notes (including any additional Senior Notes) originally issued under the Indenture remain outstanding immediately after the occurrence of such redemption (excluding Senior Notes held by us); and (2) each such redemption must occur within 180 days of the date of the closing of each 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.

At December 31, 2019, the debt discount of \$4.1 million, the debt premium of \$1.7 million and the debt issuance costs of \$2.1 million are being amortized using the effective interest method over the remaining term of approximately 77 months of the Senior Notes.

The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Initial Senior Notes for the year ended December 31, 2019 was 6.87% and 6.69%, respectively. The effective interest rate on the unamortized debt premium and the unamortized debt issuance costs for the Additional Senior Notes for the year ended December 31, 2019 was 6.20% and 6.88%, respectively.

Interest expense on the Senior Notes included contractual coupon interest expense of \$12.6 million and \$21.7 million for the years ended December 31, 2018 and 2019, respectively. Amortization of the debt discount on the Senior Notes was \$0.3 million and \$0.5 million for the years ended December 31, 2018 and 2019, respectively and amortization of debt issuance costs on the Senior Notes was \$0.1 million for both the years ended December 31, 2018 and 2019.

CONTRACTUAL OBLIGATIONS

The following table summarizes the known future payments required for the debt on our Consolidated Balance Sheet as of December 31, 2019. Where appropriate we have indicated the footnote in Part II, Item 8, Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements where additional information is available.

	Financial Note Reference	Payments Due By Period (in thousands)							After 5 Years
		Total	2020	2021	2022	2023	2024		
Long-term debt obligations	14	\$ 90,764	\$ 1,289	\$ 1,023	\$ 523	\$ 84,363	\$ 550	\$ 3,016	
Interest obligation on long-term debt ^(a)	14	15,511	4,138	4,074	4,014	1,826	252	1,207	
Finance lease obligations, including interest	17	10,466	828	836	860	860	791	6,291	
Senior Notes ^(b)	16	400,000	—	—	—	—	—	400,000	
Convertible Notes ^(c)	15	6,319	—	6,319	—	—	—	—	
Interest on Senior Notes	16	170,042	26,500	26,500	26,500	26,500	26,500	37,542	
Interest on Convertible Notes	15	210	174	36	—	—	—	—	
Operating lease obligations, including interest	17	34,703	3,358	3,705	3,345	3,249	3,248	17,798	
Total contractual obligations		\$ 728,015	\$ 36,287	\$ 42,493	\$ 35,242	\$ 116,798	\$ 31,341	\$ 465,854	

(a) Based on interest rates in effect at December 31, 2019.

(b) Matures June 1, 2026.

(c) Matures March 15, 2021.

OFF-BALANCE SHEET ARRANGEMENTS

The following table summarizes our off-balance sheet arrangements as of December 31, 2019. Where appropriate, we have indicated the footnote in Part II, Item 8, Financial Statements and Supplementary Data, Notes to the Consolidated Financial Statements where additional information is available. 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 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 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.

	Financial Note Reference	Total	Payments Due By Period (in thousands)					After 5 Years
			2020	2021	2022	2023	2024	
Non-compete agreements	18	\$ 8,090	\$ 2,135	\$ 1,905	\$ 1,465	\$ 993	\$ 665	\$ 927
Consulting agreements	18	2,118	869	663	404	162	20	—
Employment agreements ^(a)	18	11,466	3,482	3,482	3,077	777	648	—
Total contractual cash obligations		\$ 21,674	\$ 6,486	\$ 6,050	\$ 4,946	\$ 1,932	\$ 1,333	\$ 927

(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 of five years.

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.

FINANCIAL HIGHLIGHTS

Below are our financial highlights for the years ended December 31, 2017, 2018 and 2019 (in thousands except for volumes and averages):

	Years Ended December 31,		
	2017	2018	2019
Revenue	\$ 258,139	\$ 267,992	\$ 274,107
Funeral contracts	34,894	36,816	38,940
Average revenue per contract	\$ 5,705	\$ 5,674	\$ 5,499
Preneed interment rights (property) sold	6,959	7,063	7,205
Average price per interment right sold	\$ 3,294	\$ 3,472	\$ 3,653
Gross profit	\$ 76,799	\$ 75,947	\$ 79,585
Net income	\$ 37,193	\$ 11,645	\$ 14,533

Revenue in 2019 increased \$6.1 million compared to 2018, as we experienced a 5.8% increase in total funeral contracts, offset by a decrease in the average revenue per funeral contract of 3.1%. In addition, the average price per interment right (property) sold increased 5.2% and we experienced an increase of 2.0% in the number of preneed interment rights sold.

Revenue in 2018 increased \$9.9 million compared to 2017, as we experienced a 5.5% increase in total funeral contracts, offset by a slight decrease in the average revenue per funeral contract of 0.5%. In addition, the average price per interment right (property) sold increased 5.4% and we experienced an increase of 1.5% in the number of preneed interment rights sold. Further discussion of Revenue for our funeral home and cemetery segments is presented herein under “– Results of Operations.”

Gross profit in 2019 increased \$3.6 million compared to 2018, primarily due to an increase in revenue from our funeral home segment due to the acquisitions made in the fourth quarter of 2019 and the second half of 2018.

Gross profit in 2018 decreased \$0.9 million compared to 2017, primarily due to a decline in revenue from our funeral home segment and higher salaries and benefits costs, including higher health care costs, across all businesses. Further discussion of the components of Gross profit for our funeral home and cemetery segments, is presented herein under “– Results of Operations.”

Net income in 2019 increased \$2.9 million compared to 2018 primarily due to the increase in gross profit, as well as a \$5.0 million decrease in general and administrative expenses, offset by a \$2.5 million increase in interest expense primarily related to our Senior Notes and a \$2.9 million increase in the loss on divested businesses.

Net income in 2018 decreased \$25.5 million compared to 2017 primarily due to a \$17.5 million discrete tax benefit recorded due to the re-measurement of our deferred tax assets and liabilities to reflect the impact of the recent tax law change. Additionally, we experienced an increase of \$8.2 million in interest expense related to our Senior Notes.

Further discussion of General, administrative and other expenses, Home office depreciation and amortization expense, 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, 2019 dated February 19, 2020 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) for the years ended December 31, 2017, 2018, and 2019 (in thousands):

	2017	2018	2019
Net income	\$ 37,193	\$ 11,645	\$ 14,533
Special items, net of tax except for items noted by**(1)			
Acquisition and divestiture expenses	—	—	1,646
Severance and retirement costs	—	1,134	951
Performance awards cancellation write-off	—	2,594	—
Accretion of discount on Convertible Notes**	4,329	2,192	241
Net loss on early extinguishment of debt	—	397	—
Loss on sale of business and other costs	—	439	3,331
Goodwill and other impairments	—	805	761
Litigation reserve	—	790	592
Natural disaster costs	403	345	—
Tax expense related to divested business**	—	—	911
Gain on insurance proceeds	—	—	(699)
Other special items	—	—	265
Tax adjustment related to certain discrete items**	(17,176)	1,225	—
Adjusted net income ⁽²⁾	\$ 24,749	\$ 21,566	\$ 22,532

(1) Special items are defined as charges or credits included in our GAAP financial statements that can vary from period to period and are not reflective of costs incurred in the ordinary course of our operations. Special Items are taxed at the federal statutory rate of 35 percent for the year ended December 31, 2017 and 21 percent for the years ended December 31, 2018 and 2019, except for the Accretion of the discount on the Convertible Notes, the Tax expense related to divested business and the Tax adjustment related to certain discrete items, as these are non-tax deductible items.

(2) 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) for the years ended December 31, 2017, 2018, and 2019 (in thousands):

	2017	2018	2019
Gross profit	\$ 76,799	\$ 75,947	\$ 79,585
Cemetery property amortization	3,350	3,602	3,985
Field depreciation expense	11,024	12,015	12,370
Regional and unallocated funeral and cemetery costs	13,339	12,749	13,827
Operating profit ⁽¹⁾	<u>\$ 104,512</u>	<u>\$ 104,313</u>	<u>\$ 109,767</u>

(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 for the years ended December 31, 2017, 2018, and 2019 (in thousands):

	2017	2018	2019
Funeral Home	\$ 81,981	\$ 82,154	\$ 85,737
Cemetery	22,531	22,159	24,030
Operating profit	<u>\$ 104,512</u>	<u>\$ 104,313</u>	<u>\$ 109,767</u>

Operating profit margin ⁽¹⁾	40.5%	38.9%	40.0%
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(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, 2019 COMPARED TO YEAR ENDED DECEMBER 31, 2018

Results of Operations

The following is a discussion of our results of operations for the years ended December 31, 2019 and 2018.

The term “same store” refers to funeral homes and cemeteries acquired prior to January 1, 2015 and owned and operated for the entirety of each period being presented, excluding certain funeral home businesses that we intend to divest in the near future.

The term “acquired” refers to funeral homes and cemeteries purchased after December 31, 2014, excluding any funeral home 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 the three funeral home businesses whose building leases expired, one funeral home business we sold and a funeral home business we merged with a business in an existing market in 2019. The term “divested” when discussed in the Cemetery Segment, refers to three cemetery businesses that we divested as a result of a management agreement that expired on September 30, 2018.

“Planned divested” in the Funeral Home Segment refers to the funeral home businesses that we intend to divest in the near future.

“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 for the year ended December 31, 2019 compared to the year ended December 31, 2018 (in thousands):

	Years Ended December 31,	
	2018	2019
Revenue:		
Same store operating revenue	\$ 166,934	\$ 167,246
Acquired operating revenue	26,835	33,146
Divested/planned divested revenue	8,399	7,195
Ancillary funeral services revenue	—	748
Preneed funeral insurance commissions	1,294	1,475
Preneed funeral trust and insurance	7,263	7,058
Total	\$ 210,725	\$ 216,868
Operating profit:		
Same store operating profit	\$ 63,119	\$ 63,938
Acquired operating profit	9,732	12,547
Divested/planned divested operating profit	1,779	1,437
Ancillary funeral services operating profit	—	298
Preneed funeral insurance commissions	414	633
Preneed funeral trust and insurance	7,110	6,884
Total	\$ 82,154	\$ 85,737

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

	Years Ended December 31,	
	2018	2019
Same store:		
Contract volume	30,838	31,544
Average revenue per contract, excluding preneed funeral trust earnings	\$ 5,413	\$ 5,302
Average revenue per contract, including preneed funeral trust earnings	\$ 5,620	\$ 5,493
Burial rate	39.5%	38.2%
Cremation rate	52.8%	54.1%
Acquired:		
Contract volume	3,854	5,482
Average revenue per contract, excluding preneed funeral trust earnings	\$ 6,963	\$ 6,046
Average revenue per contract, including preneed funeral trust earnings	\$ 7,057	\$ 6,144
Burial rate	49.3%	44.7%
Cremation rate	42.6%	48.1%

Funeral home same store operating revenue for the year ended December 31, 2019 increased \$0.3 million, primarily due to the increase in same store contract volume, offset by the decrease in the average revenue per contract compared to year ended December 31, 2018. In spite of the high contract volume we had in the first quarter of 2018 due to a severe flu season, we experienced a 2.3% increase in contract volume in the twelve months ended December 31, 2019 compared to the same period in 2018, primarily due to the revision of our funeral home standards operating model to emphasize our focus on growing operating revenue and serving more families.

Same store operating profit for the year ended December 31, 2019 increased \$0.8 million when compared to the year ended December 31, 2018 and the comparable operating profit margin increased 40 basis points to 38.2%. Operating expenses decreased

\$0.5 million primarily due to a decrease in salaries and benefits of \$0.8 million, or 0.5% as a percentage of operating revenue, offset by a \$0.2 million increase in promotional costs, or 0.1% as a percentage of operating revenue. This is a result of changes implemented in the fourth quarter in 2018, which included assessing leadership and support teams at each business to ensure an optimal personnel mix, improving social media presence and reviewing pricing on merchandise and services to maximize operational efficiencies.

Funeral home acquired operating revenue for the year ended December 31, 2019 increased \$6.3 million, as our funeral home acquired portfolio for the year ended December 31, 2019 included four businesses acquired in the third quarter of 2018, and nine businesses in the fourth quarter of 2019 not fully present in the year ended December 31, 2018. Although we experienced an increase in acquired contract volumes, we experienced decreases in acquired average revenue per burial and cremation contracts due to increased discounts.

Acquired operating profit for the year ended December 31, 2019 increased \$2.8 million when compared to the year ended December 31, 2018. Operating profit margin increased by 160 basis points to 37.9% for the year ended December 31, 2019 compared to the same period in 2018. The increase is primarily due to the increase in acquired revenue and better management of expenses as operating expenses increased \$3.5 million for the comparable period. We experienced significant savings in salaries and benefits which decreased 2.2% as a percentage of operating revenue, as a result of changes implemented in the fourth quarter of 2018 described above.

Ancillary funeral services revenue, which is recorded in *Other revenue*, represents revenue from our flower shop, pet cremation business and online cremation business, which was acquired in the fourth quarter of 2019. Preneed funeral insurance and preneed funeral trust earnings, also recorded in *Other revenue*, on a combined basis, remained flat for the year ended December 31, 2019 compared to the same period in 2018.

Operating profit from our ancillary funeral service businesses was \$0.3 million for the year ended December 31, 2019, with an operating profit margin of 39.8%. Operating profit for preneed funeral insurance commission and preneed trust earnings, on a combined basis, also remained flat for the same comparative period primarily due to the increase in funeral commission revenue, offset by the decrease in preneed trust earnings.

Cemetery Segment

The following table sets forth certain information regarding our Revenue and Operating profit from our cemetery operations for the year ended December 31, 2018 compared to the year ended December 31, 2019 (in thousands):

	Years Ended December 31,	
	2018	2019
Revenue:		
Same store operating revenue	\$ 45,135	\$ 49,455
Acquired operating revenue	—	295
Divested revenue	4,712	—
Preneed cemetery trust and insurance	5,761	6,035
Preneed cemetery finance charges	1,659	1,454
Total	\$ 57,267	\$ 57,239
Operating profit:		
Same store operating profit	\$ 13,880	\$ 17,055
Acquired operating profit	—	73
Divested operating profit	1,376	—
Preneed cemetery trust and insurance	5,244	5,448
Preneed cemetery finance charges	1,659	1,454
Total	\$ 22,159	\$ 24,030

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

	Years Ended December 31,	
	2018	2019
Same store:		
Preneed revenue as a percentage of operating revenue	58%	61%
Preneed revenue (in thousands)	\$ 26,407	\$ 30,204
Number of preneed interment rights sold	6,475	7,145
Atneed revenue (in thousands)	\$ 18,727	\$ 19,251
Acquired:		
Preneed revenue as a percentage of operating revenue	—%	65%
Preneed revenue (in thousands)	\$ —	\$ 192
Number of preneed interment rights sold	—	60
Atneed revenue (in thousands)	\$ —	\$ 103

Cemetery same store operating revenue for the year ended December 31, 2019 increased \$4.3 million, as we experienced a 10.3% increase in the number of preneed interment rights sold and a 2.9% increase in the average price of interments sold for the year ended December 31, 2019 compared to the same period in 2018. Same store atneed revenue, which represents approximately 39% of our same store operating revenue increased \$0.5 million, as we experienced a 4.0% increase in the average sale per contract, offset by a 1.2% decrease in the number of atneed contracts sold.

Cemetery same store operating profit for the year ended December 31, 2019 increased \$3.2 million from the same period in 2018. The comparable operating profit margin increased 370 basis points to 34.5% for the year ended December 31, 2019 from 30.8% in the same period in 2018. The improvement in operating profit margin is a result of changes implemented in the fourth quarter of 2018 and continuing in the first half of 2019, which included a larger focus on the growth of revenue and market share, the hiring of talented sales managers for our larger cemeteries, and the investment in new product inventory for sale. As a result, we gained significant operational efficiencies throughout 2019, as same store cemetery operating costs only increased 4.0% compared to the 9.6% increase in operating revenue.

Our acquired cemetery portfolio includes two businesses acquired during the fourth quarter of 2019. These two businesses contributed \$0.3 million in revenue and \$0.1 million in operating profit for the year ended December 31, 2019.

Preneed cemetery trust earnings and preneed cemetery finance charges, which are recorded in *Other revenue*, on a combined basis, increased \$0.1 million for the year ended December 31, 2019 compared to the same period in 2018. The increase is due to a \$0.3 million increase in realized capital gains in our perpetual care trust funds in 2019 compared to 2018, partially offset by a \$0.2 million decrease in finance charge revenue for the same comparable period. The decrease in finance charge revenue is due to our enhanced preneed cemetery property sales strategy of reducing interest rates on preneed contracts which has led to the increase in our cemetery same store operating revenue in 2019. Operating profit for the two categories of *Other revenue*, on a combined basis, remained flat for the same comparative period.

Cemetery property amortization. Cemetery property amortization totaled \$4.0 million for the year ended December 31, 2019, an increase of \$0.4 million compared to the year ended December 31, 2018. The increase was primarily attributable to additional sales of cemetery property in 2019 compared to 2018.

Field depreciation. Depreciation expense for our field businesses totaled \$12.4 million for the year ended December 31, 2019, an increase of \$0.4 million compared to the year ended December 31, 2018. The increase was primarily attributable to additional depreciation expense from the assets acquired through our 2018 and 2019 acquisitions.

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 \$13.8 million for the year ended December 31, 2019, an increase of \$1.1 million primarily due to an increase of \$0.9 million in severance expense from the separation of certain operational leadership, \$0.3 million increase in benefits provided to employees and a \$0.5 million increase in incentive compensation, offset by a decrease of \$0.5 million in natural disaster costs and a decrease of \$0.1 million in other general administrative costs.

Other Financial Statement Items

General, administrative and other. General, administrative and other expenses totaled \$25.9 million for the year ended December 31, 2019, a decrease of \$4.9 million compared to the year ended December 31, 2018. The decrease was attributable to the following: (1) a \$4.4 million decrease in incentive and equity compensation primarily related to the cancellation of performance awards in 2018; (2) a \$1.1 million decrease in severance costs and a \$1.1 million decrease in salaries and benefits related to the separation of executive operating leadership in 2018; (3) an \$0.8 million decrease in litigation reserves related to the payment of a class action settlement agreement in the fourth quarter of 2019; and (4) a \$0.4 million decrease in group health insurance, offset by (5) a \$2.1 million increase in acquisition costs; and (6) an \$0.8 million increase in other general administrative costs.

Home office depreciation and amortization. Home office depreciation and amortization expense totaled \$1.4 million for the year ended December 31, 2019, a decrease of \$0.4 million compared to the year ended December 31, 2018. The decrease was primarily attributable to machinery and equipment at the home office becoming fully depreciated in the first quarter of 2019.

Interest expense. Interest expense related to its respective debt arrangement for the years ended December 31, 2018 and 2019 is as follows (in thousands):

	Years Ended December 31,	
	2018	2019
Senior Notes	\$ 12,969	\$ 22,343
Credit Facility	4,585	1,830
Convertible Notes	2,123	198
Finance leases	530	520
Acquisition debt	791	622
Miscellaneous	111	9
Total	\$ 21,109	\$ 25,522

Accretion of discount on convertible subordinated notes. For the year ended December 31, 2019, we recognized accretion of the discount on our Convertible Notes of \$0.2 million compared to \$2.2 million for the same period in 2018, a decrease of \$2.0 million, which was attributable to the Exchange and December 2018 repurchases of our Convertible Notes.

Loss on early extinguishment of debt, net. For the year ended December 31, 2018, we recognized a net loss of \$0.5 million on the early extinguishment of debt for the following transactions:

(i) a loss of \$1.6 million related to the termination of our Former Credit Agreement, which consisted of a write-off of \$0.7 million of transaction costs related to the Eighth Amendment and a write-off of \$0.9 million of unamortized debt issuance costs related to the Former Credit Agreement;

(ii) a net gain of \$1.7 million related to the May exchanges and the December repurchases of our Convertible Notes, which consisted of a gain of \$3.1 million on the difference between the fair value and the carrying amount of the liability component of our Convertible Notes immediately preceding each exchange and repurchase, and a loss of \$1.4 million related to the write-off of unamortized debt issuance costs due to the exchange and repurchase of our Convertible Notes; and

(iii) a loss of \$0.6 million related to transaction costs incurred for the exchange and repurchase of our Convertible Notes.

Other, net. The components of *Other, net* for the years ended December 31, 2018 and 2019 are as follows (in thousands):

	Years Ended December 31,	
	2018	2019
Loss on sale of business and other assets	\$ (377)	\$ (4,028)
Goodwill impairment	(846)	(742)
Tradenames impairment	—	(221)
Gain on insurance reimbursements	—	885
Other loss	(15)	(4)
Total	\$ (1,238)	\$ (4,110)

Income taxes. Our income tax provision was \$7.9 million for the year ended December 31, 2019 compared to \$6.6 million for the year ended December 31, 2018. Our operating tax rate before discrete items was 33.0% and 31.5% for the years ended December 31, 2019 and 2018, respectively. During the year ended December 31, 2019, we recorded additional tax expense of \$0.9 million related to a divested business previously acquired as a stock acquisition. We also recorded discrete tax expense of

\$0.5 million and \$0.9 million for the years ended December 31, 2019 and 2018, respectively, related primarily to share-based compensation.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 19 for additional information regarding income taxes.

OVERVIEW OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. On an on-going basis, we evaluate estimates and judgments, including those related to revenue recognition, realization of accounts receivable, inventories, goodwill, other intangible assets, property and equipment and deferred tax assets and liabilities. We base our estimates on historical experience, third party data and assumptions that we believe to be reasonable under the circumstances. The results of these considerations form the basis for making judgments about the amount and timing of revenue and expenses, the carrying value of assets and the recorded amounts of liabilities. 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 year to year.

“Management's Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) is based upon our Consolidated Financial Statements presented herewith, which have been prepared in accordance with United States GAAP. Our critical accounting policies are more fully described in Part II, Item 8, Financial Statements and Supplementary Data, Note 1. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

Revenue Recognition - Funeral Home Operations

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

Funeral arrangements sold at the time of death are referred to as atneed funeral contracts. The performance obligation on these atneed contracts for both merchandise and services are bundled as a single performance obligation, as the performance of these obligations occur within a short time frame (usually within a few days) from the time of death to the funeral service. Although our performance activities are transferred in sequence such as, embalming the body, delivering the casket, obtaining service related items like flowers and performing the service, these are all essential to satisfy our contractual obligation to the customer, thus, bundled into a single performance obligation. Revenue is recognized on the date of funeral service, as all performance obligations have been satisfied. Payment is due at or before time of transfer. Outstanding balances due from customers, if any, on atneed funeral contracts are included in *Accounts receivable* on our Consolidated Balance Sheet.

Funeral arrangements sold prior to death occurring are referred to as preneed funeral contracts. In many instances, the customer pays for the preneed contract over a period of time. For preneed funeral merchandise and service contracts, the performance obligation occurs at the time of need (when death occurs) and revenue is recognized on the date of delivery of merchandise or performance of service. We do not deliver merchandise on preneed contracts or provide service prior to the time of death. The performance obligation for preneed funeral contracts is similar to the elements of the performance obligation of atneed funeral contracts. For preneed funeral services, all preneed funeral contracts are re-written upon the date of death as an atneed contract. The performance obligation is satisfied at the date of the service.

Revenue from preneed funeral contracts, along with accumulated earnings, is deferred until the time the merchandise is delivered or the service is performed. The principal and accumulated earnings of the trusts are withdrawn at maturity (death) or cancellation. The cumulative trust income earned and the increases in insurance benefits on the insurance products are recognized when the service is performed. The amounts deposited in trusts that we control are included in the non-current asset section of our Consolidated Balance Sheet. Balances due on undelivered preneed funeral trust contracts have been reclassified to reduce *Deferred preneed funeral revenue* on our Consolidated Balance Sheet.

Our funeral receivables recorded in *Accounts Receivable, net* primarily consist of amounts due for funeral services already performed. We estimate an allowance for doubtful accounts on these receivables based on our historical experience and we monitor changes in delinquency rates and provide additional bad debt and cancellation reserves when warranted.

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. Preneed funeral contracts to be funded at maturity by third-party insurance policies are not recorded as assets or liabilities on our Consolidated Balance Sheet.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 6 for additional information related to revenue.

Revenue Recognition - Cemetery Operations

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 outer burial containers, memorial markers and floral placements) and services (interments, inurnments and installation of cemetery merchandise). We provide cemetery services and products on both an atneed and preneed basis.

Cemetery arrangements sold at the time of death are referred to as atneed cemetery contracts. The performance obligation on these atneed contracts for cemetery property, merchandise and services are distinct. The performance obligations from the time of death to the disposition of the remains, include delivering cemetery property, unearthing the ground, interring remains and installing merchandise on the cemetery grounds. Each item on the contract is recognized as a distinct good or service. The performance obligation is satisfied and revenue is recognized on the purchase date of the interment right, on the date of the cemetery service, and on the date of delivery of the merchandise (set on cemetery grounds). Payment is due at or before time of transfer. Outstanding balances due from customers, if any, on completed atneed contracts are included in *Accounts receivable* on our Consolidated Balance Sheet.

Cemetery arrangements sold prior to death occurring are referred to as preneed cemetery contracts. For preneed cemetery interment rights, the performance obligation is the sale of the interment right and revenue is recognized at the time the contract is signed. Control of cemetery interment rights is transferred to the customer upon execution of the contract as customers select a specific location and space for their interment right, thus, restricting us from other use or transfer of the contracted cemetery property. The interment right is deeded to the customer when the contract is paid in full.

For preneed cemetery merchandise and service, the performance obligation occurs at the time of need (when death occurs) and revenue is recognized on the date of delivery of merchandise or performance of service. We do not deliver merchandise on preneed contracts or provide service prior to the time of death. The performance obligation for preneed cemetery merchandise and service is similar to the elements of the performance obligation of atneed cemetery merchandise and service.

Preneed cemetery contracts are usually financed through interest-bearing installment sales contracts, generally with terms of up to five years. In substantially all cases, we receive an initial down payment at the time the contract is signed. Earnings on these installment contracts are not recognized until the time the merchandise is transferred or the service is performed and are recorded as *Other revenue*.

The performance of the preneed cemetery contracts is secured by placing the funds collected, less amounts that we may retain under state regulations, in trust for the benefit of the customer, the proceeds of which will pay for such services at the time of need. This method is intended to fund preneed contracts, cover the original contract price and generally include an element of growth (earnings) designed to offset future inflationary cost increases. The amounts deposited in trusts that we control are included in the non-current asset section of our Consolidated Balance Sheet. Balances due from customers on delivered preneed cemetery contracts are included in *Accounts receivable* and *Preneed receivables* 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.

Allowances for bad debts and customer cancellations on cemetery financed receivables are provided at the date that the sale is recognized as revenue and are based on our historical experience. We also monitor changes in delinquency rates and provide additional bad debt and cancellation reserves when warranted. We have a collections policy where past due notifications are sent to the customer beginning at 15 days past due and periodically thereafter until the contract is cancelled or payment is received. We reserve 100% of the receivables on contracts in which the revenue has been recognized and payments are 90 days past due or more.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 6 for additional information related to revenue.

Preneed Funeral and Cemetery Trust Funds

Our preneed and perpetual care trust funds are reported in accordance with the principles of consolidating Variable Interest Entities (“VIE’s”). 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. The investments of such trust funds are classified as available-for-sale and are reported at fair market value. Our future obligations to deliver merchandise and services are reported at estimated settlement amounts. Preneed funeral and cemetery trust investments are reduced by the trust investment earnings that we have been allowed to withdraw in certain states prior to maturity.

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. Such 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.

Trust management fees are earned by us for investment management and advisory services that are provided by our wholly-owned registered investment advisor (“CSV RIA”) and are recorded as *Other revenue*. As of December 31, 2019, CSV RIA provided these services to approximately 71% 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.

We determine whether or not the assets in the preneed trusts have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. There will be no impact on earnings unless and until such time that the investment is withdrawn from the trust in accordance with state regulations at an amount that is less than its original basis.

See Part II, Item 8, Financial Statements and Supplementary Data, Notes 7, 9 and 11 for additional related disclosures related to preneed funeral and cemetery trust funds.

Long-Lived Assets

Long-lived assets, such as property, plant and equipment subject to depreciation and amortization, are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with the Property, Plant and Equipment topic of the Accounting Standards Codification (“ASC”) 360. This guidance requires that long-lived assets to be held and used are reported at the lower of their carrying amount or fair value. We assess long-lived assets for impairment whenever events or circumstances indicate that the carrying value may be greater than the fair value. 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 review our long-lived assets deemed held-for-sale to the point of recoverability. 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 cost to sell. If we determine that the carrying value is not recoverable from the proceeds of the sale, we record an impairment at that time.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 1 for additional information related to long-lived assets.

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.

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

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. Our intent is to perform a quantitative impairment test at least once every three years unless certain indicators or events suggest otherwise and perform a qualitative assessment during the remaining two years.

We perform our annual goodwill impairment test as of August 31st each year. Under current guidance, we are permitted to first assess qualitative factors to determine whether it is more-likely-than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test. We conducted qualitative assessments in 2017 and 2018; however, we performed a quantitative assessment in 2019.

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. 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.

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. Our intent is to perform a quantitative impairment test at least once every three years unless certain indicators or events suggest otherwise and perform a qualitative assessment during the remaining two years.

We perform our annual intangible assets impairment test 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 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. 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.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 13 for additional information related to intangible assets.

Fair Value Measurements

We measure the available-for-sale 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 the Fair Value Measurements Topic of the ASC. 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. The three levels are defined as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

See Part II, Item 8, Financial Statements and Supplementary Data, Notes 7, 11 and 12 for additional information related to fair value measurements.

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.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 19 for additional information related to income taxes.

Stock Plans and Stock-Based Compensation

We have stock-based employee and director compensation plans under which we grant stock, restricted stock, stock options and performance awards. We also have an employee stock purchase plan ("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.

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. The fair value of the performance awards related to market performance is determined using a Monte-Carlo simulation pricing model. The fair value of the performance awards related to internal performance metrics is determined using the stock price on the grant date. 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.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 20 for additional information related to stock-based compensation plans.

Computation of Earnings per Common Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options and our Convertible Notes (as defined in Note 15).

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.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 22 for additional information related to computation of earnings per share.

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.

SEASONALITY

Our business can be affected by seasonal fluctuations in the death rate. 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.

INFLATION

Inflation has not had a material impact on our results of operations over the last three fiscal years.

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 for a reasonable price. We are not exposed to any other significant market risks.

The following quantitative and qualitative information is provided about financial instruments to which we are a party at December 31, 2019 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 as of December 31, 2019 are presented in Part II, Item 8, Financial Statements and Supplementary Data, Notes 7, 9 and 11. The sensitivity of the fixed income securities is such that a 0.25% change in interest rates causes an approximate 1.67% 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, 2019, we had outstanding borrowings under the Credit Facility of \$83.8 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, 2019, the prime rate margin was equivalent to 1.5% and the LIBOR rate margin was 2.5%. 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 \$0.1 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 Convertible Notes bear interest at the fixed annual rate of 2.75%. The Convertible Notes do not contain a call feature. At December 31, 2019, the carrying value of the Convertible Notes on our Consolidated Balance Sheet was \$6.0 million and the fair value of the Convertible Notes was \$7.8 million based on the last traded or broker quoted price, as reported by the Financial Industry Regulatory Authority, Inc. (“FINRA”). Increases in market interest rates may cause the value of the Convertible Notes to decrease, but such changes will not affect our interest costs.

Our Senior Notes bear interest at the fixed annual rate of 6.625%. We may redeem all or part of the Senior Notes at any time prior to June 1, 2021 at a redemption price equal to 100% of the principal amount of Senior Notes redeemed, plus a “make whole” premium, and accrued and unpaid interest, if any, to the date of redemption. We have the right to redeem the Senior Notes at any time on or after June 1, 2021 at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to the date of redemption. At December 31, 2019, the carrying value of the Senior Notes on our Consolidated Balance Sheet was \$395.4 million and the fair value of the Senior Notes notes was \$426.4 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.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2018 and 2019, 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, 2019, 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, 2018 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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 February 28, 2020 expressed an unqualified opinion.

Change in accounting principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Codification 842, “Leases”.

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 supporting 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.

/s/ GRANT THORNTON LLP

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

Houston, Texas
February 28, 2020

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, 2019, 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, 2019, 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, 2019, and our report dated February 28, 2020 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

Houston, Texas
February 28, 2020

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

	December 31,	
	2018	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 644	\$ 716
Accounts receivable, net	18,897	21,478
Inventories	6,751	6,989
Prepaid and other current assets	3,011	10,667
Total current assets	29,303	39,850
Preneed cemetery trust investments	62,432	72,382
Preneed funeral trust investments	82,074	96,335
Preneed cemetery receivables, net	18,441	20,173
Receivables from preneed trusts	17,073	18,024
Property, plant and equipment, net	260,838	279,200
Cemetery property, net	74,958	87,032
Goodwill	303,887	398,292
Intangible and other non-current assets, net	24,425	32,116
Operating lease right-of-use assets	—	22,304
Cemetery perpetual care trust investments	44,071	64,047
Total assets	\$ 917,502	\$ 1,129,755
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 2,015	\$ 1,306
Current portion of finance lease obligations	312	290
Current portion of operating lease obligations	—	1,554
Accounts payable	9,987	8,413
Accrued and other liabilities	22,644	24,026
Total current liabilities	34,958	35,589
Long-term debt, net of current portion	6,925	5,658
Credit facility	26,145	82,182
Convertible subordinated notes due 2021	5,732	5,971
Senior notes due 2026	319,108	395,447
Obligations under finance leases, net of current portion	6,143	5,854
Obligations under operating leases, net of current portion	—	21,533
Deferred preneed cemetery revenue	45,997	46,569
Deferred preneed funeral revenue	28,606	29,145
Deferred tax liability	31,263	41,368
Other long-term liabilities	3,133	1,737
Deferred preneed cemetery receipts held in trust	62,432	72,382
Deferred preneed funeral receipts held in trust	82,074	96,335
Care trusts' corpus	43,494	63,416
Total liabilities	696,010	903,186
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value; 80,000,000 shares authorized; 25,703,490 and 25,880,362 issued as of December 31, 2018 and 2019, respectively	257	259
Additional paid-in capital	243,849	242,147
Retained earnings	71,680	86,213
Treasury stock, at cost; 7,625,339 and 8,025,339 shares at December 31, 2018 and 2019, respectively	(94,294)	(102,050)
Total stockholders' equity	221,492	226,569
Total liabilities and stockholders' equity	\$ 917,502	\$ 1,129,755

The accompanying 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,		
	2017	2018	2019
Revenue:			
Service revenue	\$ 132,592	\$ 138,604	\$ 142,554
Property and merchandise revenue	108,046	112,253	114,514
Other revenue	17,501	17,135	17,039
	<u>258,139</u>	<u>267,992</u>	<u>274,107</u>
Field costs and expenses:			
Cost of service	66,884	72,123	72,991
Cost of merchandise	85,422	90,008	89,294
Cemetery property amortization	3,350	3,602	3,985
Field depreciation expense	11,024	12,015	12,370
Regional and unallocated funeral and cemetery costs	13,339	12,749	13,827
Other expenses	1,321	1,548	2,055
	<u>181,340</u>	<u>192,045</u>	<u>194,522</u>
Gross profit	76,799	75,947	79,585
Corporate costs and expenses:			
General, administrative and other	26,253	30,827	25,880
Home office depreciation and amortization	1,605	1,813	1,416
	<u>27,858</u>	<u>32,640</u>	<u>27,296</u>
Operating income	48,941	43,307	52,289
Interest expense	(12,948)	(21,109)	(25,522)
Accretion of discount on convertible subordinated notes	(4,329)	(2,192)	(241)
Loss on early extinguishment of debt, net	—	(502)	—
Other, net	1,118	(1,238)	(4,110)
Income before income taxes	32,782	18,266	22,416
Provision for income taxes	(13,100)	(5,754)	(7,395)
Tax adjustment related to certain discrete items	17,511	(867)	(488)
Total benefit (provision) for income taxes	<u>\$ 4,411</u>	<u>\$ (6,621)</u>	<u>\$ (7,883)</u>
Net income	<u>\$ 37,193</u>	<u>\$ 11,645</u>	<u>\$ 14,533</u>
Basic earnings per common share			
Basic earnings per common share	<u>\$ 2.25</u>	<u>\$ 0.64</u>	<u>\$ 0.81</u>
Diluted earnings per common share			
Diluted earnings per common share	<u>\$ 2.09</u>	<u>\$ 0.63</u>	<u>\$ 0.80</u>
Dividends declared per share			
Dividends declared per share	<u>\$ 0.225</u>	<u>\$ 0.300</u>	<u>\$ 0.300</u>
Weighted average number of common and common equivalent shares outstanding:			
Basic	<u>16,438</u>	<u>17,971</u>	<u>17,877</u>
Diluted	<u>17,715</u>	<u>18,374</u>	<u>18,005</u>

The accompanying 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, 2016	16,641	\$ 225	\$ 215,064	\$ 20,711	\$ (60,266)	\$ 175,734
Net Income – 2017	—	—	—	37,193	—	37,193
Issuance of common stock	68	1	1,637	—	—	1,638
Exercise of stock options	61	—	514	—	—	514
Issuance of restricted common stock	27	—	—	—	—	—
Cancellation and retirement of restricted common stock and stock options	(25)	—	(551)	—	—	(551)
Stock-based compensation expense	—	—	3,203	—	—	3,203
Dividends on common stock	—	—	(3,709)	—	—	(3,709)
Treasury stock acquired	(674)	—	—	—	(16,366)	(16,366)
Balance – December 31, 2017	16,098	\$ 226	\$ 216,158	\$ 57,904	\$ (76,632)	\$ 197,656
Effect of adoption of topic 606	—	—	—	2,131	—	2,131
Balance – January 1, 2018	16,098	\$ 226	\$ 216,158	\$ 60,035	\$ (76,632)	\$ 199,787
Net Income – 2018	—	—	—	11,645	—	11,645
Issuance of common stock	62	1	1,199	—	—	1,200
Exercise of stock options	140	1	(34)	—	—	(33)
Issuance of restricted common stock	87	1	24	—	—	25
Cancellation and retirement of restricted common stock and stock options	(30)	—	(398)	—	—	(398)
Stock-based compensation expense	—	—	6,531	—	—	6,531
Dividends on common stock	—	—	(5,514)	—	—	(5,514)
Convertible notes exchange	2,823	28	25,883	—	—	25,911
Treasury stock acquired	(1,102)	—	—	—	(17,662)	(17,662)
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	81	1	971	—	—	972
Exercise of stock options	76	1	471	—	—	472
Issuance of restricted common stock	26	—	—	—	—	—
Cancellation and retirement of restricted common stock and stock options	(21)	—	(194)	—	—	(194)
Stock-based compensation expense	—	—	2,153	—	—	2,153
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

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

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

	For the Years Ended December 31,		
	2017	2018	2019
Cash flows from operating activities:			
Net income	\$ 37,193	\$ 11,645	\$ 14,533
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,979	17,430	17,771
Provision for losses on accounts receivable	2,198	1,841	1,618
Stock-based compensation expense	3,162	6,583	2,153
Deferred income tax expense (benefit)	(11,651)	3,823	10,117
Amortization of deferred financing costs	820	532	392
Amortization of capitalized commissions on preneed contracts	—	599	558
Accretion of discount on convertible subordinated notes	4,329	2,192	241
Accretion of discount on senior notes	—	272	492
Net loss on early extinguishment of debt	—	502	—
Net loss (gain) on sale of businesses and disposal of other assets	(710)	1,052	4,096
Goodwill and other impairments	—	1,019	963
Gain on insurance reimbursements	—	—	(879)
Other	—	—	121
Changes in operating assets and liabilities that provided (required) cash:			
Accounts and preneed receivables	(4,254)	(5,061)	(5,801)
Inventories, prepaid and other current assets	1,446	(159)	(2,762)
Intangible and other non-current assets	149	(390)	(251)
Preneed funeral and cemetery trust investments	2,373	488	(6,500)
Accounts payable	(3,649)	2,044	(580)
Accrued and other liabilities	(385)	3,990	1,271
Deferred preneed funeral and cemetery revenue	1,446	6,546	168
Deferred preneed funeral and cemetery receipts held in trust	(3,216)	(5,954)	5,495
Net cash provided by operating activities	45,230	48,994	43,216
Cash flows from investing activities:			
Acquisitions and land for new construction	(28,799)	(37,970)	(140,907)
Deposit on pending acquisition	—	—	(5,000)
Proceeds from insurance reimbursements	—	—	1,433
Net proceeds from sale of businesses and other assets	5,731	—	967
Capital expenditures	(16,395)	(13,526)	(15,379)
Net cash used in investing activities	(39,463)	(51,496)	(158,886)
Cash flows from financing activities:			
Payments against the term loan	(11,250)	(127,500)	—
Borrowings from the credit facility	106,900	124,500	174,961
Payments against the credit facility	(82,600)	(189,400)	(118,261)
Payment of debt issuance costs related to the credit facility	—	(1,751)	(891)
Redemption of the 2.75% convertible subordinated notes	—	(98,266)	(27)
Payment of transaction costs related to the redemption of the 2.75% convertible subordinated notes	—	(885)	—
Proceeds from the issuance of the 6.625% senior notes	—	320,125	76,688
Payment of debt issuance costs related to the 6.625% senior notes	—	(1,367)	(980)
Payments on long-term debt and obligations under finance leases	(1,962)	(1,940)	(2,287)
Payments on contingent consideration recorded at acquisition date	(101)	(138)	(162)
Proceeds from the exercise of stock options and employee stock purchase plan contributions	1,496	1,246	1,445
Taxes paid on restricted stock vestings and exercise of non-qualified options	(509)	(651)	(194)
Dividends paid on common stock	(3,709)	(5,513)	(5,398)
Purchase of treasury stock	(16,366)	(16,266)	(9,152)
Net cash provided by (used in) financing activities	(8,101)	2,194	115,742
Net increase (decrease) in cash and cash equivalents	(2,334)	(308)	72
Cash and cash equivalents at beginning of year	3,286	952	644
Cash and cash equivalents at end of year	\$ 952	\$ 644	\$ 716

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. At December 31, 2019, we operated 186 funeral homes in 29 states and 31 cemeteries in 11 states. Our operations are reported in two business segments: Funeral Home Operations, which currently accounts for approximately 80% of our revenue and Cemetery Operations, which currently accounts for approximately 20% 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.

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 to conform to the current period financial statement presentation with no effect on our previously reported results of operations, consolidated financial position, or cash flows.

Cash and Cash Equivalents

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

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 on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, realization of accounts receivable, goodwill, intangible assets, property and equipment and deferred tax assets and liabilities. We base our estimates on historical experience, third party data and assumptions that we believe to be reasonable under the circumstances. The results of these considerations form the basis for making judgments about the amount and timing of revenue and expenses, the carrying value of assets and the recorded amounts of liabilities. 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, as there can be no assurance that our results of operations will be consistent from year to year.

Inventory

Inventory consists primarily of caskets, outer burial containers and cemetery monuments and markers and is recorded at the lower of its cost basis (determined by the specific identification method) or net realizable value.

Revenue Recognition - Funeral Home Operations

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

Funeral arrangements sold at the time of death are referred to as atneed funeral contracts. The performance obligation on these atneed contracts for both merchandise and services are bundled as a single performance obligation, as the performance of these obligations occur within a short time frame (usually within a few days) from the time of death to the funeral service. Although our performance activities are transferred in sequence such as, embalming the body, delivering the casket, obtaining service related items like flowers and performing the service, these are all essential to satisfy our contractual obligation to the customer, thus, bundled into a single performance obligation. Revenue is recognized on the date of funeral service, as all performance obligations have been satisfied. Payment is due at or before time of transfer. Outstanding balances due from customers, if any, on atneed funeral contracts are included in *Accounts receivable* on our Consolidated Balance Sheet.

The performance obligation is satisfied at the date of the service or the delivery of the merchandise as control has transferred to the customer and the benefit has concluded in the following manner:

- we have the right to payment;
- the customer has title to merchandise;
- the deceased has used the merchandise or has been a part of the service; and
- the customer directed the use of the merchandise or the plan of the service.

Funeral arrangements sold prior to death occurring are referred to as preneed funeral contracts. In many instances, the customer pays for the preneed contract over a period of time. For preneed funeral merchandise and service contracts, the performance obligation occurs at the time of need (when death occurs) and revenue is recognized on the date of delivery of merchandise or performance of service. We do not deliver merchandise on preneed contracts or provide service prior to the time of death. The performance obligation for preneed funeral contracts is similar to the elements of the performance obligation of atneed funeral contracts. For preneed funeral services, all preneed funeral contracts are re-written upon the date of death as an atneed contract. The performance obligation is satisfied at the date of the service.

The performance of a preneed funeral contract is secured by placing the funds collected, less amounts that we may retain under state regulations, in trust for the benefit of the customer or by the customer's purchase of a life insurance policy, the proceeds of which will pay for such services at the time of need. These methods are intended to fund preneed funeral contracts, cover the original contract price and generally include an element of growth (earnings) designed to offset future inflationary cost increases.

Revenue from preneed funeral contracts, along with accumulated earnings, is deferred until the time the merchandise is delivered or the service is performed. The principal and accumulated earnings of the trusts are withdrawn at maturity (death) or cancellation. The cumulative trust income earned and the increases in insurance benefits on the insurance products are recognized when the service is performed. The amounts deposited in trusts that we control are included in the non-current asset section of our Consolidated Balance Sheet. Balances due on undelivered preneed funeral trust contracts have been reclassified to reduce *Deferred preneed funeral revenue* on our Consolidated Balance Sheet of \$8.3 million and \$8.9 million at December 31, 2018 and December 31, 2019, 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.

The earnings from our preneed funeral trust investments, as well as trust management fees charged by our wholly-owned registered investment advisory firm ("CSV RIA") are recorded as *Other revenue*, as noted in our table of disaggregated revenue in Note 6 to the Consolidated Financial Statements included herein. As of December 31, 2019, CSV RIA provided investment management and advisory services to approximately 71% 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.

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*, as noted in our table of disaggregated revenue in Note 6 to the Consolidated Financial Statements included herein, 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. Preneed funeral contracts to be funded at maturity by third-party insurance policies are not recorded as assets or liabilities on our Consolidated Balance Sheet. See Note 10 to the Consolidated Financial Statements included herein for additional information regarding estimated revenue associated with preneed funeral contracts funded by third-party insurance policies.

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 revocable and the proceeds from the policy are portable, so the customer can choose to use an alternative provider at the time of need.

The earnings from our ancillary service businesses, which consist of a flower shop, a pet cremation business and an online cremation business are recorded as *Other revenue*, as noted in our table of disaggregated revenue in Note 6 to the Consolidated Financial Statements included herein.

The comparative information for years prior to 2018 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported in accordance with Accounting Standards Codification 605 ("ASC 605"). See Note 2 "Recently Issued Accounting Standards" of our Annual Report on Form 10-K for the year ended December 31, 2018 for additional information related to our adoption of the revised revenue recognition standard ("ASC 606").

Revenue Recognition - Cemetery Operations

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 outer burial containers, memorial markers and floral placements) and services (interments, inurnments and installation of cemetery merchandise). We provide cemetery services and products on both an atneed and preneed basis.

Cemetery arrangements sold at the time of death are referred to as atneed cemetery contracts. The performance obligation on these atneed contracts for cemetery property, merchandise and services are distinct. The performance obligations from the time of death to the disposition of the remains, include delivering cemetery property, unearthing the ground, interring remains and installing merchandise on the cemetery grounds. Each item on the contract is recognized as a distinct good or service. The performance obligation is satisfied and revenue is recognized on the purchase date of the interment right, on the date of the cemetery service, and on the date of delivery of the merchandise (set on cemetery grounds). Payment is due at or before time of transfer. Outstanding balances due from customers, if any, on completed atneed contracts are included in *Accounts receivable* on our Consolidated Balance Sheet.

The performance obligation is satisfied at the date of the service, the purchase of the interment right or the delivery of the merchandise as control has transferred to the customer and the benefit has concluded in the following manner:

- we have the right to payment;
- the customer has title to merchandise;
- the deceased has used the merchandise or has been a part of the service; and
- the customer directed the use of the merchandise or the plan of the service.

Cemetery arrangements sold prior to death occurring are referred to as preneed cemetery contracts. For preneed cemetery interment rights, the performance obligation is the sale of the interment right and revenue is recognized at the time the contract is signed. Control of cemetery interment rights is transferred to the customer upon execution of the contract as customers select a specific location and space for their interment right, thus, restricting us from other use or transfer of the contracted cemetery property. The interment right is deeded to the customer when the contract is paid in full.

For preneed cemetery merchandise and service, the performance obligation occurs at the time of need (when death occurs) and revenue is recognized on the date of delivery of merchandise or performance of service. We do not deliver merchandise on preneed contracts or provide service prior to the time of death. The performance obligation for preneed cemetery merchandise and service is similar to the elements of the performance obligation of atneed cemetery merchandise and service.

Preneed cemetery contracts are usually financed through interest-bearing installment sales contracts, generally with terms of up to five years. In substantially all cases, we receive an initial down payment at the time the contract is signed. Earnings on these installment contracts are not recognized until the time the merchandise is transferred or the service is performed and are recorded as *Other revenue*, as noted in our table of disaggregated revenue in Note 6 to the Consolidated Financial Statements included herein.

The performance of the preneed cemetery contracts is secured by placing the funds collected, less amounts that we may retain under state regulations, in trust for the benefit of the customer, the proceeds of which will pay for such services at the time of need. This method is intended to fund preneed contracts, cover the original contract price and generally include an element of growth (earnings) designed to offset future inflationary cost increases. The amounts deposited in trusts that we control are included in the non-current asset section of our Consolidated Balance Sheet. The earnings from preneed cemetery contracts placed in trust, as well as the trust management fees charged by our CSV RIA are recorded as *Other revenue*, as noted in our table of disaggregated revenue in Note 6 to the Consolidated Financial Statements included herein.

Our merchandise and service performance obligations related to our preneed contracts are considered fulfilled at the point in time the merchandise is delivered or the burial, cremation or interment service is performed. Balances due from customers on delivered preneed cemetery contracts are included in *Accounts receivable* and *Preneed receivables* 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 \$4.4 million and \$4.8 million at December 31, 2018 and December 31, 2019, 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.

We sell memorialization merchandise and personalized marker merchandise, such as urns and markers that are supplied by a small number of national providers. We order the memorialized merchandise through a third-party on behalf of our customer. The merchandise and its memorialization is provided by the third-party. We deliver the merchandise after the time of death to the customer upon completion of the memorialization or we set the merchandise on our cemetery grounds.

Cemetery property was \$75.0 million and \$87.0 million, net of accumulated amortization of \$37.7 million and \$41.7 million at December 31, 2018 and December 31, 2019, respectively. Interment right costs, which include real property and other costs related to cemetery development, are expensed using the specific identification method in the period in which the sale of the interment right is recognized as revenue. We recorded amortization expense for cemetery interment rights of \$3.3 million, \$3.6 million and \$4.0 million for the years ended December 31, 2017, 2018 and 2019, respectively.

See Note 6 to the Consolidated Financial Statements included herein for additional information related to our revenue.

Arrangements with Multiple Performance Obligations

Some of our contracts with customers include multiple performance obligations. For these contracts, we allocate 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/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.

Preneed Funeral and Cemetery Trust Funds

Our preneed and perpetual care trust funds are reported in accordance with the principles of consolidating Variable Interest Entities (“VIE’s”). 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. 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 investments of such trust funds are classified as available-for-sale and are reported at fair market value; therefore, the unrealized gains and losses, as well as accumulated and undistributed income and realized gains and losses are recorded to *Deferred preneed funeral and cemetery receipts held in trust* and *Care trusts’ corpus* on our Consolidated Balance Sheet. Our future obligations to deliver merchandise and services are reported at estimated settlement amounts. Preneed funeral and cemetery trust investments are reduced by the trust investment earnings that we have been allowed to withdraw in certain states prior to maturity. These earnings, along with preneed contract collections not required to be placed in trust, are recorded in *Deferred preneed funeral revenue* and *Deferred preneed cemetery revenue* until the service is performed or the merchandise is delivered.

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. Such 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 determine whether or not the assets in the preneed trusts have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair market value. Any reduction in the cost basis of the investment due to an other-than-temporary impairment is likewise recorded as a reduction to *Deferred preneed funeral and cemetery receipts held in trust* and *Care trusts’ corpus* on our Consolidated Balance Sheet. There will be no impact on earnings unless and until such time that the investment is withdrawn from the trust in accordance with state regulations at an amount that is less than its original basis.

See Notes 7, 9 and 11 to the Consolidated Financial Statements herein for additional information related to our trust funds.

Allowance for bad debts and customer cancellations

Our funeral receivables recorded in *Accounts Receivable, net* primarily consist of amounts due for funeral services already performed which were \$8.5 million and \$9.9 million for December 31, 2018 and December 31, 2019, respectively. We estimate an allowance for doubtful accounts on these receivables based on our historical experience, which amounted to 2.2% of funeral receivables at both December 31, 2018 and December 31, 2019. In addition, our funeral receivables not related to funeral services performed were \$0.7 million and \$1.1 million at December 31, 2018 and December 31, 2019, respectively. Other receivables not related to our funeral home and cemetery operations were \$0.2 million and \$0.7 million at December 31, 2018 and December 31, 2019, respectively.

Our cemetery financed receivables totaled \$37.2 million and \$41.3 million at December 31, 2018 and December 31, 2019, respectively. The unearned finance charges associated with these receivables were \$4.6 million and \$4.5 million at December 31, 2018 and December 31, 2019, respectively. If a preneed contract is canceled prior to delivery, state law determines the amount of the refund owed to the customer. Allowances for bad debts and customer cancellations on cemetery financed receivables are recorded at the date that the sale is recognized as revenue and are based on our historical experience. We also monitor changes in delinquency rates and provide additional bad debt and cancellation reserves when warranted. We have a collections policy where past due notifications are sent to the customer beginning at 15 days past due and periodically thereafter until the contract is cancelled or payment is received. We reserve 100% of the receivables on contracts in which the revenue has been recognized and payments are 90 days past due or more, which was approximately 4.6% and 4.4% of the total receivables at December 31, 2018 and December 31, 2019, respectively. See Note 8 to the Consolidated Financial Statements included herein for additional information on cemetery financed receivables.

Our cemetery receivables recorded in *Accounts Receivable, net* also include \$1.8 million and \$0.1 million related to perpetual care income receivables at December 31, 2018 and December 31, 2019, respectively. See Note 11 to the Consolidated Financial Statements included herein for additional information on our perpetual care trust investments.

Accounts receivable is comprised of the following at December 31, 2018 and December 31, 2019 (in thousands):

	December 31, 2018	December 31, 2019
Funeral receivables, net of allowance for bad debt of \$189 and \$223, respectively	\$ 9,002	\$ 10,758
Cemetery receivables, net of allowance for bad debt of \$580 and \$626, respectively	9,688	10,039
Other receivables	207	681
Accounts receivable, net	<u>\$ 18,897</u>	<u>\$ 21,478</u>

Preneed cemetery receivables represent payments expected to be received beyond one year from the balance sheet date. *Preneed cemetery receivables, net* are comprised of the following at December 31, 2018 and December 31, 2019 (in thousands):

	December 31, 2018	December 31, 2019
Preneed cemetery receivables	\$ 25,568	\$ 27,411
Less: unearned finance charges	(2,821)	(2,690)
Less: allowance for bad debt and contract cancellation	(1,228)	(1,290)
Less: balances due on undelivered cemetery preneed contracts	(3,078)	(3,258)
Preneed cemetery receivables, net	<u>\$ 18,441</u>	<u>\$ 20,173</u>

Bad debt expense totaled \$2.2 million, \$1.8 million and \$1.6 million for the years ended December 31, 2017, 2018 and 2019, respectively.

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 for our preneed cemetery merchandise and services contracts and preneed funeral trust contracts, of eight and ten years, respectively. Amortization expense totaled \$0.6 million for both the years ended December 31, 2018 and 2019. Prior to our adoption of ASC 606 on January 1, 2018, these costs were expensed in the period incurred.

On September 30, 2018, our management agreement with a Florida municipality expired and as a result, we ceased to operate three of our cemetery businesses. We recorded a loss of approximately \$125,000 in *Other, net*, for the write-off of capitalized commissions related to these three cemetery businesses. See Note 5 to the Consolidated Financial Statements included herein for additional information regarding the expired management agreement for these three cemetery businesses. There were no impairment losses recognized for the year ended December 31, 2019.

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

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 nineteen years. Many leases include one or more options to renew, some of which include options to extend the leases for up to 26 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 (formerly capital leases) is recognized as depreciation expense and interest expense using the accelerated 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 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.

See Notes 2 and 17 to the Consolidated Financial Statements included herein for additional information related to our leases.

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 at December 31, 2018 and 2019 (in thousands):

	December 31, 2018	December 31, 2019
Land	\$ 81,012	\$ 84,608
Buildings and improvements	223,646	242,641
Furniture, equipment and automobiles	81,125	88,046
Property, plant and equipment, at cost	385,783	415,295
Less: accumulated depreciation	(124,945)	(136,095)
Property, plant and equipment, net	\$ 260,838	\$ 279,200

During 2019, we acquired \$21.7 million of property, plant and equipment in connection with the funeral home and cemetery businesses we acquired during 2019, as further discussed in Note 3 to the Consolidated Financial Statements included herein. During 2018, we acquired \$17.5 million of property, plant and equipment in connection with the funeral home businesses we acquired during 2018. We recorded depreciation expense of \$12.6 million, \$13.8 million and \$13.8 million for the years ended December 31, 2017, 2018 and 2019, respectively.

Long-lived assets, such as property, plant and equipment subject to depreciation and amortization, are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with the Property, Plant and Equipment topic of the Accounting Standards Codification (“ASC”) 360. This guidance requires that long-lived assets to be held and used are reported at the lower of their carrying amount or fair value. We assess long-lived assets for impairment whenever events or circumstances indicate that the carrying value may be greater than the fair value. 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 review our long-lived assets deemed held-for-sale to the point of recoverability. 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 cost to sell. If we determine that the carrying value is not recoverable from the proceeds of the sale, we record an impairment at that time.

For the year ended December 31, 2018, we recorded an impairment of \$0.2 million related to the real property of a funeral home business held for sale, as the carrying value exceeded fair value. For the years ended December 31, 2017 and 2019, no impairment was identified on our long-lived assets.

Business Combinations

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

During 2019, we acquired, in three separate transactions, two funeral home and cemetery combination businesses, seven funeral home businesses and three ancillary businesses. In October 2019, we acquired the following: (i) four funeral home business in Buffalo, New York; and (ii) one funeral home and cemetery combination business, three funeral home businesses and three ancillary businesses, which consist of a flower shop, a pet cremation business and an online cremation business in the Dallas, Texas area. In December 2019, we acquired one funeral home and cemetery combination business in Fairfax, Virginia.

During 2018, we acquired four funeral home businesses. In July 2018, we acquired one funeral home business in Fredericksburg, Virginia and one funeral home business in Stafford, Virginia. In August 2018, we acquired one funeral home business in Cookeville, Tennessee and one funeral home business in Knightdale, North Carolina.

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 our acquisitions.

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. Our intent is to perform a quantitative impairment test at least once every three years unless certain indicators or events suggest otherwise and perform a qualitative assessment during the remaining two years.

We perform our annual goodwill impairment test as of August 31st each year. Under current guidance, we are permitted to first assess qualitative factors to determine whether it is more-likely-than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test. We conducted qualitative assessments in 2017 and 2018; however, we performed a quantitative assessment in 2019. 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 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 2019 quantitative assessment, 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 \$0.5 million during 2019 related to a funeral home business that we divested in the fourth quarter of 2019. We also recorded a \$0.2 million goodwill impairment during the year ended December 31, 2019 related to a funeral home business that is under a letter of intent to sell during 2020, as the carrying value exceeded fair value at December 31, 2019.

For our 2018 annual impairment test, we performed a qualitative assessment and concluded that the fair value of our reporting units was greater than their carrying value and thus there was no impairment to goodwill. However, we recorded a goodwill impairment of \$0.8 million during 2018 related to a funeral home business that we divested during the third quarter of 2019. No impairments were recorded to our goodwill during the year ended December 31, 2017.

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

Intangible Assets

Our intangible assets include tradenames resulting from acquisitions and are included in *Intangible and other non-current assets, net* on our Consolidated Balance Sheet. Our tradenames are considered to have an indefinite life and are not subject to amortization. As such, we test our intangible assets for impairment on an annual basis. Our intent is to perform a quantitative impairment test at least once every three years unless certain indicators or events suggest otherwise and perform a qualitative assessment during the remaining two years.

We perform our annual intangible assets impairment test as of August 31st each year. Under current guidance, we are permitted to first assess qualitative factors to determine whether it is more-likely-than not that the fair value of the tradename is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test. We conducted qualitative assessments in 2017 and 2018; however, we performed a quantitative assessment in 2019. 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 2019 quantitative assessment, we recorded an impairment for tradenames of \$0.2 million during the year ended December 31, 2019 as the carrying amount of certain tradenames exceeded the fair value. No impairments were recorded to our intangible assets during the years ended December 31, 2017 and 2018.

See Note 13 to the Consolidated Financial Statements included herein for additional information related to our intangible assets.

Divested Operations

During 2019, we divested three funeral home businesses whose building leases expired and sold a funeral home business for \$0.9 million. In addition, we merged a funeral home business with a business in an existing market. During 2018, our management agreement with a Florida municipality expired and as a result, we divested three of our cemetery businesses. During 2017, we sold a funeral home business in Kentucky for \$0.6 million. The operating results of these divested businesses are reflected in our Consolidated Statements of Operations.

See Note 5 to the Consolidated Financial Statements herein for additional information related to our divested businesses.

Fair Value Measurements

We measure the available-for-sale 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 the Fair Value Measurements Topic of the ASC. 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. The three levels are defined as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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. The fair value disclosures of transfers in and out of Levels 1 and 2 and the gross presentation of purchases, sales, issuances and settlements in the Level 3 reconciliation of the three-tier fair value hierarchy are also presented in Notes 7 and 11 to the Consolidated Financial Statements included herein. 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.

To determine the fair value of assets and liabilities in an environment where the volume and level of activity for the asset or liability have significantly decreased, the exit price is used as the fair value measurement. For the year ended December 31, 2019, we did not incur significant decreases in the volume or level of activity of any asset or liability. We consider an impairment of debt and equity securities other-than-temporary unless (a) we have the ability and intent to hold an investment and (b) evidence indicating the cost of the investment is recoverable before we are more likely than not required to sell the investment. If an impairment is indicated, then an adjustment is made to reduce the carrying amount to fair value which is recorded as a reduction to either *Deferred preneed cemetery receipts held in trust*, *Deferred preneed funeral receipts held in trust* or *Care trusts' corpus* on our Consolidated Balance Sheet. We did not record any impairments during the years ended December 31, 2018 and 2019.

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, 11 and 12 to the Consolidated Financial Statements herein for additional required disclosures related to our fair value measurement of our financial assets and liabilities.

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.

The Company's unrecognized tax benefits reserve for uncertain tax positions primarily relates to pending accounting method changes filed for the tax year ended December 31, 2018. The amount of the reserve recorded as of December 31, 2019 was \$3.2 million. No reserve is recorded at December 31, 2018.

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

Stock Plans and Stock-Based Compensation

We have stock-based employee and director compensation plans under which we grant stock, restricted stock, stock options and performance awards. We also have an employee stock purchase plan (“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.

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. The fair value of the performance awards related to market performance is determined using a Monte-Carlo simulation pricing model. The fair value of the performance awards related to internal performance metrics is determined using the stock price on the grant date. 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, 2018 and 2019, the excess tax deficiency related to share-based payments was approximately \$0.8 million and \$0.4 million, respectively, recorded within Tax adjustment related to certain discrete items on our Consolidated Statements of Operations. Excess tax benefits or deficiencies related to share-based payments are included in operating cash flows on the Consolidated Statements of Cash Flows.

See Note 20 to the Consolidated Financial Statements included herein for additional information related to our stock-based compensation plans.

Computation of Earnings Per Common Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options and our Convertible Notes (as defined in Note 15).

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.

The fully diluted weighted average shares outstanding for the years ended December 31, 2017, 2018 and 2019, and the corresponding calculation of fully diluted earnings per share, included 941,000, 337,000 and 10,000 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.

See Note 22 to the Consolidated Financial Statements included herein for the computation of per share earnings for the years ended December 31, 2017, 2018 and 2019.

Subsequent Events

We have evaluated events and transactions during the period subsequent to December 31, 2019 through the date the financial statements were issued for potential recognition or disclosure in the accompanying financial statements covered by this report.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) related to *Leases (Topic 842)* and subsequent amendments, collectively referred to as (“Topic 842”) to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet for all leases, including operating leases. The ROU asset represents the right to use the underlying asset for the lease term and the lease liability represents the obligation to make lease payments arising from the lease. Finance leases were not impacted by Topic 842, as finance lease liabilities and the corresponding ROU assets were already recorded on the balance sheet under the previous guidance Topic 840, *Leases*.

On January 1, 2019, we adopted Topic 842 using the modified retrospective method for all lease arrangements at the beginning of the period of adoption. Results for reporting periods beginning January 1, 2019, are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with Topic 840. While Topic 842 had a material

impact on our Consolidated Balance Sheet, it did not have a material impact on our Consolidated Statements of Operations or Cash Flows, or liquidity measures, such as debt covenant ratios. It also did not have a material impact on our effective tax rate for the reporting period. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. For leases that commenced before the effective date of Topic 842, we elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. We also elected to exclude leases with a term of 12 months or less in the recognized ROU assets and lease liabilities. We have real estate lease agreements which require payments for lease and non-lease components and have elected to account for these as a single lease component. We have elected the short-term lease recognition exemption for all applicable classes of underlying assets.

On January 1, 2019, we recorded operating lease ROU assets of \$16.5 million and operating lease liabilities of \$17.3 million, related to our real estate and equipment leases, based on the present value of the future lease payments on the date of adoption. Our opening operating lease ROU asset balance included prepaid lease expense and lease incentives on our Consolidated Balance Sheet at December 31, 2018. The cumulative effect of changes made to our opening Consolidated Balance Sheet on January 1, 2019, for the adoption of Topic 842 is as follows (in thousands):

	December 31, 2018	Effect of Adoption of Topic 842	January 1, 2019
Assets			
Prepaid expenses	\$ 1,456	\$ (148)	\$ 1,308
Operating lease right-of-use assets	—	16,470	16,470
		<u>\$ 16,322</u>	
Liabilities			
Accrued and other liabilities	\$ 22,644	\$ (274)	\$ 22,370
Other long-term liabilities	3,133	(692)	2,441
Current portion of operating lease obligations	—	\$ 2,633	2,633
Obligations under operating leases, net of current portion	—	14,655	14,655
		<u>\$ 16,322</u>	

See Note 17 to the Consolidated Financial Statements included herein for the additional disclosures required by Topic 842.

We have no material leases in which we are the lessor.

Accounting Pronouncements Not Yet Adopted

Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* and subsequent amendments collectively known as (Topic 326). This ASU applies to all entities holding financial assets measured at amortized cost, including loans, trade and financed receivables and other financial instruments. The guidance introduces a new credit reserving model known as Current Expected Credit Loss (“CECL”), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The CECL model requires all expected credit losses to be measured based on historical experience, current conditions and reasonable and supportable forecasts about collectability.

This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with earlier application permitted for all entities. We plan to adopt the provisions of this ASU for our fiscal year beginning January 1, 2020 using the modified retrospective approach.

We believe that our current process of analyzing and calculating our allowance for doubtful accounts on trade receivables and the allowance for contract cancellations on financed receivables considers the credit risk of our customers and accounts for the recognition of credit losses at inception. Our customer base is generally a homogeneous pool of consumers based in the United States that, as a group, have a similar level of credit risk that are less subject to material economic and demographic changes. Additionally, our trade receivables are short term in nature (outstanding less than 90 days). Therefore, due to the similar level of credit risk of our customer base and the short-term nature of our receivables, we use our historical loss experience to forecast future collectability of our trade receivables and record an allowance at each reporting period. Our current contract cancellation policy on cemetery financed receivables requires that we record an allowance at the date that the sale is recognized as revenue. Additionally, we reserve 100% of the receivable on contracts in which the revenue has been recognized and payments are 90 days past due or more. Because we believe our current processes already consider credit risk and recognize credit losses at inception, we do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In addition, the new guidance prospectively replaces the other-than-temporary impairment model for available-for-sale debt securities and requires the recognition of an allowance for reductions in a security's fair value attributable to declines in credit quality, instead of a direct write-down of the security, when a valuation decline is determined to be other-than-temporary. We are currently establishing a policy where we review our available-for-sale securities at each reporting period and perform an analysis on securities whose fair value is less than amortized cost to determine if impairment is appropriate. If the analysis of the security reflects impairment, we will perform a present value calculation of the future cash flows on the respective security using the effective interest rate implicit in the security at the date of acquisition. The impairment recognized will be the greater of the current fair market value or the present value of the future cash flows of the security. We do not expect the impact of the new guidance on available-for-sale securities to be material to our consolidated financial statements upon adoption.

Income Taxes

In December 2019, the FASB issued ASU, *Income Taxes* (Topic 740), to simplify the accounting for income taxes. The amendments in this update are effective for fiscal years beginning after December 15, 2020, with early adoption permitted. We plan to adopt the provisions of this ASU for our fiscal year beginning January 1, 2021 and are currently evaluating the impact of adoption on our consolidated financial statements.

3. ACQUISITIONS

On October 9, 2019, we acquired four funeral home businesses in Buffalo, New York for \$15.3 million in cash. On October 28, 2019, we acquired one funeral home and cemetery combination business, three funeral home businesses and three ancillary service businesses, which consist of a flower shop, a pet cremation business and an online cremation business, in the Dallas, Texas area for \$23.6 million in cash. We acquired substantially all the assets and assumed certain operating liabilities of these businesses.

On December 31, 2019, pursuant to the Transactions Agreement dated November 25, 2019 with Calvary Memorial Park, Inc. and Fairfax Memorial Funeral Home, LLC ("the Agreement"), all of the outstanding equity interests of the Fairfax, Virginia funeral and cemetery combination businesses were acquired for \$102.0 million in cash. The funeral home business was operated by a limited liability company that was treated as a partnership for federal tax purposes prior to the acquisition date, and therefore, the acquisition of all of the outstanding membership units of the partnership were treated as an asset acquisition. The cemetery business was operated by an S corporation prior to the acquisition date, and therefore, consent was obtained from the selling S corporation shareholders to make a 338(h)(10) election under the Internal Revenue Code ("the Election"), which allowed us to treat the acquisition of the stock of the cemetery business as an asset acquisition and allowed us to record the assets and liabilities at fair value. Pursuant to the Agreement, a portion of the purchase price is being held in escrow to reimburse the sellers for certain incremental taxes resulting from the Election. These funds must be distributed by December 31, 2020, and if they are not fully utilized, the remaining portion of such funds will be returned to us and the purchase price and goodwill will be reduced by that amount. A portion of the purchase price is also being held in escrow as an indemnity obligation holdback to cover potential indemnification obligations of the sellers, which will be released pursuant to the terms of the Agreement.

The pro forma impact of these acquisitions on prior periods is not presented, as the impact is not significant to our reported results. The results of the acquired businesses are reflected in our Consolidated Statements of Operations from the date of acquisition. As of December 31, 2019, our accounting for our 2019 acquisitions was not complete.

The following table summarizes the breakdown of the purchase price allocation for the businesses described above (in thousands):

	Purchase Price Allocation
Current assets	\$ 1,482
Preneed trust assets	15,891
Property, plant & equipment	21,680
Cemetery property	11,994
Goodwill	99,344
Intangible and other non-current assets	8,269
Assumed liabilities	(657)
Preneed trust liabilities	(15,463)
Deferred revenue	(1,633)
Purchase price	<u>\$ 140,907</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The intangible and other non-current assets relate to the fair value of tradenames and agreements not-to-compete. The assumed liabilities primarily relate to the obligations associated with accounts payable and payroll related liabilities of the Fairfax, Virginia acquisition.

The following table summarizes the fair value of the assets acquired for these businesses (in thousands):

Acquisition Date	Type of Business	Market	Assets Acquired (Excluding Goodwill)	Goodwill Recorded	Liabilities and Debt Assumed
October 9, 2019	Four Funeral Homes	Buffalo, NY	\$ 8,147	\$ 7,135	\$ —
October 28, 2019	One Funeral Home and Cemetery Combination, Three Funeral Homes and Three Ancillary Businesses	Dallas, TX	\$ 16,148	\$ 13,956	\$ (6,479)
December 31, 2019	One Funeral Home and Cemetery Combination	Fairfax, VA	\$ 35,021	\$ 78,253	\$ (11,274)

During 2018, we acquired two funeral home businesses in Fredericksburg, Virginia and one in Stafford, Virginia for \$29.2 million in cash. We acquired a funeral home business in Cookeville, Tennessee for \$2.8 million in cash. We also acquired one funeral home business on Knightdale, North Carolina for \$6.0 million in cash.

The following table summarizes the breakdown of the purchase price allocation for the businesses acquired during 2018 (in thousands):

	Purchase Price Allocation
Current assets	\$ 166
Property, plant & equipment	17,543
Goodwill	16,777
Intangible and other non-current assets	3,863
Assumed liabilities	(399)
Purchase price	\$ 37,950

The intangible and other non-current assets relate to the fair value of tradenames and agreements not-to-compete and the assumed liabilities relate to the obligations associated with certain financed automobiles we acquired.

The following table summarizes the fair value of the assets acquired for the businesses acquired during 2018 (in thousands):

Acquisition Date	Type of Business	Market	Assets Acquired (Excluding Goodwill)	Goodwill Recorded	Liabilities and Debt Assumed
July 10, 2018	Two Funeral Homes	Fredericksburg/Stafford, VA	\$ 13,210	\$ 15,990	\$ —
August 21, 2018	One Funeral Home	Cookeville, TN	\$ 2,412	\$ 527	\$ (189)
August 28, 2018	One Funeral Home	Knightdale, NC	\$ 5,950	\$ 260	\$ (210)

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. Our intent is to perform a quantitative impairment test at least once every three years unless certain indicators or events suggest otherwise and perform a qualitative assessment during the remaining two years. 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. For our 2019 annual impairment test, we performed a quantitative assessment and determined that there was no impairment to goodwill as the fair value of our reporting units was greater than the carrying value.

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

The following table presents changes in goodwill in the accompanying Consolidated Balance Sheet for the years ended December 31, 2018 and 2019 (in thousands):

	December 31, 2018	December 31, 2019
Goodwill at the beginning of year	\$ 287,956	\$ 303,887
Increase in goodwill related to acquisitions	16,777	99,344
Decrease in goodwill related to divestitures	—	(4,197)
Decrease in goodwill related to impairments	(846)	(742)
Goodwill at the end of the year	<u>\$ 303,887</u>	<u>\$ 398,292</u>

During year ended December 31, 2019, we recognized \$99.3 million in goodwill related to our acquisitions; \$36.9 million was allocated to our cemetery segment and \$62.4 million was allocated to our funeral home segment.

During year ended December 31, 2019, we sold a funeral home business with a \$4.2 million carrying value of goodwill for a loss recorded in *Other, net*. See Note 5 to the Consolidated Financial Statements included herein, for a discussion of our divested businesses.

During year ended December 31, 2019, we also recorded a goodwill impairment of \$0.5 million in *Other, net*, related to a funeral home business that we divested in the fourth quarter of 2019 and a \$0.2 million goodwill impairment related to a funeral home business that is under a letter of intent to sell during 2020, as the carrying value exceeded fair value at December 31, 2019.

During the year ended December 31, 2018, we recorded an impairment of \$0.8 million related to a funeral home business that we divested during the third quarter of 2019.

5. DIVESTED OPERATIONS

During 2019, we divested three funeral home businesses whose building leases expired and sold a funeral home business for \$0.9 million. In addition, we merged a funeral home business with a business in an existing market. During 2018, our management agreement with a Florida municipality expired and as a result, we divested three of our cemetery businesses. During 2017, we sold a funeral home business in Kentucky for \$0.6 million.

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

	Year Ended December 31,		
	2017	2018	2019
Revenue	\$ 605	\$ 4,712	\$ 805
Operating income (loss)	277	1,130	(569)
Other, net ⁽¹⁾	191	(349)	(3,883)
Income tax benefit (provision)	(187)	(246)	1,288
Net income (loss) from divested operations	<u>\$ 281</u>	<u>\$ 535</u>	<u>\$ (3,164)</u>

(1) Reflects the net gain (loss) on disposal.

6. REVENUE FROM CONTRACTS WITH CUSTOMERS
Revenue

Our operations are reported in two business segments: Funeral Home Operations and Cemetery Operations. Revenue, disaggregated by major source for each of our reportable segments was as follows (in thousands):

For The 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

For The Year Ended, December 31, 2018

	Funeral	Cemetery	Total
Services	\$ 127,262	\$ 11,342	\$ 138,604
Merchandise	74,644	8,158	82,802
Cemetery property	—	29,451	29,451
Other revenue	8,819	8,316	17,135
Total	\$ 210,725	\$ 57,267	\$ 267,992

For The Year Ended, December 31, 2017 ^(a)

	Funeral	Cemetery	Total
Services	\$ 120,827	\$ 11,765	\$ 132,592
Merchandise	71,573	8,187	79,760
Cemetery property	—	28,286	28,286
Other revenue	8,486	9,015	17,501
Total	\$ 200,886	\$ 57,253	\$ 258,139

(a) The comparative information for year ended December 31, 2017 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported in accordance with Accounting Standards Codification 605 (“ASC 605”).

7. PRENEED TRUST INVESTMENTS
Preneed Cemetery Trust Investments

Preneed cemetery trust investments represent trust fund assets that we are generally permitted to withdraw as the services and merchandise are provided to customers. Preneed cemetery contracts are secured by payments from customers, less amounts not required by law to be deposited into trust. Preneed cemetery trust investments are reduced by the trust earnings we have been allowed to withdraw in certain states prior to our performance.

The components of *Preneed cemetery trust investments* on our Consolidated Balance Sheet at December 31, 2018 and 2019 are as follows (in thousands):

	December 31, 2018	December 31, 2019
Preneed cemetery trust investments, at market value	\$ 64,549	\$ 74,572
Less: allowance for contract cancellation	(2,117)	(2,190)
Preneed cemetery trust investments, net	\$ 62,432	\$ 72,382

Upon cancellation of a preneed cemetery contract, a customer is generally entitled to receive a refund of the corpus, and in some instances, a portion of all of the earnings held in trust. In certain jurisdictions, we may be obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust, including investment income. As a result, when realized or unrealized losses of a trust result in the trust being underfunded, we assess whether we are responsible for replenishing the corpus

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

of the trust, in which case a loss provision is recorded. At December 31, 2019, none of our preneed cemetery trust investments were underfunded.

Earnings from our preneed cemetery trust investments are recognized in revenue 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.

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 and common stock. Where quoted market prices are not available for the specific security, fair values are estimated by using quoted prices of similar securities in active markets or other inputs other than quoted prices that can corroborate observable market data. These investments are fixed income securities, including foreign debt, corporate debt, preferred stock, mortgage-backed securities and fixed income mutual funds, all of which are classified within Level 2 of the valuation hierarchy. We review and update our fair value hierarchy classifications quarterly. There were no transfers between Levels 1 and 2 in the year ended December 31, 2019. There are no Level 3 investments in the preneed cemetery trust investment portfolio. See Note 12 to the Consolidated Financial Statements included herein for further information of the fair value measurement and the three-level valuation hierarchy.

The cost and fair market values associated with preneed cemetery trust investments at December 31, 2019 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	\$ 5,729	\$ —	\$ —	\$ 5,729
Fixed income securities:					
Foreign debt	2	5,609	312	(243)	5,678
Corporate debt	2	16,916	1,044	(649)	17,311
Preferred stock	2	14,206	904	(164)	14,946
Mortgage-backed securities	2	517	—	(114)	403
Common stock	1	28,569	2,766	(3,017)	28,318
Mutual funds:					
Fixed Income	2	1,463	72	(85)	1,450
Trust securities		\$ 73,009	\$ 5,098	\$ (4,272)	\$ 73,835
Accrued investment income		\$ 737			\$ 737
Preneed cemetery trust investments					\$ 74,572
Market value as a percentage of cost					101.1%

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

Due in one year or less	\$ —
Due in one to five years	4,518
Due in five to ten years	10,395
Thereafter	23,425
Total fixed income securities	\$ 38,338

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The cost and market values associated with preneed cemetery trust investments at December 31, 2018 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	\$ 16,194	\$ —	\$ —	\$ 16,194
Fixed income securities:					
Foreign debt	2	3,802	43	(511)	3,334
Corporate debt	2	13,987	362	(1,026)	13,323
Preferred stock	2	11,068	54	(1,146)	9,976
Mortgage-backed securities	2	666	161	(14)	813
Common stock	1	24,867	903	(5,436)	20,334
Trust Securities		\$ 70,584	\$ 1,523	\$ (8,133)	\$ 63,974
Accrued investment income		\$ 575			\$ 575
Preneed cemetery trust investments					\$ 64,549
Market value as a percentage of cost					90.6%

We determine whether or not the assets in the preneed cemetery trust investments have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria, including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair market value. Any reduction in the cost basis of the investment due to an other-than-temporary impairment is likewise recorded as a reduction in *Deferred preneed cemetery receipts held in trust* on our Consolidated Balance Sheet. We did not record any impairments in the year ended December 31, 2018 and 2019. There is no impact on earnings until such time that the loss is realized in the trusts, allocated to the preneed contracts and the services are performed or the merchandise is delivered causing the contract to be withdrawn from the trust in accordance with state regulations.

At December 31, 2019, we had certain investments within our preneed cemetery trust investments that had tax lots in loss positions for more than one year. Based on our analyses of these securities, the companies' businesses and current market conditions, we determined that these investment losses were temporary in nature.

Our preneed cemetery trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of December 31, 2019 are shown in the following tables (in thousands):

	December 31, 2019					
	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	\$ 268	\$ (42)	\$ 758	\$ (201)	\$ 1,026	\$ (243)
Corporate debt	1,368	(168)	4,520	(481)	5,888	(649)
Preferred stock	4,135	(164)	—	—	4,135	(164)
Mortgage-backed securities	—	—	402	(114)	402	(114)
Common stock	5,079	(652)	4,178	(2,365)	9,257	(3,017)
Mutual funds:						
Fixed Income	532	(85)	—	—	532	(85)
Total temporary impaired securities	\$ 11,382	\$ (1,111)	\$ 9,858	\$ (3,161)	\$ 21,240	\$ (4,272)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Our preneed cemetery trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of December 31, 2018 are shown in the following tables (in thousands):

	December 31, 2018					
	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	\$ 2,140	\$ (245)	\$ 895	\$ (266)	\$ 3,035	\$ (511)
Corporate debt	9,918	(813)	443	(213)	10,361	(1,026)
Preferred stock	5,253	(399)	3,767	(747)	9,020	(1,146)
Mortgage-backed securities	—	—	51	(14)	51	(14)
Common stock	14,191	(4,012)	1,190	(1,424)	15,381	(5,436)
Total temporary impaired securities	<u>\$ 31,502</u>	<u>\$ (5,469)</u>	<u>\$ 6,346</u>	<u>\$ (2,664)</u>	<u>\$ 37,848</u>	<u>\$ (8,133)</u>

Preneed cemetery trust investment security transactions recorded in *Other, net* on our Consolidated Statements of Operations for the years ended December 31, 2017, 2018 and 2019 are as follows (in thousands):

	Years ended December 31,		
	2017	2018	2019
Investment income	\$ 2,250	\$ 1,596	\$ 1,743
Realized gains	2,218	4,546	6,353
Realized losses	(2,384)	(5,817)	(4,677)
Expenses and taxes	(1,308)	(907)	(1,313)
Net change in deferred preneed cemetery receipts held in trust	(776)	582	(2,106)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Purchases and sales of investments in the preneed cemetery trusts for the years ended December 31, 2017, 2018 and 2019 are as follows (in thousands):

	Years ended December 31,		
	2017	2018	2019
Purchases	\$ (21,966)	\$ (27,006)	\$ (40,984)
Sales	14,002	39,180	29,635

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. Preneed funeral trust investments are reduced by the trust earnings we have been allowed to withdraw in certain states prior to our performance.

The components of *Preneed funeral trust investments* on our Consolidated Balance Sheet at December 31, 2018 and 2019 are as follows (in thousands):

	December 31, 2018	December 31, 2019
Preneed funeral trust investments, at market value	\$ 84,803	\$ 99,246
Less: allowance for contract cancellation	(2,729)	(2,911)
Preneed funeral trust investments	<u>\$ 82,074</u>	<u>\$ 96,335</u>

Upon cancellation of a preneed funeral contract, a customer is generally entitled to receive a refund of the corpus and in some instances, a portion of all earnings held in trust. In certain jurisdictions, we may be obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust, including investment income. As a result, when realized or unrealized losses of a trust result in the trust being underfunded, we assess whether we are responsible for replenishing the corpus of the trust, in which case a loss provision is recorded. At December 31, 2019, none of our preneed funeral trust investments were underfunded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Earnings from our preneed funeral trust investments are recognized in revenue when a service is performed or merchandise is delivered. Trust management fees charged by CSV RIA are included in revenue in the period in which they are earned.

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 other 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. There were no transfers between Levels 1 and 2 for the year ended December 31, 2019. There are no Level 3 investments in the preneed funeral trust investment portfolio. See Note 12 to the Consolidated Financial Statements included herein for further information of the fair value measurement and the three-level valuation hierarchy.

The cost and fair market values associated with preneed funeral trust investments at December 31, 2019 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	\$ 24,160	\$ —	\$ —	\$ 24,160
Fixed income securities:					
U. S. treasury debt	1	822	—	—	822
Foreign debt	2	5,587	309	(232)	5,664
Corporate debt	2	16,109	992	(646)	16,455
Preferred stock	2	14,094	874	(198)	14,770
Mortgage-backed securities	2	585	—	(117)	468
Common stock	1	27,652	2,773	(2,869)	27,556
Mutual funds:					
Equity	1	772	617	(4)	1,385
Fixed income	2	4,364	107	(107)	4,364
Other investments	2	2,902	—	—	2,902
Trust securities		<u>\$ 97,047</u>	<u>\$ 5,672</u>	<u>\$ (4,173)</u>	<u>\$ 98,546</u>
Accrued investment income		<u>\$ 700</u>			<u>\$ 700</u>
Preneed funeral trust investments					<u>\$ 99,246</u>
Market value as a percentage of cost					<u>101.5%</u>

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

Due in one year or less	\$ —
Due in one to five years	5,456
Due in five to ten years	9,656
Thereafter	23,067
Total fixed income securities	<u>\$ 38,179</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The cost and market values associated with preneed funeral trust investments at December 31, 2018 are detailed below (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	\$ 31,375	\$ —	\$ —	\$ 31,375
Fixed income securities:					
U.S. treasury debt	1	1,319	3	(19)	1,303
Foreign debt	2	3,748	44	(503)	3,289
Corporate debt	2	14,195	294	(1,025)	13,464
Preferred stock	2	11,500	54	(1,194)	10,360
Mortgage-backed securities	2	772	168	(18)	922
Common stock	1	24,803	887	(5,389)	20,301
Mutual funds:					
Fixed income	2	275	—	(29)	246
Other investments	2	3,006	—	—	3,006
Trust securities		\$ 90,993	\$ 1,450	\$ (8,177)	\$ 84,266
Accrued investment income		\$ 537			\$ 537
Preneed funeral trust investments					\$ 84,803
Market value as a percentage of cost					92.6%

We determine whether or not the assets in the preneed funeral trust investments have other-than-temporary impairments on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair market value. Any reduction in the cost basis of the investment due to an other-than-temporary impairment is likewise recorded as a reduction to *Deferred preneed funeral receipts held in trust* on our Consolidated Balance Sheet. We did not record any impairments in the year ended December 31, 2018 and 2019. There is no impact on earnings until such time that the loss is realized in the trusts, allocated to preneed contracts and the services are performed or the merchandise is delivered causing the contract to be withdrawn from the trust in accordance with state regulations.

At December 31, 2019, we had certain investments within our preneed funeral trust investments that had tax lots in loss positions for more than one year. Based on our analyses of these securities, the companies' businesses and current market conditions, we determined that these investment losses were temporary in nature.

Our preneed funeral trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of December 31, 2019 are shown in the following tables (in thousands):

	December 31, 2019					
	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	\$ 274	\$ (43)	\$ 723	\$ (189)	\$ 997	\$ (232)
Corporate debt	1,403	(172)	4,433	(474)	5,836	(646)
Preferred stock	4,412	(198)	—	—	4,412	(198)
Mortgage-backed securities	—	—	439	(117)	439	(117)
Common Stock	4,732	(625)	4,068	(2,244)	8,800	(2,869)
Mutual funds:						
Equity and Other	—	—	48	(4)	48	(4)
Fixed income	668	(56)	1,021	(51)	1,689	(107)
Total temporary impaired securities	\$ 11,489	\$ (1,094)	\$ 10,732	\$ (3,079)	\$ 22,221	\$ (4,173)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Our preneed funeral trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses as of December 31, 2018 are shown in the following tables (in thousands):

	December 31, 2018					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses
Fixed income securities:						
U.S. treasury debt	\$ —	\$ —	\$ 1,181	\$ (19)	\$ 1,181	\$ (19)
Foreign debt	2,180	(251)	850	(252)	3,030	(503)
Corporate debt	9,990	(814)	434	(211)	10,424	(1,025)
Preferred stock	5,967	(460)	3,673	(734)	9,640	(1,194)
Mortgage-backed securities	11	—	120	(18)	131	(18)
Common Stock	14,327	(4,035)	1,155	(1,354)	15,482	(5,389)
Mutual funds:						
Fixed income	—	—	246	(29)	246	(29)
Total temporary impaired securities	<u>\$ 32,475</u>	<u>\$ (5,560)</u>	<u>\$ 7,659</u>	<u>\$ (2,617)</u>	<u>\$ 40,134</u>	<u>\$ (8,177)</u>

Preneed funeral trust investment security transactions recorded in *Other, net* on our Consolidated Statements of Operations for the years ended December 31, 2017, 2018 and 2019 are as follows (in thousands):

	Years ended December 31,		
	2017	2018	2019
Investment income	\$ 2,420	\$ 1,623	\$ 1,753
Realized gains	2,386	6,662	6,214
Realized losses	(2,396)	(5,882)	(4,612)
Expenses and taxes	(1,290)	(885)	(1,129)
Net change in deferred preneed funeral receipts held in trust	(1,120)	(1,518)	(2,226)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Purchases and sales of investments in the preneed funeral trusts for the years ended December 31, 2017, 2018 and 2019 are as follows (in thousands):

	Years ended December 31,		
	2017	2018	2019
Purchases	\$ (21,954)	\$ (28,264)	\$ (38,984)
Sales	14,463	39,955	29,983

8. PRENEED CEMETERY RECEIVABLES

Preneed sales of cemetery interment rights and related products and services are usually 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.

Our cemetery financed receivables are comprised of the following at December 31, 2018 and December 31, 2019 (in thousands):

	December 31, 2018	December 31, 2019
Cemetery interment rights	\$ 27,728	\$ 31,366
Cemetery merchandise and services	9,516	9,950
Cemetery financed receivables	<u>\$ 37,244</u>	<u>\$ 41,316</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Our cemetery financed receivables presented on our Consolidated Balance Sheet at December 31, 2018 and December 31, 2019 are as follows (in thousands):

	December 31, 2018	December 31, 2019
Accounts receivable, including unearned finance charges and allowance for contract cancellations of \$2,405 and \$2,458, respectively	\$ 11,676	\$ 13,905
Preneed receivables, including unearned finance charges and allowance for contract cancellations of \$4,049 and \$3,980, respectively	25,568	27,411
Cemetery financed receivables	<u>\$ 37,244</u>	<u>\$ 41,316</u>

The unearned finance charges associated with these receivables were \$4.6 million and \$4.5 million at December 31, 2018 and 2019, respectively.

We determine an allowance for customer cancellations and refunds on contracts in which revenue has been recognized on sales of cemetery interment rights. We have a collections policy where past due notifications are sent to the customer beginning at 15 days past due and periodically thereafter until the contract is cancelled or payment is received. We reserve 100% of the receivables on contracts in which the revenue has been recognized and payments are 90 days past due or more, which was approximately 4.4% of the total receivables on recognized sales at December 31, 2019. An allowance is recorded at the date that the contract is executed and periodically adjusted thereafter based upon actual collection experience at the business level.

For the years ending December 31, 2018 and 2019, the change in the allowance for contract cancellations is as follows (in thousands):

	As of December 31,	
	2018	2019
Beginning balance	\$ 2,019	\$ 1,808
Write-offs and cancellations	(1,357)	(733)
Provision	1,146	841
Ending balance	<u>\$ 1,808</u>	<u>\$ 1,916</u>

The aging of past due financing receivables as of December 31, 2019 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	\$ 745	\$ 392	\$ 148	\$ 1,209	\$ 2,494	\$ 28,382	\$ 30,876
Deferred revenue	219	121	147	302	789	9,651	10,440
Total contracts	<u>\$ 964</u>	<u>\$ 513</u>	<u>\$ 295</u>	<u>\$ 1,511</u>	<u>\$ 3,283</u>	<u>\$ 38,033</u>	<u>\$ 41,316</u>

The aging of past due financing receivables as of December 31, 2018 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	\$ 642	\$ 395	\$ 143	\$ 1,139	\$ 2,319	\$ 25,289	\$ 27,608
Deferred revenue	274	165	53	289	781	8,855	9,636
Total contracts	<u>\$ 916</u>	<u>\$ 560</u>	<u>\$ 196</u>	<u>\$ 1,428</u>	<u>\$ 3,100</u>	<u>\$ 34,144</u>	<u>\$ 37,244</u>

9. RECEIVABLES FROM PRENEED TRUSTS

Our *Receivables from preneed 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. As of December 31, 2018 and 2019, receivables from preneed trusts are as follows (in thousands):

	December 31, 2018	December 31, 2019
Preneed trust funds, at cost	\$ 17,601	\$ 18,581
Less: allowance for contract cancellation	(528)	(557)
Receivables from preneed trusts, net	<u>\$ 17,073</u>	<u>\$ 18,024</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, 2018 and 2019. 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, 2019 is as follows (in thousands):

	Historical Cost Basis	Fair Value
As of December 31, 2019		
Cash and cash equivalents	\$ 4,533	\$ 4,533
Fixed income investments	11,603	11,603
Mutual funds and common stocks	2,440	2,518
Annuities	5	5
Total	<u>\$ 18,581</u>	<u>\$ 18,659</u>

The composition of the preneed trust funds at December 31, 2018 is as follows (in thousands):

	Historical Cost Basis	Fair Value
As of December 31, 2018		
Cash and cash equivalents	\$ 4,172	\$ 4,172
Fixed income investments	10,668	10,668
Mutual funds and common stocks	2,755	2,709
Annuities	6	6
Total	<u>\$ 17,601</u>	<u>\$ 17,555</u>

10. 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*, as noted in our table of disaggregated revenue in Note 6 to the Consolidated Financial Statements included herein, 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. Preneed funeral contracts to be funded at maturity by third-party insurance policies totaled \$388.2 million and \$408.8 million at December 31, 2018 and 2019, respectively, and are not recorded as assets or liabilities on our Consolidated Balance Sheet.

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 revocable and the proceeds from the policy are portable, so the customer can choose to use an alternative provider at the time of need.

11. 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* as of December 31, 2018 and 2019 are as follows (in thousands):

	December 31, 2018	December 31, 2019
Cemetery perpetual care trust investments, at market value	\$ 44,071	\$ 64,047
Obligations due from trust	(577)	(631)
Care trusts' corpus	<u>\$ 43,494</u>	<u>\$ 63,416</u>

We are required by various state laws to pay a portion of the proceeds from the sale of cemetery property interment rights 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, as earned, in *Other revenue*. Trust management fees charged by CSV RIA are included in revenue in the period in which they are earned. At December 31, 2019, none of our cemetery perpetual care trust investments were underfunded.

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, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

similar securities in active markets or other inputs other than quoted prices that can corroborate observable market data. These investments are fixed income securities, including foreign debt, corporate debt, preferred stock, mortgage-backed securities and fixed income mutual funds, all of which are classified within Level 2 of the valuation hierarchy. There were no transfers between Levels 1 and 2 for the year ended December 31, 2019. There are no Level 3 investments in the cemetery perpetual care trust investment portfolio. See Note 12 to the Consolidated Financial Statements included herein for further information of the fair value measurement and the three-level valuation hierarchy.

The following table reflects the cost and fair market values associated with the trust investments held in perpetual care trust funds at December 31, 2019 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	\$ 4,624	\$ —	\$ —	\$ 4,624
Fixed income securities:					
Foreign debt	2	4,200	238	(175)	4,263
Corporate debt	2	11,658	802	(534)	11,926
Preferred stock	2	10,782	666	(106)	11,342
Mortgage-backed securities	2	324	—	(71)	253
Common stock	1	21,594	3,399	(1,911)	23,082
Mutual funds:					
Equity	1	233	146	(1)	378
Fixed income	2	7,156	618	(107)	7,667
Trust securities		<u>\$ 60,571</u>	<u>\$ 5,869</u>	<u>\$ (2,905)</u>	<u>\$ 63,535</u>
Accrued investment income		<u>\$ 512</u>			<u>\$ 512</u>
Cemetery perpetual care investments					<u>\$ 64,047</u>
Market value as a percentage of cost					<u>104.9%</u>

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

Due in one year or less	\$ —
Due in one to five years	3,130
Due in five to ten years	6,786
Thereafter	17,868
Total fixed income securities	<u>\$ 27,784</u>

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, 2018 (in thousands):

	Fair Value Hierarchy Level	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	1	\$ 11,144	\$ —	\$ —	\$ 11,144
Fixed income securities:					
Foreign debt	2	2,872	27	(385)	2,514
Corporate debt	2	9,956	227	(730)	9,453
Preferred stock	2	8,141	37	(820)	7,358
Mortgage-backed securities	2	417	101	(9)	509
Common stock	1	15,562	542	(3,395)	12,709
Trust securities		\$ 48,092	\$ 934	\$ (5,339)	\$ 43,687
Accrued investment income		\$ 384			\$ 384
Cemetery perpetual care investments					\$ 44,071
Market value as a percentage of cost					90.8%

We determine whether or not the assets in the cemetery perpetual care trusts have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair market value. Any reduction in the cost basis due to an other-than-temporary impairment is also recorded as a reduction to *Care trusts' corpus*. We did not record any impairments in the years ended December 31, 2018 and 2019.

At December 31, 2019, we had certain investments within our perpetual care trust investments that had tax lots in loss positions for more than one year. Based on our analyses of these securities, the companies' businesses and current market conditions, we determined that these investments losses were temporary in nature.

Our perpetual care trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses for the year ended December 31, 2019 are shown in the following tables (in thousands):

	December 31, 2019					
	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	\$ 168	\$ (26)	\$ 549	\$ (149)	\$ 717	\$ (175)
Corporate debt	1,057	(196)	3,253	(338)	4,310	(534)
Preferred stock	2,989	(106)	—	—	2,989	(106)
Mortgage-backed securities	—	—	252	(71)	252	(71)
Common stock	3,299	(463)	2,657	(1,448)	5,956	(1,911)
Mutual funds:						
Equity and Other	2	—	18	(1)	20	(1)
Fixed income	732	(94)	360	(13)	1,092	(107)
Total temporary impaired securities	\$ 8,247	\$ (885)	\$ 7,089	\$ (2,020)	\$ 15,336	\$ (2,905)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Our perpetual care trust investment unrealized losses, their associated fair market values, and the duration of unrealized losses for the year ended December 31, 2018 are shown in the following tables (in thousands):

	December 31, 2018					
	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	\$ 1,619	\$ (189)	\$ 639	\$ (196)	\$ 2,258	\$ (385)
Corporate debt	7,006	(587)	301	(143)	7,307	(730)
Preferred stock	3,586	(279)	2,787	(541)	6,373	(820)
Mortgage-backed securities	—	—	32	(9)	32	(9)
Common stock	9,010	(2,557)	733	(838)	9,743	(3,395)
Total temporary impaired securities	<u>\$ 21,221</u>	<u>\$ (3,612)</u>	<u>\$ 4,492</u>	<u>\$ (1,727)</u>	<u>\$ 25,713</u>	<u>\$ (5,339)</u>

Perpetual care trust investment security transactions recorded in *Other, net* on our Consolidated Statements of Operations for the years ended December 31, 2017, 2018 and 2019 are as follows (in thousands):

	Years ended December 31,		
	2017	2018	2019
Realized gains	\$ 926	\$ 1,364	\$ 1,663
Realized losses	(1,195)	(1,896)	(1,258)
Net change in Care trusts' corpus	269	532	(405)
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Perpetual care trust investment security transactions recorded in *Other revenue* for the years ended December 31, 2017, 2018 and 2019 are as follows (in thousands):

	Years ended December 31,		
	2017	2018	2019
Investment income	\$ 5,949	\$ 5,934	\$ 4,500
Realized losses, net	(838)	(1,355)	(377)
Total	<u>\$ 5,111</u>	<u>\$ 4,579</u>	<u>\$ 4,123</u>

Purchases and sales of investments in the perpetual care trusts for the years ended December 31, 2017, 2018 and 2019 are as follows (in thousands):

	Years ended December 31,		
	2017	2018	2019
Purchases	\$ (13,923)	\$ (17,313)	\$ (26,573)
Sales	8,899	25,786	17,588

12. 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 financial assets and liabilities that met the criteria of the disclosure requirements and fair value framework. The carrying values of cash and cash equivalents, trade receivables, and trade payables approximate the fair values of those instruments due to the short-term nature of the instruments. The fair values of receivables on preneed funeral and 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 long-term debt and Credit Facility (as defined in Note 14) are classified within Level 2 of the Fair Value Measurements hierarchy. The fair values of the long-term debt and Credit Facility approximate the carrying values of these instruments based on the index yields of similar securities compared to U.S. Treasury yield curves. The

fair value of the Convertible Notes (as defined in Note 15) was approximately \$7.8 million at December 31, 2019 based on the last traded or broker quoted price. The fair value of the Senior Notes (as defined in Note 16) was approximately \$426.4 million at December 31, 2019 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.

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, common stock and U.S. treasury debt;
- 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 municipal bonds, corporate debt, preferred stocks, foreign debt, mortgage-backed securities, 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, 2018 and 2019, we did not have any assets that had fair values determined by Level 3 inputs and no liabilities measured at fair value.

We account for our investments as available-for-sale and measure them at fair value under standards of financial accounting and reporting for investments in equity instruments that have readily determinable fair values and for all investments in debt securities. See Notes 7 and 11 to our Consolidated Financial Statements herein for the fair value hierarchy levels of our trust investments.

13. INTANGIBLE AND OTHER NON-CURRENT ASSETS

Intangible and other non-current assets at December 31, 2018 and 2019 are as follows (in thousands):

	December 31, 2018	December 31, 2019
Prepaid agreements not-to-compete, net of accumulated amortization of \$6,672 and \$7,195, respectively	\$ 4,048	\$ 3,915
Tradenames	17,635	25,233
Capitalized commissions on preneed contracts, net of accumulated amortization of \$599 and \$1,127, respectively	2,717	2,818
Other	25	150
Intangible and other non-current assets	<u>\$ 24,425</u>	<u>\$ 32,116</u>

Prepaid agreements not-to-compete are amortized over the term of the respective agreements, ranging generally from one to ten years. Amortization expense was approximately \$0.6 million, \$0.6 million and \$0.7 million for the years ended December 31, 2017, 2018 and 2019, respectively. During the years ended December 31, 2018 and 2019, we increased prepaid agreements not-to-compete by \$0.8 million and \$0.4 million related to our 2018 and 2019 acquisitions described in Note 3 to the Consolidated Financial Statements included herein.

Our tradenames have indefinite lives and therefore are not amortized. During the years ended December 31, 2018 and 2019, we increased tradenames by \$3.3 million and \$7.8 million related to our 2018 and 2019 acquisitions described in Note 3 to the Consolidated Financial Statements included herein. During 2019, we recorded an impairment to tradenames of \$0.2 million as a result of our 2019 annual impairment test as the carrying amount of certain tradenames exceeded the fair value. We did not record an impairment to tradenames in the year ended December 31, 2018. See Note 1 to the Consolidated Financial Statements included herein, for a discussion of the methodology used for our annual indefinite-lived intangible asset impairment test.

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. Prior to our adoption of ASC 606 on January 1, 2018, these costs were expensed in the period incurred. Amortization expense totaled \$0.6 million for both the years ended December 31, 2018 and 2019.

On September 30, 2018, our management agreement with a Florida municipality expired and as a result, we ceased to operate three of our cemetery businesses. We recorded a loss of approximately \$125,000 in *Other, net*, for the write-off of capitalized commissions related to these three cemetery businesses. There were no impairment losses recognized for the year ended

December 31, 2019. See Note 5 to the Consolidated Financial Statements included herein for additional information regarding the expired management agreement for these three cemetery businesses.

14. LONG-TERM DEBT

On May 31, 2018, we completed the issuance of \$325.0 million in aggregate principal amount of our 6.625% senior notes due (the “Initial Senior Notes”). See Note 16 to the Consolidated Financial Statements included herein for further discussion of the sale of the Initial Senior Notes.

We used \$291.4 million of the net proceeds from the sale of the Initial Senior Notes to repay all amounts outstanding under our former credit agreement. In connection with the repayment in full of all amounts due thereunder, the former credit agreement was retired and \$2.0 million of letters of credit previously issued under the former credit agreement were deemed issued under (and remain outstanding under) the senior secured revolving credit facility (as defined below).

On May 31, 2018, we entered into a \$150.0 million senior secured revolving credit facility with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent, which we subsequently amend in November 2018 and July 2019.

For the year ended December 31, 2018, we recognized a loss of \$1.6 million, recorded in *Net loss on early extinguishment of debt*, related to the termination of our former credit agreement, which consisted of a write-off of \$0.7 million of transaction costs and a write-off of \$0.9 million of unamortized debt issuance costs. Additionally, we incurred \$1.1 million in transaction costs related to our senior secured revolving credit facility, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

On December 19, 2019, we entered into a third amendment and commitment increase (“Credit Facility”) to our \$150.0 million senior secured revolving credit facility with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent (in such capacity, the “Administrative Agent”) to increase our commitment to \$190.0 million. The Credit Facility is comprised of :

- (i) a \$190.0 million revolving credit facility, which includes a \$15.0 million subfacility for letters of credit and a \$10.0 million swingline, and
- (ii) an accordion or incremental option allowing for future increases in the facility size by an additional amount of up to \$75.0 million in the form of increased revolving commitments or incremental term loans.

The final maturity of the Credit Facility will occur on May 31, 2023.

For the year ended December 31, 2019, we incurred \$0.9 million in transactions costs related to our Credit Facility, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

The Company’s obligations under the Credit Facility are unconditionally guaranteed on a joint and several basis by the same subsidiaries which guarantee the Senior Notes (as defined in Note 16) and certain of the Company’s Credit Facility Guarantors.

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 Credit Facility Guarantors. 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, at the discretion of the Administrative Agent, the Administrative Agent may unilaterally compel the Company and the Credit Facility Guarantors to grant and perfect first-priority mortgage liens on fee-owned real property assets which account for no less than 50% of funeral operations EBITDA.

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 Credit Facility Guarantors to incur indebtedness, grant liens, make investments, engage in acquisitions, mergers or consolidations, and pay dividends and other restricted payments, and the following financial maintenance covenants: (A) a Total Leverage Ratio not to exceed (i) 6.00 to 1.00 for the quarter ended December 31, 2019, (ii) 5.75 to 1.00 for the quarters ended March 31, 2020, June 30, 2020 and September 30, 2020 and (iii) 5.50 to 1.00 for the quarter ended December 31, 2020 and each quarter ended thereafter, (B) a Senior Secured Leverage Ratio (as defined in the Credit Facility) not to exceed 2.00 to 1.00 as of the end of any period of four consecutive fiscal quarters, and (C) 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. Effective with the Credit Facility, an applicable rate premium shall be set forth in reference to the Total Leverage Ratio and increases by 0.500% whenever the most recent compliance certificate delivered indicates that the Total Leverage Ratio is greater than 5.00 to 1.00. The financial maintenance covenants will be calculated for the Company and its subsidiaries on a consolidated basis.

Our long-term debt consisted of the following at December 31, 2018 and 2019 (in thousands):

	December 31, 2018	December 31, 2019
Credit Facility	\$ 27,100	\$ 83,800
Acquisition debt	8,940	6,964
Debt issuance costs, net of accumulated amortization of \$108 and \$337	(955)	(1,618)
Less: current portion	(2,015)	(1,306)
Total long-term debt	\$ 33,070	\$ 87,840

As of December 31, 2019, we had outstanding borrowings under the Credit Facility of \$83.8 million. We had one letter of credit issued on November 30, 2018 and outstanding under the Credit Facility for approximately \$2.0 million, which bears interest at 2.125% and will expire on November 25, 2020. The letter of credit automatically renews annually and secures our obligations under our various self-insured policies. 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. As of December 31, 2019, the prime rate margin was equivalent to 1.5% and the LIBOR rate margin was 2.5%. The weighted average interest rate on our Credit Facility for the years ended December 31, 2018 and 2019 was 4.0% and 2.9%, respectively.

We have no material assets or operations independent of our subsidiaries. All assets and operations are held and conducted by subsidiaries, each of which have fully and unconditionally guaranteed our obligations under the Credit Facility. Additionally, we do not currently have any significant restrictions on our ability to receive dividends or loans from any Credit Facility Guarantors.

We are in compliance with the covenants contained in our Credit Facility as of December 31, 2019, with a leverage ratio of 5.66 to 1.00, a fixed charge coverage ratio of 2.70 to 1.00 and a senior secured leverage ratio of 0.94 to 1.00.

Interest expense related to our Credit Facility was \$6.9 million, \$4.3 million and \$1.6 million for the years ended December 31, 2017, 2018 and 2019, respectively. Amortization of debt issuance costs related to our Credit Facility was \$0.3 million, \$0.2 million and \$0.2 million for the years ended December 31, 2017, 2018 and 2019, respectively.

Acquisition debt consists of deferred purchase price and promissory notes payable to sellers. A majority of the deferred purchase price and notes bear no interest and are discounted at imputed interest rates ranging from 7.3% to 10.0%. Original maturities range from five to twenty years. Imputed interest expense related to our acquisition debt was \$0.9 million, \$0.8 million and \$0.6 million for the years ended December 31, 2017, 2018 and 2019, respectively.

The aggregate maturities of our long-term debt for the next five years subsequent to December 31, 2019 and thereafter are as follows (in thousands):

Years ending December 31,		
2020	\$	1,289
2021		1,023
2022		523
2023		84,363
2024		550
Thereafter		3,016
Total	\$	90,764

15. CONVERTIBLE SUBORDINATED NOTES

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

On May 7, 2018, we completed our exchange (the “Exchange”) of approximately \$115.0 million in aggregate principal amount of Convertible Notes in privately-negotiated exchange agreements with a limited number of convertible noteholders, for \$74.8 million in cash (plus accrued interest of \$0.4 million totaling \$75.2 million) and 2,822,859 newly issued shares of our common stock, par value \$.01 per share, pursuant to a private placement in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”).

On December 24, 2018, we completed privately-negotiated repurchases of an additional \$22.4 million in aggregate principal amount of Convertible Notes for \$22.9 million in cash (plus accrued interest of approximately \$0.2 million totaling \$23.0 million).

Following the Exchange and the December 2018 repurchases, the aggregate principal amount of our Convertible Notes outstanding was reduced to \$6.3 million.

For the year ended December 31, 2018, we recognized a net gain of \$1.7 million, recorded in *Net loss on early extinguishment of debt*, related to the Exchange and December 2018 repurchases of our Convertible Notes, which consisted of a gain of \$3.1 million on the difference between the fair value and the carrying amount of the liability component of our Convertible Notes immediately preceding each exchange and repurchase, and a loss of \$1.4 million related to the write-off of unamortized debt issuance costs due to the exchange and repurchase of our Convertible Notes.

We incurred \$0.9 million in transactions costs related to the Exchange and December 2018 repurchases of our Convertible Notes, of which \$0.6 million was expensed and recorded in *Net loss on early extinguishment of debt* and \$0.3 million was allocated to the equity component and recorded in *Additional paid-in capital*.

On April 4, 2019, we completed a privately-negotiated repurchase of an additional \$25,000 in aggregate principal amount of Convertible Notes then outstanding for \$27,163.

The Convertible Notes are general unsecured obligations and are subordinated in the right of payment to all of our existing and future senior indebtedness and equal in right of payment with our other existing and future subordinated indebtedness. The initial conversion rate of the Convertible Notes as of March 19, 2014, was 44.3169 shares of our common stock per \$1,000 principal amount of Convertible Notes, equivalent to an initial conversion price of \$22.56 per share of common stock. The conversion rate is subject to adjustment upon the occurrence of certain events, as described in the indenture governing the Convertible Notes. During 2018, an adjustment to the conversion rate of the Convertible Notes was triggered when our Board increased the dividends declared per common share from \$0.05 per share to \$0.075 per share. At December 31, 2019, the adjusted conversion rate of the Convertible Notes is 45.4615 shares of our common stock per \$1,000 principal amount of Convertible Notes, equivalent to an adjusted conversion price of \$22.00 per share of common stock.

Equity issuance costs are included in *Additional paid-in capital* on our Consolidated Balance Sheet and are not amortized. Additionally, the recognition of the Convertible Notes as two separate components results in a basis difference associated with the liability component which represents a temporary tax difference. As a result, we recognized a deferred tax liability of \$12.7 million related to this temporary difference which was recorded as a reduction to *Additional paid-in capital* and an increase to our deferred tax liability. The deferred tax liability is being amortized over the seven year term of the Convertible Notes. At December 31, 2019, the balance of our deferred tax liability related to our Convertible Notes was \$0.1 million.

The carrying values of the liability and equity components of the Convertible Notes at December 31, 2018 and 2019 are reflected on our Consolidated Balance Sheet as follows (in thousands):

	December 31, 2018	December 31, 2019
Long-term liabilities:		
Principal amount	\$ 6,346	\$ 6,319
Unamortized discount of liability component	(560)	(319)
Convertible Notes issuance costs, net of accumulated amortization of \$106 and \$130, respectively	(54)	(29)
Carrying value of the liability component	<u>\$ 5,732</u>	<u>\$ 5,971</u>
Carrying value of the equity component	<u>\$ 789</u>	<u>\$ 789</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, 2018 and 2019.

The fair value of the Convertible Notes, which are Level 2 measurements, was \$7.8 million at December 31, 2019.

Interest expense on the Convertible Notes included contractual coupon interest expense of \$4.0 million, \$1.9 million and \$0.2 million for the years ended December 31, 2017, 2018 and 2019, respectively. Accretion of the discount on the Convertible Notes was \$4.3 million, \$2.2 million and \$0.2 million for the years ended December 31, 2017, 2018 and 2019, respectively. Amortization of debt issuance costs related to our Convertible Notes was \$517,000, \$245,000 and \$24,000 for the years ended December 31, 2017, 2018 and 2019, respectively.

The remaining unamortized debt discount and the remaining unamortized debt issuance costs are being amortized using the effective interest method over the remaining term of approximately 14 month of the Convertible Notes. The effective interest rate on the unamortized debt discount for the years ended December 31, 2018 and 2019 was 11.3% and 11.4%, respectively. The effective interest rate on the debt issuance costs for both years ended December 31, 2018 and 2019 was 3.2%.

The aggregate maturities of our Convertible Notes for the five years subsequent to December 31, 2019 are as follows (in thousands):

	<u>Principal Maturity</u>	<u>Discount Amortization</u>	<u>Present Value</u>
Years ending December 31,			
2020	\$ —	\$ (270)	\$ (270)
2021	6,319	(49)	6,270
2022	—	—	—
2023	—	—	—
2024	—	—	—
Thereafter	—	—	—
Total	<u>\$ 6,319</u>	<u>\$ (319)</u>	<u>\$ 6,000</u>

16. SENIOR NOTES

On May 31, 2018, we issued \$325.0 million in aggregate principal amount of our Initial Senior Notes and related guarantees in a private offering under Rule 144A and Regulation S under the Securities Act.

We received proceeds of \$320.1 million, net of a 1.5% debt discount of \$4.9 million, of which we used \$291.4 million to repay our existing indebtedness under our former credit agreement. We incurred \$1.4 million in debt issuance costs related to the Initial Senior Notes.

The Initial Senior Notes were issued under an indenture, dated as of May 31, 2018 (the “Indenture”), among us, certain of our existing subsidiaries (collectively, the “Subsidiary Guarantors”), as guarantors, and Wilmington Trust, National Association., as trustee.

On December 19, 2019, we issued an additional \$75.0 million in aggregate principal amount of our Initial Senior Notes (the “Additional Senior Notes” and, together with the Initial Senior Notes, the “Senior Notes”) and related guarantees by the Subsidiary Guarantors in a private offering under Rule 144A and Regulation S of the Securities Act. The Additional Senior Notes were issued as additional securities under the Indenture.

We received proceeds of \$76.9 million, net of a debt premium of \$1.7 million (plus accrued interest of \$0.2 million). We incurred \$1.0 million in debt issuance costs related to the Additional Senior Notes. The additional issuance brings the total principal amount of the Senior Notes outstanding to \$400.0 million. The Senior Notes are treated as a single class of securities under the Indenture, and the Additional Senior Notes have identical terms to the Initial Senior Notes, except with respect to the date of issuance, the issue price, the initial interest accrual date and the initial interest payment date.

The Senior Notes bear interest at 6.625% per year. Interest on the Senior Notes began to accrue on May 31, 2018 and is payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2018 with respect to the Initial Senior Notes and June 1, 2020 with respect to the Additional Senior Notes to holders of record on each May 15 and November 15 preceding an interest payment date. The Senior Notes mature on June 1, 2026, unless earlier redeemed or repurchased. 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 all or part of the Senior Notes at any time prior to June 1, 2021 at a redemption price equal to 100% of the principal amount of Senior Notes redeemed, plus a “make whole” premium, and accrued and unpaid interest, if any, to the date of redemption. We have the right to redeem the Senior Notes at any time on or after June 1, 2021 at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to the date of redemption. Additionally, at any time before June 1, 2021, we may redeem up to 40% of the aggregate principal amount of the Senior Notes issued with an amount equal to the net proceeds of certain equity offerings, at a price equal to 106.625% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to the date of redemption; provided that (1) at least 60% of the aggregate principal amount of the Senior Notes (including any additional Senior Notes) originally issued under the Indenture remain outstanding immediately after the occurrence of such redemption (excluding Senior Notes held by us); and (2) each such redemption must occur within 180 days of the date of the closing of each 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 carrying value of the Senior Notes at December 31, 2018 and December 31, 2019 are reflected in our Consolidated Balance Sheet as follows (in thousands):

	<u>December 31, 2018</u>	<u>December 31, 2019</u>
Long-term liabilities:		
Principal amount	\$ 325,000	\$ 400,000
Debt premium	—	1,688
Debt discount, net of accumulated amortization of \$273 and \$492, respectively	(4,602)	(4,110)
Debt issuance costs, net of accumulated amortization of \$77 and \$216, respectively	(1,290)	(2,131)
Carrying value of the Senior Notes	<u>\$ 319,108</u>	<u>\$ 395,447</u>

The fair value of the Senior Notes, which are Level 2 measurements, was \$426.4 million at December 31, 2019.

The debt discount, the debt premium and the debt issuance costs are being amortized using the effective interest method over the remaining term of approximately 77 months of the Senior Notes.

The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Initial Senior Notes for the year ended December 31, 2019 was 6.87% and 6.69%, respectively. The effective interest rate on the unamortized debt premium and the unamortized debt issuance costs for the Additional Senior Notes for the year ended December 31, 2019 was 6.20% and 6.88%, respectively.

Interest expense on the Senior Notes included contractual coupon interest expense of \$12.6 million and \$21.7 million for the years ended December 31, 2018 and 2019, respectively. Amortization of the debt discount on the Senior Notes was \$0.3 million and \$0.5 million for the years ended December 31, 2018 and 2019, respectively and amortization of debt issuance costs on the Senior Notes was \$0.1 million for the both the years ended December 31, 2018 and 2019.

The aggregate maturities of our Senior Notes for the five years subsequent to December 31, 2019 are as follows (in thousands):

Years ending December 31,	Principal Maturity	Discount Amortization	Premium Amortization	Present Value
2020	\$ —	\$ (528)	\$ 221	\$ (307)
2021	—	(565)	235	(330)
2022	—	(605)	250	(355)
2023	—	(648)	266	(382)
2024	—	(694)	283	(411)
Thereafter	400,000	(1,070)	433	399,363
Total	<u>\$ 400,000</u>	<u>\$ (4,110)</u>	<u>\$ 1,688</u>	<u>\$ 397,578</u>

17. LEASES

On January 1, 2019, we adopted Topic 842 using the modified retrospective method for all lease arrangements at the beginning of the period of adoption. Results for reporting periods beginning January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with Topic 840. On January 1, 2019, we recorded operating lease right-of-use assets of \$16.5 million and operating lease liabilities of \$17.3 million, related to real estate and equipment leases, based on the present value of the future lease payments on the date of adoption.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The components of lease cost for the year ended December 31, 2019 are as follows (in thousands):

	Income Statement Classification	For The Year Ended, December 31, 2019
Operating lease cost	Facilities and grounds expense ⁽¹⁾	\$ 3,722
Short-term lease cost	Facilities and grounds expense ⁽¹⁾	277
Finance lease cost:		
Depreciation of leased assets	Depreciation and amortization ⁽²⁾	\$ 498
Interest on lease liabilities	<i>Interest expense</i>	520
Total finance lease cost		1,018
Total lease cost		\$ 5,017

(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.

Variable lease expense was immaterial for the year ended December 31, 2019.

Supplemental cash flow information related to our leases for the year ended December 31, 2019 is as follows (in thousands):

	For The Year Ended, December 31, 2019
Cash paid for operating leases included in operating activities	\$ 3,910
Cash paid for finance leases included in financing activities	872

Right-of-use assets obtained in exchange for new leases for the year ended December 31, 2019 are as follows (in thousands):

	For The Year Ended, December 31, 2019
Right-of-use assets obtained in exchange for new operating lease liabilities ⁽¹⁾	\$ 8,175
Right-of-use assets obtained in exchange for new finance lease liabilities	—

(1) During the three months ended June 30, 2019, we modified an existing operating lease to extend the term through 2030. As a result of this modification, we increased our lease liabilities and right-of-use assets by \$8.2 million.

Supplemental balance sheet information related to leases as of December 31, 2019 is as follows (in thousands):

Lease Type	Balance Sheet Classification	December 31, 2019
Operating lease right-of-use assets	<i>Operating lease right-of-use assets</i>	\$ 22,304
Finance lease right-of-use assets ⁽¹⁾	<i>Property, plant and equipment, net</i>	5,204
Total right-of-use assets		\$ 27,508
Operating lease current liabilities	<i>Current portion of operating lease obligations</i>	\$ 1,554
Finance lease current liabilities	<i>Current portion of finance lease obligations</i>	290
Total current lease liabilities		1,844
Operating lease non-current liabilities	<i>Obligations under operating leases, net of current portion</i>	21,533
Finance lease non-current liabilities	<i>Obligations under finance leases, net of current portion</i>	5,854
Total non-current lease liabilities		27,387
Total lease liabilities		\$ 29,231

(1) Finance lease right-of-use assets are presented net of accumulated depreciation of \$1.6 million.

The average lease terms and discount rates as of December 31, 2019 are as follows:

	Weighted-average remaining lease term (years)	Weighted-average discount rate
Operating leases	10.9	8.1%
Finance leases	7.0	8.2%

The aggregate future lease payments for operating and finance leases as of December 31, 2019 are as follows (in thousands):

	Operating	Finance
Lease payments due:		
2020	\$ 3,358	\$ 828
2021	3,705	836
2022	3,345	860
2023	3,249	860
2024	3,248	791
Thereafter	17,798	6,291
Total lease payments	\$ 34,703	\$ 10,466
Less: Interest	(11,616)	(4,322)
Present value of lease liabilities	\$ 23,087	\$ 6,144

As of December 31, 2019, we had no additional significant operating or finance leases that had not yet commenced.

At December 31, 2018, future minimum lease payments under non-cancelable lease agreements were as follows (in thousands):

	Future Minimum Lease Payments	
	Operating Leases	Finance Leases
Years ending December 31,		
2019	\$ 3,701	\$ 872
2020	3,171	821
2021	2,729	829
2022	519	853
2023	272	853
Thereafter	1,141	7,078
Total future minimum lease payments	\$ 11,533	\$ 11,306
Less: amount representing interest (rates ranging from 7.0% to 11.5%)		(4,851)
Less: current portion of obligations under finance leases		(312)
Long-term obligations under finance leases		\$ 6,143

18. 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 certain of our executive officers and 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.

At December 31, 2019, 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):

	Non-Compete	Consulting	Employment ^(a)	Total
Years ending December 31,				
2020	\$ 2,135	\$ 869	\$ 3,482	\$ 6,486
2021	1,905	663	3,482	6,050
2022	1,465	404	3,077	4,946
2023	993	162	777	1,932
2024	665	20	648	1,333
Thereafter	927	—	—	927
Total	\$ 8,090	\$ 2,118	\$ 11,466	\$ 21,674

(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 of five years.

401(K) Plan

We sponsor a defined contribution plan (401K) for the benefit of our employees. Matching contributions and plan administrative expenses totaled \$1.9 million, \$2.1 million and \$2.0 million during the years ended December 31, 2017, 2018 and 2019, 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.

Faria, et al. v. Carriage Funeral Holdings, Inc., Superior Court of California, Contra Costa County, Case No. MSC18-00606. On March 26, 2018, six Plaintiffs filed a putative class action against Carriage Funeral Holdings, Inc., our subsidiary, their alleged employer, on behalf of themselves and all similarly situated current and former employees. Plaintiffs seek monetary damages and claim that Carriage Funeral Holdings, Inc. failed to pay minimum wages, provide meal and rest breaks, provide accurately itemized wage statements, reimburse employees for required expenses, and provide wages when due. Plaintiffs also claim that Carriage Funeral Holdings, Inc. violated California Business and Professions Code §17200 et seq. On June 5, 2018, Plaintiffs filed a First Amended Complaint to add a claim under the California Private Attorney General Act. On October 23, 2018, the parties mediated this matter and executed a Memorandum of Understanding for class settlement. In February 2019, a Class Action Settlement Agreement was fully executed and was approved by the Court in October 2019. We paid \$0.7 million under the settlement agreement in November 2019.

19. INCOME TAXES

The provision (benefit) for income taxes for the years ended December 31, 2017, 2018 and 2019 consisted of the following (in thousands):

	Years Ended December 31,		
	2017	2018	2019
Current:			
U. S. federal provision (benefit)	\$ 6,425	\$ 1,489	\$ (2,039)
State provision (benefit)	815	1,309	(195)
Total current provision (benefit)	\$ 7,240	\$ 2,798	\$ (2,234)
Deferred:			
U. S. federal provision (benefit)	\$ (12,881)	\$ 2,831	\$ 8,056
State provision	1,230	992	2,061
Total deferred provision (benefit)	\$ (11,651)	\$ 3,823	\$ 10,117
Total income tax provision (benefit)	\$ (4,411)	\$ 6,621	\$ 7,883

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

A reconciliation of taxes calculated at the U.S. federal statutory rate to those reflected in the Consolidated Statements of Operations for the years ended December 31, 2017, 2018 and 2019 is as follows (dollars in thousands):

	Years Ended December 31,					
	2017		2018		2019	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal statutory rate	\$ 11,474	35.0 %	\$ 3,834	21.0 %	\$ 4,707	21.0 %
Effect of state income taxes, net of federal benefit	1,304	4.0	1,776	9.7	1,352	6.0
Effect of non-deductible expenses and other, net	(36)	(0.1)	1,451	7.9	947	4.2
Effect of divestiture and impairment of business	—	—	—	—	911	4.1
Change in valuation allowance	23	0.1	26	0.1	(34)	(0.2)
Re-measurement of deferred taxes due to tax reform	(17,176)	(52.4)	(466)	(2.5)	—	—
Total	<u>\$ (4,411)</u>	<u>(13.5) %</u>	<u>\$ 6,621</u>	<u>36.2 %</u>	<u>\$ 7,883</u>	<u>35.1 %</u>

On May 10, 2017, we filed amended federal returns for the tax years ending December 31, 2013, 2014 and 2015, which generated significant refunds. As a result, on July 18, 2017, we received notification that the IRS selected our tax years ended December 31, 2013, 2014 and 2015 for a limited scope examination to verify the refunds due. The examination was still ongoing as of December 31, 2019. The federal statute of limitations remains open for our tax years from 2015 through 2018.

The tax effects of temporary differences from total operations that give rise to significant deferred tax assets and liabilities at December 31, 2018 and 2019 are as follows (in thousands):

	Years Ended December 31,	
	2018	2019
Deferred income tax assets:		
Net operating loss carryforwards	\$ 1,569	\$ 3,602
Interest expense limitation	996	4,190
Tax credit carryforwards	133	100
State bonus depreciation	970	1,124
Accrued liabilities and other	5,493	5,124
Amortization of non-compete agreements	1,135	1,104
Preneed liabilities	4,242	—
Total deferred income tax assets	14,538	15,244
Less valuation allowance	(276)	(234)
Total deferred income tax assets	<u>\$ 14,262</u>	<u>\$ 15,010</u>
Deferred income tax liabilities:		
Depreciation and amortization	\$ (45,150)	\$ (49,568)
Preneed liabilities	—	(6,446)
Convertible subordinated notes due 2021	(131)	(75)
Prepays and other	(244)	(289)
Total deferred income tax liabilities	<u>(45,525)</u>	<u>(56,378)</u>
Total net deferred tax liabilities	<u>\$ (31,263)</u>	<u>\$ (41,368)</u>

Our deferred tax assets and liabilities, along with related valuation allowances are classified as non-current on our Consolidated Balance Sheet at December 31, 2018 and 2019.

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 2019.

For federal income tax reporting purposes, we have net operating loss carryforwards of \$7.2 million with an indefinite life that will not expire. For state reporting purposes, we have \$45.8 million of net operating loss carryforwards that will expire between 2020 and 2038, 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, 2019 was attributable to the deferred tax asset related to a portion of the state operating losses.

The federal and state net operating loss (NOL) carryforwards in the income tax returns filed included unrecognized tax benefits.

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, 2019, the Company's unrecognized tax benefits reserve for uncertain tax positions primarily relates to pending accounting method changes filed for the tax year ending December 31, 2018. In 2018, we filed two Form 3115s, Application for Change in Accounting Method, and associated statements to request consent to change the method of accounting for deferred revenue for our cemetery property and cemetery merchandise and service operations for the tax year beginning January 1, 2018. These method changes are still under review. The amount of the reserve recorded as of December 31, 2019 was \$0.7 million. No reserve was recorded at December 31, 2018.

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

	Years Ended December 31,		
	2017	2018	2019
Unrecognized tax benefit at beginning of year	\$ —	\$ —	\$ —
Gross increases - tax positions in prior period	—	—	691
Gross decreases - tax positions in prior period	—	—	—
Gross increases - tax positions in current period	—	—	—
Settlement	—	—	—
Unrecognized tax benefit at end of year	\$ —	\$ —	\$ 691

There are no balances included in unrecognized tax benefits that, if recognized, would affect the effective tax rate. We believe that it is reasonably possible that a decrease of the entire unrecognized tax benefit may be recognized within the next 12 months.

On December 31, 2019, pursuant to the Transactions Agreement dated November 25, 2019 with Calvary Memorial Park, Inc. and Fairfax Memorial Funeral Home, LLC ("the Agreement"), all of the outstanding equity interests of the Fairfax, Virginia funeral and cemetery combination businesses were acquired for \$102.0 million in cash. The funeral home business was operated by a limited liability company that was treated as a partnership for federal tax purposes prior to the acquisition date, and therefore, the acquisition of all of the outstanding membership units of the partnership were treated as an asset acquisition. The cemetery business was operated by an S corporation prior to the acquisition date, and therefore, consent was obtained from the selling S corporation shareholders to make a 338(h)(10) election under the Internal Revenue Code, which allowed us to treat the acquisition of the stock of the cemetery business as an asset acquisition and allowed us to record the assets and liabilities at fair value. Therefore, no deferred taxes have been recorded.

See Note 3 to the Consolidated Financial Statements included herein, for a additional information regarding the Fairfax, Virginia acquisition.

20. STOCKHOLDERS' EQUITY
Share Authorization

We are authorized to issue 80,000,000 shares of common stock, \$0.01 per share par value. We had 25,703,490 and 25,880,362 shares issued and outstanding, net of 7,625,339 and 8,025,339 shares held in treasury at par, at December 31, 2018 and 2019, respectively.

Stock Based Compensation Plans

During the year ended December 31, 2019, 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 (the "Amended and Restated 2006 Plan") and the 2017 Omnibus Incentive Plan (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 termination of the Amended and Restated 2006 Plan does not affect the awards previously issued and outstanding.

All stock-based plans are administered by the Compensation Committee appointed by our Board of Directors (the "Board"). The 2017 Plan provides for grants of options as non-qualified options or incentive stock options, restricted stock and performance awards. The 2017 Plan expires on May 17, 2027.

The status of each of the plans at December 31, 2019 is as follows (shares in thousands):

	Shares Reserved	Shares Available to Issue	Options Outstanding	Performance Awards Outstanding ⁽²⁾
Amended and Restated 2006 Plan	—	—	844	—
2017 Plan	2,801 ⁽¹⁾	1,848	234	569
Total	2,801	1,848	1,078	569

(1) Amount includes approximately 1,246,000 shares granted from the Amended and Restated 2006 Plan that were returned to the Company due to cancellations, to pay taxes on restricted stock vestings and to pay option price and taxes on option exercises.

(2) Performance Awards are reserved at 200% of shares granted which is equal to the maximum payout in shares.

Restricted Stock

During 2019, we issued restricted stock to certain employees totaling 25,550 shares that vest over a three year period and had an aggregate grant date market value of \$0.5 million. In 2018, a total of 86,260 shares of restricted stock were awarded with a grant date market value of \$2.2 million. In 2017, a total of 27,250 shares of restricted stock were awarded with a grant date market value of \$0.8 million.

A summary of the status of unvested restricted stock as of December 31, 2019, and changes during 2019, is presented below (shares in thousands):

<u>Unvested stock awards</u>	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2019	89	\$ 25.38
Awards	26	19.94
Vestings	(33)	25.19
Cancellations	(12)	24.84
Unvested at December 31, 2019	70	\$ 23.56

We recorded stock-based compensation expense, which is included in *General, administrative and other* expenses, for restricted stock awards of \$0.7 million, \$0.8 million and \$0.8 million the years ended December 31, 2017, 2018 and 2019, respectively.

As of December 31, 2019, we had \$1.6 million of total unrecognized compensation costs related to unvested restricted stock awards, which are expected to be recognized over a weighted average period of approximately 1.4 years.

Stock Options

During 2019, we granted 100,000 options to a certain key employee at a weighted average exercise price of \$24.35. These options will vest in one-fifth increments over a five-year period and have a ten-year term. The fair value of these options was \$0.6 million. In 2018, a total of 212,940 stock options were awarded, the fair value of which was \$1.4 million. In 2017, a total of 461,700 stock options were awarded, the fair value of which was \$3.3 million.

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 utilize the Black-Scholes option valuation model for estimating the fair value of our stock options. This model allows 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 the valuation model 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. The fair values of our stock options were calculated using the following weighted average assumptions, based on the methods described above for the years ended December 31, 2017, 2018 and 2019:

	2017	2018	2019
Dividend yield	0.75%	1.18%	1.23%
Expected volatility	29.29%	27.08%	27.45%
Risk-free interest rate	1.95%	2.65%	1.65%
Expected holding period (years)	5.0	5.0	5.0

A summary of the stock options at December 31, 2017, 2018 and 2019 and changes during the three years ended December 31, 2019 is presented in the table and narrative below (shares in thousands):

	Years Ended December 31,					
	2017		2018		2019	
	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price
Outstanding at beginning of period	1,650	\$ 19.18	1,934	\$ 20.85	1,523	\$ 21.95
Granted	462	\$ 26.56	213	\$ 25.43	100	\$ 24.35
Exercised	(159)	\$ 19.81	(459)	\$ 17.73	(247)	\$ 17.37
Canceled or expired	(19)	\$ 23.17	(165)	\$ 25.34	(298)	\$ 21.96
Outstanding at end of year	1,934	\$ 20.85	1,523	\$ 21.95	1,078	\$ 23.22
Exercisable at end of year	1,225	\$ 18.68	1,001	\$ 20.29	643	\$ 22.02

The aggregate intrinsic value of the outstanding and exercisable stock options was \$2.9 million and \$2.4 million at December 31, 2019. The total intrinsic value of options exercised during the years ended December 31, 2017, 2018 and 2019 totaled \$1.0 million, \$3.9 million and \$1.2 million, respectively.

The total fair value of stock options vested during 2017, 2018 and 2019 totaled \$1.5 million, \$1.5 million and \$0.9 million, respectively. We recorded stock-based compensation expense, which is included in *General, administrative and other* expenses, for stock options of \$1.5 million, \$1.0 million and \$0.7 million for the years ended December 31, 2017, 2018 and 2019, respectively.

As of December 31, 2019, there was \$1.9 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 3.02 years.

The following table further describes our outstanding stock options at December 31, 2019:

Actual Ranges of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/19	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/19	Weighted-Average Exercise Price
\$5.70 - \$5.94	43,871	1.69	\$ 5.82	43,871	\$ 5.82
\$20.06 - \$22.58	495,320	3.25	\$ 21.89	84,240	\$ 20.06
\$24.35 - \$26.93	538,944	7.95	\$ 25.86	514,612	\$ 23.72
\$5.70 - \$26.93	1,078,135	5.54	\$ 23.22	642,723	\$ 22.02

Performance Awards

During 2019, we granted 306,623 performance awards to our leadership team and certain key employees, payable in shares. These awards will vest (if at all) in December 2023, provided that certain criteria surrounding our common stock price is achieved. The fair value of these performance awards was \$1.6 million and was determined by using the Monte-Carlo simulation pricing model with the following assumptions:

Grant date	February 20, 2019	August 1, 2019	November 4, 2019	December 2, 2019
Performance period	February 20, 2019 - December 31, 2023	August 1, 2019 - December 31, 2023	November 4, 2019 - December 31, 2023	December 2, 2019 - December 31, 2023
Shares granted	248,500	14,000	9,123	35,000
Simulation period (years)	4.86	4.42	4.16	4.08
Expected volatility	25.7%	27.01%	28.39%	28.47%
Risk-free interest rate	2.47%	1.68%	1.6%	1.64%
Forfeiture rate	7.17%	7.17%	7.17%	7.17%

During 2018, we granted 113,320 performance awards to our leadership team and certain key employees, payable in shares. The fair value of these performance awards was \$2.9 million and was determined by using the weighted average stock price on the grant date of \$25.43. During 2017, we granted 105,540 performance awards to our leadership team and certain key employees, payable in shares. The fair value of these performance awards was approximately \$2.8 million and was determined by using the weighted average stock price on the grant date of \$26.56.

On November 29, 2018, we cancelled all the Performance Award Agreements previously awarded to all individuals in 2016, 2017 and 2018, which resulted in a write-off of \$3.3 million. Prior to such cancellation, each of the Agreements provided for contingent compensation, which was payable to such individuals in shares of common stock, based on our performance over a five-year period from the date of grant.

We recorded stock-based compensation expense, which is included in *General, administrative and other* expenses, for performance awards of \$0.7 million, \$4.4 million and \$0.2 million during the years ended December 31, 2017, 2018 and 2019, respectively. The 2018 expense includes the write-off due to the cancellation of the performance awards.

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). In 2019, employees purchased a total of 73,731 shares at a weighted average price of \$13.18 per share. In 2018, employees purchased a total of 49,938 shares at a weighted average price of \$18.56 per share. In 2017, employees purchased a total of 43,808 shares at a weighted average price of \$22.43 per share.

We recorded stock-based compensation expense, which is included in *General, administrative and other* expenses, for our ESPP of approximately \$0.2 million, \$0.2 million and \$0.3 million during the years ended December 31, 2017, 2018 and 2019, respectively.

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

	2017	2018	2019
Dividend yield	0.9%	1.4%	1.4%
Expected volatility	19%	21%	36%
Risk-free interest rate	0.53%, 0.65%, 0.77%, 0.89%	1.44%, 1.61%, 1.72%, 1.83%	2.42%, 2.51%, 2.56%, 2.60%
Expected life (years)	.25, .50, .75, 1.00	.25, .50, .75, 1.00	.25, .50, .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).

Director Compensation Plans

Our Director Compensation Policy provides for the following: (i) each independent director is entitled to an annual retainer of \$75,000, payable in quarterly installments of \$18,750 each at the end of the quarter; and (ii) 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 restricted shares of our common stock. 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.

Effective May 16, 2018, our Board revised the Director Compensation Policy such that any Director may elect to receive their annual retainer, which is paid in quarterly installments, in unrestricted shares of our common stock, \$0.01 par value by providing written notice as set forth in the Director Compensation Policy. The number of shares of such common stock shall be determined by dividing the cash amount of the retainer by the closing price of our common stock on the date of grant, which shall be the last business day of each quarter. Such common stock shall vest immediately upon grant. Any written notice to receive the retainer in common stock shall remain effective until notice otherwise is made in writing. Our Board also revised the Director Compensation Policy such that the new Director grant of \$25,000 shall vest immediately. Prior to this change, the stock grant vested 50% immediately and 25% on each of the first and second anniversaries of admission.

Pursuant to the revised Director Compensation Policy described above, for the year ended December 31, 2019, we granted 7,458 shares of our common stock to two Directors, which were valued at \$0.2 million at a weighted average stock price of \$20.78.

We recorded compensation expense, which is included in *General, administrative and other* expenses, related to annual retainers and restricted stock awards of \$0.4 million, \$0.5 million and \$0.5 million during the years ended December 31, 2017, 2018 and 2019, respectively.

Cash Dividends

For the years ended December 31, 2018 and 2019, our Board declared the following dividends payable on the dates below (in thousands, except per share amounts):

	<u>2019</u>	<u>Per Share</u>	<u>Dollar Value</u>
March 1st	\$	0.075	\$ 1,360
June 1st	\$	0.075	\$ 1,365
September 1st	\$	0.075	\$ 1,336
December 1st	\$	0.075	\$ 1,337
	<u>2018</u>	<u>Per Share</u>	<u>Dollar Value</u>
March 1st	\$	0.075	\$ 1,207
June 1st	\$	0.075	\$ 1,433
September 1st	\$	0.075	\$ 1,436
December 1st	\$	0.075	\$ 1,437

Accumulated other comprehensive income

Our components of Accumulated other comprehensive income are as follows (in thousands):

	<u>Accumulated Other Comprehensive Income</u>
Balance at December 31, 2018	\$ —
Decrease in net unrealized gains associated with available-for-sale securities of the trusts	5
Reclassification of net unrealized gain activity attributable to the <i>Deferred preneed funeral and cemetery receipts held in trust and Care trusts' corpus</i>	(5)
Balance at December 31, 2019	\$ —

21. SHARE REPURCHASE PROGRAM

On February 25, 2016, our Board approved a share repurchase program authorizing us to purchase up to an aggregate of \$25.0 million of our common stock in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). On October 25, 2017, our Board approved a \$15.0 million increase in its authorization for repurchases bringing the total authorized repurchase amount to \$40.0 million. On July 31, 2019, our Board approved an additional \$25.0 million for repurchases of our common stock in accordance with the Exchange Act.

During the year ended December 31, 2019, we repurchased 400,000 shares of common stock for a total cost of \$7.8 million at an average cost of \$19.39 per share pursuant to our share repurchase program. During the year ended December 31, 2018, we repurchased 1,101,969 shares of common stock for a total cost of \$17.7 million at an average cost of \$16.03 per share pursuant to our share repurchase program. During the year ended December 31, 2017, we repurchased 574,054 shares of common stock for a total cost of \$14.0 million at an average cost of \$24.35 per share pursuant to our share repurchase program.

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 shares.

At December 31, 2019, we had approximately \$25.6 million available for repurchase under our share repurchase program.

22. 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 restricted stock awards to our employees and directors are considered participating securities and we have prepared our earnings per share calculations to exclude outstanding 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 for the years ended December 31, 2017, 2018 and 2019 (in thousands, except per share data):

	Years Ended December 31,		
	2017	2018	2019
Numerator for basic and diluted earnings per share:			
Net income	\$ 37,193	\$ 11,645	\$ 14,533
Less: Earnings allocated to unvested restricted stock	(135)	(57)	(62)
Income attributable to common stockholders	<u>\$ 37,058</u>	<u>\$ 11,588</u>	<u>\$ 14,471</u>
Denominator:			
Denominator for basic earnings per common share - weighted average shares outstanding	16,438	17,971	17,877
Effect of dilutive securities:			
Stock options	336	66	118
Convertible subordinated notes	941	337	10
Denominator for diluted earnings per common share - weighted average shares outstanding	<u>17,715</u>	<u>18,374</u>	<u>18,005</u>
Basic earnings per common share	<u>\$ 2.25</u>	<u>\$ 0.64</u>	<u>\$ 0.81</u>
Diluted earnings per common share	<u>\$ 2.09</u>	<u>\$ 0.63</u>	<u>\$ 0.80</u>

The fully diluted weighted average shares outstanding for the years ended December 31, 2017, 2018 and 2019, and the corresponding calculation of fully diluted earnings per share, included 941,000, 337,000 and 10,000 shares that would have been issued upon the conversion of our convertible subordinated notes as a result of the application of the if-converted method prescribed by the FASB ASC 260.

For the years ended December 31, 2017, 2018 and 2019, there were 354,000, 1,661,000 and 338,000 stock options excluded from the computation of diluted earnings per share because the inclusion of such stock options would result in an antidilutive effect.

23. MAJOR SEGMENTS OF BUSINESS

We conduct funeral and cemetery operations only in the United States. The following table presents revenue, operating income (loss), income (loss) before income taxes, depreciation and amortization, interest expense, income tax expense (benefit), total assets, long-lived assets, capital expenditures and number of operating locations by segment (in thousands, except number of operating locations):

	<u>Funeral</u>	<u>Cemetery</u>	<u>Corporate</u>	<u>Consolidated</u>
Revenue:				
2019	\$ 216,868	\$ 57,239	\$ —	\$ 274,107
2018	210,725	57,267	—	267,992
2017	200,886	57,253	—	258,139
Operating income (loss):				
2019	\$ 63,602	\$ 15,983	\$ (27,296)	\$ 52,289
2018	60,881	15,066	(32,640)	43,307
2017	61,369	15,430	(27,858)	48,941
Income (loss) before income taxes:				
2019	\$ 58,844	\$ 16,025	\$ (52,453)	\$ 22,416
2018	59,912	15,349	(56,995)	18,266
2017	60,634	15,852	(43,704)	32,782
Depreciation and amortization:				
2019	\$ 11,128	\$ 5,227	\$ 1,416	\$ 17,771
2018	10,726	4,891	1,813	17,430
2017	9,785	4,589	1,605	15,979
Interest expense:				
2019	\$ 1,142	\$ —	\$ 24,380	\$ 25,522
2018	1,339	—	19,770	21,109
2017	1,170	2	11,776	12,948
Income tax expense (benefit):				
2019	\$ 20,694	\$ 5,635	\$ (18,446)	\$ 7,883
2018	21,717	5,564	(20,660)	6,621
2017	(8,159)	(2,133)	5,881	(4,411)
Total assets:				
2019	\$ 790,459	\$ 314,413	\$ 24,883	\$ 1,129,755
2018	686,470	226,475	4,557	917,502
2017	665,483	251,243	4,807	921,533
Long-lived assets:				
2019	\$ 650,179	\$ 145,158	\$ 1,303	\$ 796,640
2018	572,916	89,654	1,538	664,108
2017	537,282	90,292	2,124	629,698
Capital expenditures:				
2019	\$ 8,403	\$ 5,772	\$ 1,204	\$ 15,379
2018	8,296	3,989	1,241	13,526
2017	9,835	5,283	1,277	16,395
Number of operating locations at year end:				
2019	186	31	—	217
2018	182	29	—	211
2017	178	32	—	210

24. SUPPLEMENTARY DATA**Balance Sheet**

The detail of certain balance sheet accounts as of December 31, 2018 and 2019 is as follows (in thousands):

	December 31,	
	2018	2019
Prepays and other current assets:		
Prepaid expenses	\$ 1,456	\$ 1,596
Deposit on pending acquisition	—	5,000
Federal income tax receivable	923	2,973
State income tax receivable	422	986
Other current assets	210	112
Total other current assets	\$ 3,011	\$ 10,667
Accrued and other liabilities:		
Accrued salaries and wages	\$ 4,088	\$ 4,323
Accrued incentive compensation	7,395	9,199
Accrued vacation	2,358	2,880
Accrued insurance	3,188	2,329
Accrued interest	1,856	2,299
Accrued ad valorem and franchise taxes	904	678
Accrued commissions	441	560
Perpetual care trust taxes payable	962	401
Deferred rent	274	—
Other accrued liabilities	1,178	1,357
Total accrued and other liabilities	\$ 22,644	\$ 24,026
Other long-term liabilities:		
Deferred rent	\$ 692	\$ —
Incentive compensation	1,563	1,267
Contingent consideration	878	470
Total other long-term liabilities	\$ 3,133	\$ 1,737

25. QUARTERLY FINANCIAL DATA (UNAUDITED)

The tables below set forth consolidated operating results by fiscal quarter for the years ended December 31, 2018 and 2019 (in thousands, except earnings per share):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2019				
Revenue	\$ 69,081	\$ 67,752	\$ 66,125	\$ 71,149
Gross profit	21,600	19,250	18,056	20,679
Net income	\$ 6,525	\$ 4,862	\$ 577	\$ 2,569
Basic earnings per common share: (a)	\$ 0.36	\$ 0.27	\$ 0.03	\$ 0.14
Diluted earnings per common share: (a)	\$ 0.36	\$ 0.27	\$ 0.03	\$ 0.14
2018				
Revenue	\$ 73,387	\$ 63,847	\$ 64,241	\$ 66,517
Gross profit	24,188	16,825	17,114	17,820
Net income (loss)	\$ 9,356	\$ 2,747	\$ 2,200	\$ (2,658)
Basic earnings per common share: (a)	\$ 0.58	\$ 0.15	\$ 0.11	\$ (0.14)
Diluted earnings per common share: (a)	\$ 0.52	\$ 0.15	\$ 0.11	\$ (0.14)

(a) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share amounts may not equal the total computed for 2018 and 2019 due to rounding.

26. 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,		
	2017	2018	2019
Cash paid for interest and financing costs	\$ 11,092	\$ 18,858	\$ 23,870
Cash paid for taxes	\$ 5,902	\$ 3,543	\$ 378
Fair value of stock, stock options and performance awards issued to directors, officers, and certain other employees	\$ 6,854	\$ 6,563	\$ 2,855

27. SUBSEQUENT EVENTS

On January 3, 2020, we acquired a funeral home and cemetery combination business in Lafayette, California for \$33.0 million in cash. The consideration for this acquisition was funded through borrowings under our Credit Facility.

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, 2017:				
Allowance for bad debts, current portion	\$ 746	\$ 1,248	\$ 1,159	\$ 835
Allowance for receivables from preneed funeral and cemetery trusts and contract cancellations, non-current portion	\$ 2,166	\$ 950	\$ 838	\$ 2,278
Employee severance accruals	\$ 1,517	\$ 571	\$ 2,088	\$ —
Valuation allowance of the deferred tax asset	\$ 209	\$ 35	\$ —	\$ 244
Year ended December 31, 2018:				
Allowance for bad debts, current portion	\$ 835	\$ 1,111	\$ 1,177	\$ 769
Allowance for receivables from preneed funeral and cemetery trusts and contract cancellations, non-current portion	\$ 2,278	\$ 730	\$ 857	\$ 2,151
Employee severance accruals	\$ —	\$ 1,649	\$ 508	\$ 1,141
Valuation allowance of the deferred tax asset	\$ 244	\$ 32	\$ —	\$ 276
Year ended December 31, 2019:				
Allowance for bad debts, current portion	\$ 769	\$ 1,088	\$ 1,008	\$ 849
Allowance for receivables from preneed funeral and cemetery trusts and contract cancellations, non-current portion	\$ 2,151	\$ 532	\$ 457	\$ 2,226
Employee severance accruals	\$ 1,141	\$ 1,265	\$ 1,569	\$ 837
Valuation allowance of the deferred tax asset	\$ 276	\$ —	\$ 43	\$ 233

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, 2019 (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, 2019 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, 2019.

The Company's internal control over financial reporting as of December 31, 2019 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, 2019, as stated in their report which is presented in this Annual Report.

/s/ Melvin C. Payne

Melvin C. Payne

Chief Executive Officer and Chairman of the Board

/s/ Viki K. Blinderman

Viki K. Blinderman

Senior Vice President, Chief Accounting Officer and Secretary
(Principal Financial Officer)

February 28, 2020

Changes in Internal Control Over Financial Reporting

During the three months ended December 31, 2019, 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.

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

We have adopted a Business Ethics and Code of Conduct (the “Code”), which is applicable to 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 Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2019.

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 Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2019.

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 Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2019.

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, 2019.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,078,135	\$ 23.22	1,847,655
Equity compensation plans not approved by security holders	—	—	—
Total	1,078,135	\$ 23.22	1,847,655

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 Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2019.

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 Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2019.

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, 2018 and 2019	47
Consolidated Statements of Operations for the Years Ended December 31, 2017, 2018 and 2019	48
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2017, 2018 and 2019	49
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2018 and 2019	50
Notes to Consolidated Financial Statements	51
Management's Report on Internal Control over Financial Reporting	98

(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	96

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 2020 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.
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.
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.
3.4	Amended and Restated Bylaws of the Company. Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1/A (File No. 333-05545) filed on July 18, 1996.
3.5	Amendments to the Bylaws of the Company effective December 18, 2000. Incorporated by reference to Exhibit 3.8 to the Company's Annual Report on Form 10-K for its year ended December 31, 2000.

- 3.6 [Amendments to the Bylaws of the Company effective May 20, 2008. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 28, 2008.](#)
- 3.7 [Second Amendment to the Amended and Restated Bylaws of Carriage Services, Inc. Incorporated by reference to Exhibit 3.1 to the Company's Current report on Form 8-K filed March 8, 2019.](#)
- 4.1 [Indenture, dated as of March 19, 2014, by and among Carriage Services, Inc. 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 March 19, 2014.](#)
- 4.2 [Indenture, dated as of May 31, 2018, among the Company, the Guarantors 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 on May 31, 2018.](#)
- 4.3 [Form of 6.625% Senior Notes due 2026. Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 31, 2018.](#)
- 4.4 [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. †](#)
- 4.5 [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. †](#)
- 4.6 [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. †](#)
- 4.7 [Amended and Restated Carriage Services, Inc. 2007 Employee Stock Purchase Plan \(incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on April 4, 2018\).](#)
- 4.8 [First Amendment to the Amended and Restated Carriage Services, Inc. 2007 Employee Stock Purchase Plan \(incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed on April 4, 2018\).](#)
- 4.9 [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. †](#)
- *4.10 [Summary of Securities Registered under Section 12.](#)
- 10.1 [Credit Agreement dated August 30, 2012, among Carriage Services, Inc. as the Borrower, and Bank of America, N.A. as the Administrative Agent and Sole Lender. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 4, 2012.](#)
- 10.2 [First Amendment to Credit Agreement dated November 29, 2012, among Carriage Services, Inc. as the Borrower, and Bank of American N.A. as the Administrative Agent and Sole Lender. Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2012.](#)
- 10.3 [Second Amendment to Credit Agreement dated February 14, 2013, among Carriage Services, Inc. as the Borrower, and Bank of America, N.A. as the Administrative Agent and Sole Lender. Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2012.](#)
- 10.4 [Third Amendment and Commitment Increase dated April 23, 2013 among Carriage Services, Inc., the Lenders and Bank of America, N.A. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 25, 2013.](#)
- 10.5 [Fourth Amendment to Credit Agreement, dated as of February 27, 2014, by and among Carriage Services, Inc., the banks listed on the signature page thereto 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 March 5, 2014.](#)

- 10.6 [Fifth Amendment to Credit Agreement, dated as of April 14, 2014, by and among Carriage Services, Inc., the banks listed on the signature page thereto 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 April 16, 2014.](#)
- 10.7 [Sixth Amendment to Credit Agreement, dated May 20, 2015, by and among the Company, Bank of America, N.A., as Administrative Agent, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 22, 2015.](#)
- 10.8 [Seventh Amendment to Credit Agreement, dated February 9, 2016, by and among the Company, Bank of America, N.A., as Administrative Agent, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 9, 2016.](#)
- 10.9 [Eighth Amendment and Commitment Increase to Credit Agreement, dated April 25, 2018, by and among the Company, Bank of America, N.A., as Administrative Agent, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 27, 2018.](#)
- 10.10 [Credit Agreement, dated May 31, 2018, among the Company, 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 31, 2018.](#)
- 10.11 [First Amendment to Credit Agreement dated as of November 8, 2018, among Carriage Services, Inc., 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 November 9, 2018.](#)
- 10.12 [Second Amendment to Credit Agreement dated as of July 31, 2019, among Carriage Services, Inc., 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 July 31, 2019.](#)
- 10.13 [Third Amendment to Credit Agreement dated as of December 19, 2019, among Carriage Services, Inc., 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 December 19, 2019.](#)
- 10.14 [Second Amended and Restated Employment Agreement dated March 14, 2012 between Carriage Services, Inc. and Melvin C. Payne. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 20, 2012. †](#)
- 10.15 [First Amendment to Second Amended and Restated Employment Agreement by and between Carriage Services, Inc. and Melvin C. Payne dated March 3, 2014. Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for its quarter ended March 31, 2014. †](#)
- 10.16 [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. †](#)
- 10.17 [Employment Agreement with Mark R. Bruce dated January 4, 2011. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended March 31, 2013. †](#)
- 10.18 [Employment Letter with Mark R. Bruce dated March 14, 2012. Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for its quarter ended March 31, 2013. †](#)
- 10.19 [Director Compensation Policy dated March 5, 2012. Incorporated by reference to Exhibit 10.24 to Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2011. †](#)
- 10.20 [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. †](#)
- 10.21 [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. †](#)

- 10.22 [Second Amendment to the Second Amended and Restated Employment Agreement by and between Carriage Services, Inc. and Melvin C. Payne, dated effective as of March 21, 2017. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 23, 2017.](#) †
- 10.23 [Third Amendment to the Second Amended and Restated Employment Agreement by and between Carriage Services, Inc. and Melvin C. Payne, dated effective as of May 12, 2017. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 12, 2017.](#) †
- 10.24 [Fourth Amendment to the Second Amended and Restated Employment Agreement by and between Carriage Services, Inc. and Melvin C. Payne, dated effective as of February 20, 2019. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 26, 2019.](#) †
- 10.25 [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.](#) †
- 10.26 [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.](#) †
- 10.27 [Form of Employee Performance Share Unit Award Agreement under Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2017.](#) †
- 10.28 [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.](#) †
- 10.29 [Release and Separation Agreement by and between Carriage Services, Inc. and Mark R. Bruce, dated effective November 1, 2018. Incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2018.](#) †
- 10.30 [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 February 26, 2019.](#) †
- 10.31 [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.](#) †
- 10.32 [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.](#) †
- 10.33 [Employment Agreement dated November 5, 2019, by and between the Company and Paul Elliot. Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 8, 2019.](#) †
- 10.34 [Employment Agreement dated November 5, 2019, by and between the Company and Viki K. Blinderman. Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on November 8, 2019.](#) †
- 10.35 [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.](#) †
- 10.36 [Employment Agreement dated December 1, 2019, by and between Carriage Services, Inc. and William W. Goetz. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 2, 2019.](#) †

10.37	Form of Performance Award Agreement under Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 25, 2020. †
*10.38	Transaction Agreement dated as of November 25, 2019 by and among Carriage Funeral Holdings, Inc., Carriage Holdings Virginia, Inc., Carriage Services of Virginia LLC, Calvary Memorial Park, Inc., Fairfax Memorial Funeral Home, L.L.C., Holder Representative and Carriage Services, Inc. ++
*10.39	Amendment to the Transaction Agreement dated as of December 30, 2019 by and among Carriage Funeral Holdings, Inc., Carriage Holdings Virginia, Inc., Carriage Services of Virginia LLC, Calvary Memorial Park, Inc., Fairfax Memorial Funeral Home, L.L.C., Holder Representative and Carriage Services, Inc.
*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 Viki K. Blinderman in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
**32	Certification of Periodic Financial Reports by Melvin C. Payne and Viki K. Blinderman 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.

(++) Portions of this exhibit have been redacted in accordance with Item 601(b)(10) of Regulation S-K.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 28, 2020.

CARRIAGE SERVICES, INC.

By: _____ /s/ **Melvin C. Payne**

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Melvin C. Payne</u> Melvin C. Payne	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	February 28, 2020
<u>/s/ Viki K. Blinderman</u> Viki K. Blinderman	Senior Vice President, Chief Accounting Officer, Principal Financial Officer and Secretary (Principal Financial Officer)	February 28, 2020
<u>/s/ Adeola Olaniyan</u> Adeola Olaniyan	Corporate Controller and Principal Accounting Officer	February 28, 2020
<u>/s/ William W. Goetz</u> William W. Goetz	President, Chief Operating Officer and Director	February 28, 2020
<u>/s/ Donald D. Patteson Jr.</u> Donald D. Patteson Jr.	Director	February 28, 2020
<u>/s/ James R. Schenck</u> James R. Schenck	Director	February 28, 2020
<u>/s/ Barry K. Fingerhut</u> Barry K. Fingerhut	Director	February 28, 2020
<u>/s/ Bryan D. Leibman</u> Bryan D. Leibman	Director	February 28, 2020
<u>/s/ Douglas Meehan</u> Douglas Meehan	Director	February 28, 2020

DESCRIPTION OF REGISTERED SECURITIES

As of February 21, 2020, 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”), our Second Amended and Restated Bylaws dated July 2, 1996 (as amended, the “Bylaws”), and the indenture (the “Convertible Notes Indenture”) under which we issued our 2.75% convertible senior notes due 2021 (the “Convertible Notes”) each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.8 is a part. We encourage you to read our Certificate of Incorporation, our Bylaws, the Convertible Notes Indenture, and the applicable provisions of the General Corporation Law of the State of Delaware (the “DGCL”) for additional information.

General

As of February 21, 2020, our authorized capital consisted of 80,000,000 shares of common stock, par value \$.01, of which 17,873,388 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.

Convertible Notes

On March 19, 2014, the Convertible Notes were issued pursuant to the Convertible Notes Indenture. The Convertible Notes bear interest of 2.75% per year from March 19, 2014 (payable semi-annually in arrears on March 15 and September 15 of each year), and will mature on March 15, 2021.

The initial conversion rate of the Convertible Notes as of March 19, 2014, was 44.3169 shares of our common stock per \$1,000 principal amount of Convertible Notes, equivalent to an initial conversion price of \$22.56 per share of common stock. The conversion rate is subject to adjustment upon the occurrence of certain events, as described in the Convertible Notes Indenture. During 2017, an adjustment to the conversion rate of the Convertible Notes was triggered when the Board increased the dividends declared per common share from \$0.05 per share to \$0.075 per share. At December 31, 2019, the adjusted conversion rate of the Convertible Notes is 45.4615 shares of our common stock per \$1,000 principal amount of Convertible Notes, equivalent to an adjusted conversion price of \$22.00 per share of common stock. If we undergo a “fundamental change” (as defined in the Convertible Notes Indenture), subject to certain conditions, a holder of Convertible Notes will have the option to require us to purchase all or a portion of its Convertible Notes for cash. The fundamental change purchase price will equal 100% of the principal amount of the Convertible Notes to be purchased, plus any accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date.

As of February 21, 2020, there was \$6.3 million million aggregate principal amount of Convertible Notes outstanding.

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.

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 stockholder also must submit a notarized letter from each of the stockholder’s nominees stating the nominee’s acceptance of the nomination and indicating the nominee’s intention to serve as director if elected.

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 2/3% 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

EXHIBIT 4.10

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.

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TRANSACTIONS AGREEMENT

dated as of

November 25, 2019

by and among

CARRIAGE FUNERAL HOLDINGS, INC.,

CARRIAGE HOLDINGS VIRGINIA, INC.,

CARRIAGE SERVICES OF VIRGINIA LLC,

CALVARY MEMORIAL PARK, INC.,

FAIRFAX MEMORIAL FUNERAL HOME, L.L.C.,

HOLDER REPRESENTATIVE

and

CARRIAGE SERVICES, INC., as Parent Guarantor

This document is intended solely to facilitate discussions among the parties identified herein. It is not intended to create, and will not be deemed to create, a legally binding or enforceable offer or agreement of any type or nature prior to the duly authorized and approved execution of this document by all such parties and the delivery of an executed copy hereof by all such parties to all other parties.

THIS DOCUMENT SHALL BE KEPT CONFIDENTIAL PURSUANT TO THE TERMS OF THE CONFIDENTIALITY AGREEMENT ENTERED INTO BY THE RECIPIENT HEREOF OR, IF APPLICABLE, ITS AFFILIATE, WITH RESPECT TO THE SUBJECT MATTER HEREOF.

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Annexes

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Annex B – Form of Articles of LLC Merger

Annex C – Form of CMP Letter of Transmittal

Annex D – Form of FMFH Letter of Transmittal

Annex E – Form of Allocation Schedule

TRANSACTIONS AGREEMENT

This Transactions Agreement (this “Agreement”), dated as of November 25, 2019, is entered into by and among Carriage Funeral Holdings, Inc., a Delaware corporation (“Buyer”), Carriage Holdings Virginia, Inc., a Commonwealth of Virginia corporation and a wholly owned subsidiary of Buyer (“Merger Sub Corp”), Carriage Services of Virginia LLC, a Commonwealth of Virginia limited liability company and a wholly owned subsidiary of Buyer (“Merger Sub LLC” and, together with Merger Sub Corp, “Merger Subs” and each a “Merger Sub”), Calvary Memorial Park, Inc., a Commonwealth of Virginia corporation (“CMP”), Fairfax Memorial Funeral Home, L.L.C., a Commonwealth of Virginia limited liability company (“FMFH” and, together with CMP, the “Companies” and each a “Company”), David Dodrill, an individual, solely in his capacity as the initial Holder Representative hereunder, and Carriage Services, Inc., a Delaware corporation (“Parent Guarantor”), solely in its capacity as the Parent Guarantor hereunder.

RECITALS

WHEREAS, the parties intend that (i) Merger Sub Corp be merged with and into CMP, with CMP surviving the merger on the terms and subject to the conditions set forth herein, and (ii) Merger Sub LLC be merged with and into FMFH, with FMFH surviving the merger on the terms and subject to the conditions set forth herein;

WHEREAS, the respective Boards of Directors of Buyer, Merger Sub Corp and CMP have each (i) determined that it is in the best interests of their respective stockholders for Buyer to acquire CMP on the terms and subject to the conditions set forth herein and in accordance with the VSCA (defined below), (ii) approved and declared advisable the Corp Merger (defined below), this Agreement and the other transactions contemplated hereby and (iii) adopted this Agreement and approved the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby;

WHEREAS, the Board of Directors of Buyer and the respective Boards of Managers of Merger Sub LLC and FMFH have each (i) determined that it is in the best interests of Buyer’s stockholders, in the case of Buyer, and the members of Merger Sub LLC and FMFH, in the case of Merger Sub LLC and FMFH, respectively, for Buyer to acquire FMFH on the terms and subject to the conditions set forth herein and in accordance with the VLLCA (defined below), (ii) approved and declared advisable the LLC Merger (defined below), this Agreement and the other transactions contemplated hereby and (iii) adopted this Agreement and approved the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby; and

WHEREAS, for certain limited purposes, and subject to the terms set forth herein, the Holder Representative shall serve as a representative of the Pre-Closing Holders (defined below).

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Agreement and intending to be legally bound hereby, Buyer, Merger Subs and the Companies agree as follows:

ARTICLE I. CERTAIN DEFINITIONS

1.1 Definitions. As used herein, the following terms shall have the following meanings:

“338(h)(10) Election” has the meaning specified in Section 9.5(f).

“338(h)(10) Forms” has the meaning specified in Section 9.5(f).

“Action” means any claim, action, suit, assessment, arbitration or proceeding, in each case, by or before any Governmental Authority.

“Affiliate” means, with respect to any specified Person, any Person that, directly or indirectly, controls, is controlled by, or is under common control with, such specified Person, through one or more intermediaries or otherwise. For the avoidance of doubt, following the Closing, Affiliates of Buyer shall include the Companies.

“Aggregate Common Shares” means the sum of (i) the aggregate number of Common Shares held by all Stockholders immediately prior to the Effective Time, plus (ii) the aggregate number of Dissenting Shares immediately prior to the Effective Time.

“Aggregate Units” means the aggregate number of Units held by all Unitholders immediately prior to the Effective Time.

“Agreement” has the meaning specified in the preamble hereto.

“Articles of Corp Merger” has the meaning specified in Section 2.1(a).

“Articles of LLC Merger” has the meaning specified in Section 3.1(a).

“Articles of Merger” has the meaning specified in Section 3.1(a).

“Basket Amount” has the meaning specified in Section 13.4(b).

“Business Day” means any day that is not a Saturday, a Sunday or other day on which the Federal Reserve Bank of New York is closed.

“Buyer” has the meaning specified in the preamble hereto.

“Buyer Cure Period” has the meaning specified in Section 11.1(c).

“Buyer Indemnified Parties” has the meaning specified in Section 13.2(a).

“Buyer Obligations” has the meaning specified in Section 14.17.

“Cancelled Shares” has the meaning specified in Section 2.5(a).

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“Cancelled Units” has the meaning specified in Section 3.5(a).

“Cash” of any Person as of any date means the cash and cash equivalents required to be reflected as cash and cash equivalents on a consolidated balance sheet of such Person and its Subsidiaries as of such date.

“Cash Per Common Share” has the meaning specified in Section 2.5(d).

“Cash Per Unit” has the meaning specified in Section 3.5(d).

“Certificates” has the meaning specified in Section 4.3(b).

“Closing” has the meaning specified in Section 4.1.

“Closing Balance Sheets” has the meaning specified in Section 4.4.

“Closing Date” has the meaning specified in Section 4.1.

“Closing Date CMP Cash” has the meaning specified in Section 4.4.

“Closing Date CMP Debt” has the meaning specified in Section 4.4.

“Closing Date FMFH Cash” has the meaning specified in Section 4.4.

“Closing Date FMFH Debt” has the meaning specified in Section 4.4.

“CMP Financial Statements” has the meaning specified in Section 5.6.

“CMP Letter of Transmittal” has the meaning specified in Section 4.3(b).

“Code” means the Internal Revenue Code of 1986, as amended.

“Common Share” has the meaning specified in Section 2.5(a).

“Common Stock” means the common stock, par value \$6.25 per share, of CMP.

“Companies” has the meaning specified in the preamble hereto.

“Company Benefit Plan” has the meaning specified in Section 5.11(a).

“Company Cure Period” has the meaning specified in Section 11.1(b).

“Confidentiality Agreement” has the meaning specified in Section 14.9.

“Constituent Corporations” has the meaning specified in Section 2.1(a).

“Continuing Employees” has the meaning specified in Section 8.2(a).

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“Contracts” means any written legally binding contracts, agreements, subcontracts, leases, licenses and purchase orders.

“Corp Merger” has the meaning specified in Section 2.1(a).

“Corp Merger Consideration” has the meaning specified in Section 4.2(a).

“Damages” means all losses, damages and other costs and expenses.

“Debt” of any Person as of any date means all indebtedness of such Person and its consolidated Subsidiaries for borrowed money, together with accrued and unpaid interest thereon, required to be reflected as indebtedness on a consolidated balance sheet of such Person and its consolidated Subsidiaries as of such date; provided, however, that Debt shall not include (x) undrawn letters of credit and reimbursement obligations in respect of undrawn letters of credit and (y) any liabilities related to inter-company debt between CMP and FMFH.

“Designated Person” has the meaning specified in Section 14.16(a).

“Dispute Resolution Period” has the meaning specified in Section 9.5(h).

“Dissenting Shares” has the meaning specified in Section 2.5(a).

“Dissenting Stockholders” has the meaning specified in Section 2.5(a).

“Effective Time” has the meaning specified in Section 4.1.

“Environmental Laws” means any and all applicable foreign, federal, state or local laws, statutes, ordinances, rules or regulations relating to Hazardous Materials or the protection of the environment, as in effect on and as interpreted as of the date hereof.

“ERISA” has the meaning specified in Section 5.11(a).

“Escrow Agent” has the meaning specified in Section 4.3(c).

“Escrow Agreement” has the meaning specified in Section 9.2.

“Escrow Amount” means an amount equal to the sum of (i) \$[***] plus (ii) in the event a 338(h)(10) Election is not being made at the Closing, the Estimated Section 338(h)(10) Election Taxes.

“Escrow Funds” means, at any given time after Closing, the funds remaining in the account in which the Escrow Agent has deposited the Escrow Amount in accordance with the Escrow Agreement, including any amount of interest actually earned thereon.

“Escrow Percentage” means (i) with respect to each Stockholder (in its capacity as such), a ratio (expressed as a percentage) equal to (x)(a) fifty percent (50%) multiplied by (b) the number of Common Shares held by such holder immediately prior to the Effective Time,

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divided by (y) the aggregate number of Common Shares held by all Stockholders immediately prior to the Effective Time, and (ii) with respect to each Unitholder (in its capacity as such), a ratio (expressed as a percentage) equal to (x)(a) fifty percent (50%) multiplied by (b) the number of Units held by such holder immediately prior to the Effective Time, divided by (y) the aggregate number of Units held by all Unitholders immediately prior to the Effective Time.

“Estimated Section 338(h)(10) Election Taxes” means an estimate of the aggregate potential Closing Date Section 338(h)(10) Election Taxes (assuming for this purpose that the 338(h)(10) Election will be made) as mutually agreed in good faith between the Holder Representative and Buyer between the date hereof and the Closing Date.

“Exchange Agent” has the meaning specified in Section 4.3(a).

“Existing Representation” has the meaning specified in Section 14.16(a).

“Financial Statements” has the meaning specified in Section 5.6.

“FMFH Financial Statements” has the meaning specified in Section 5.6.

“FMFH Letter of Transmittal” has the meaning specified in Section 4.3(b).

“Funding Amount” has the meaning specified in Section 4.1.

“GAAP” means United States generally accepted accounting principles, consistently applied.

“Governmental Authority” means any federal, state, provincial, municipal, local or foreign government, governmental authority, regulatory or administrative agency, governmental commission, department, board, bureau, agency, instrumentality, court or tribunal.

“Governmental Order” means any order, judgment, injunction, decree, writ, stipulation, determination or award, in each case, entered by or with any Governmental Authority.

“Hazardous Material” means any substance, material or waste that is listed, classified or regulated by a Governmental Authority as a “toxic substance”, “hazardous substance” or “hazardous material” or words of similar meaning and regulatory effect.

“Holder Representative” has the meaning specified in Section 12.1.

“Holder Representative Expenses” has the meaning specified in Section 4.5.

“Income Tax” means any Tax measured by reference to net income or profit.

“Indemnification Claim” has the meaning specified in Section 13.3(a).

“Indemnified Party” has the meaning specified in Section 13.3(a).

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“Indemnified Persons” has the meaning specified in Section 8.1.

“Indemnitor” means the party required to provide indemnification pursuant to Section 13.2; provided, however, that solely for the purposes of Sections 13.3 and 13.4, the Holder Representative shall be considered the Indemnitor with respect to claims for indemnification pursuant to Section 13.2(a) (it being understood that such status as an Indemnitor is solely for the purpose of providing the Holder Representative with the right (i) to control the defense and settlement of any Action giving rise to an Indemnification Claim pursuant to Section 13.2(a) and (ii) to engage in discussions, negotiations, and other dispute resolution with the applicable Indemnified Party regarding the Indemnification Claim, and such status shall not obligate the Holder Representative to provide any indemnification or otherwise impose any liability on the Holder Representative).

“Intellectual Property” means any of the following: (i) patents and patent applications; (ii) registered and unregistered trademarks, service marks and trade names, pending trademark and service mark registration applications, and intent-to-use registrations or similar reservations of marks; (iii) registered and unregistered copyrights, and applications for registration of copyright; (iv) internet domain names; (v) trade secrets, know-how and other proprietary rights; and (vi) rights in computer software.

“Law” means any statute, law, ordinance, rule, regulation or Governmental Order, in each case, of any Governmental Authority.

“Leased Real Property” means all real property leased by either Company.

“Letter of Transmittal” has the meaning specified in Section 4.3(b).

“Lien” means any mortgage, deed of trust, pledge, hypothecation, encumbrance, security interest or other lien of any kind.

“LLC Merger” has the meaning specified in Section 3.1(a).

“LLC Merger Consideration” has the meaning specified in Section 4.2(b).

“Majority Holders” has the meaning specified in Section 12.1.

“Material Adverse Effect” means, (i) with respect to the Companies, a material adverse effect on the business, results of operations or financial condition of the Companies, taken as a whole; provided, however, that in no event will any of the following (or the effect of any of the following), alone or in combination, be deemed to constitute, or be taken into account in determining whether there has been or will be, a “Material Adverse Effect” on or in respect of the Companies: (A) any change in Law, regulatory policies, accounting standards or principles (including GAAP) or any guidance relating thereto or interpretation thereof, (B) any change in interest rates or economic, political, business or financial market conditions generally (including any changes in credit, financial, commodities, securities or banking markets), (C) any change generally affecting any of the industries in which either Company operates or the economy as a

whole, (D) the announcement or the execution of this Agreement, the pendency or consummation of either Merger or the performance of this Agreement, including losses or threatened losses of employees, customers, vendors, distributors or others having relationships with either Company, (E) the compliance with the terms of this Agreement or any action taken or not taken at the request of Buyer or either Merger Sub or as required or contemplated by this Agreement, (F) any natural disaster, (G) any acts of terrorism, sabotage, war, the outbreak or escalation of hostilities, weather conditions, change in geopolitical conditions or other force majeure events, (H) any failure of either Company to meet any projections or forecasts, provided that this clause (H) shall not prevent a determination that any change or effect underlying such failure to meet projections or forecasts has resulted in a Material Adverse Effect (to the extent such change or effect is not otherwise excluded from this definition of Material Adverse Effect), (I) any matter of which Buyer is aware on the date of this Agreement or to which Buyer has consented in writing or (J) the fact that the prospective owner of the Companies is Buyer or any Affiliate of Buyer; except, in the case of clauses (B), (C), (F) and (G) above, to the extent that any such change, condition, event or effect has a materially disproportionate and adverse effect on the business of the Companies relative to other businesses in the industries in which either Company operates; provided, that in determining whether a Material Adverse Effect has occurred or would reasonably be likely to occur, there shall be taken into account any right to insurance or indemnification available to the Companies, and (ii) with respect to Buyer or either Merger Sub, a material adverse effect on the ability of Buyer or such Merger Sub, in a timely manner, to enter into, to perform its obligations under, or to consummate the transactions contemplated by, this Agreement.

“Merger Approvals” has the meaning specified in Section 9.3(b).

“Merger Consideration” has the meaning specified in Section 4.2(c).

“Merger Subs” has the meaning specified in the preamble hereto.

“Mergers” has the meaning specified in Section 2.1(a).

“Multiemployer Plan” has the meaning specified in Section 5.11(d).

“Operating Agreement” means that certain Amended and Restated Limited Liability Company Agreement of FMFH, dated as of December 1, 2001, by and among the members signatory thereto.

“Other Indemnitors” has the meaning specified in Section 8.1.

“Owned Real Property” means all real property owned by either Company.

“Parent Guarantor” has the meaning specified in the preamble hereto.

“Pay-Off Letter” has the meaning specified in Section 4.4.

“Pending Claim” has the meaning specified in Section 13.8.

“Per-Claim Basket” has the meaning specified in Section 13.4(b).

“Permitted Liens” means (i) mechanics, materialmen’s and similar Liens with respect to any amounts not yet due and payable or which are being contested in good faith through (if then appropriate) appropriate proceedings, (ii) Liens for Taxes not yet due and payable or which are being contested in good faith through appropriate proceedings, (iii) Liens securing rental payments under capital lease agreements, (iv) Liens on real property (including easements, covenants, rights of way and similar restrictions of record) that (A) are matters of record, (B) would be disclosed by a current, accurate survey or physical inspection of such real property, or (C) do not materially interfere with the present uses of such real property, (v) to the extent terminated in connection with the payment of Debt at the Closing pursuant to Section 4.3(c), Liens securing payment, or any other obligations, of either Company with respect to such Debt, (vi) Liens constituting a lease, sublease or occupancy agreement that gives any third party any right to occupy any real property, (vii) other Liens arising in the ordinary course of business and not incurred in connection with the borrowing of money, (viii) Liens referred to in the Financial Statements and (ix) Liens described on Schedule 1.1.

“Person” means any individual, firm, corporation, partnership, limited liability company, incorporated or unincorporated association, joint venture, joint stock company, governmental agency or instrumentality or other entity of any kind.

“Post-Closing Representation” has the meaning specified in Section 14.16(a).

“Pre-Closing Holders” means all Stockholders and Unitholders.

“Pre-Closing Income Tax Returns” means any Tax Return for any taxable period that ends on or prior to the Closing Date and that relates to Income Taxes.

“Pre-Closing Tax Returns” has the meaning specified in Section 9.5(a).

“Prior Company Counsel” has the meaning specified in Section 14.16(a).

“Purchase Price Allocation” has the meaning specified in Section 9.5(h).

“Remedies Exception” has the meaning specified in Section 5.2.

“Schedules” has the meaning specified in the first sentence of Article IV.

“Seller Indemnified Parties” has the meaning specified in Section 13.2(b).

“Section 338(h)(10) Election Taxes” means the product of (i) the excess of (A) any Taxes imposed on a Stockholder as a result of the purchase and sale of CMP pursuant to this Agreement for which the parties make a 338(h)(10) Election, over (B) any Taxes that would have been imposed on such Stockholder if a 338(h)(10) Election had not been made with respect to the purchase and sale of CMP pursuant to this Agreement, multiplied by (ii) a fraction, the numerator of which is one (1) and the denominator of which is one (1) minus the highest combined marginal U.S. federal, state and local tax rate applicable to such Stockholder with

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respect to such Taxes; provided, that for purposes of this definition, “Taxes imposed” shall be determined without regard to the fact that any such Taxes are satisfied or capable of being satisfied by the party owing such Taxes (including Taxes on the gross-up amount) in whole or in part through the application of any net operating loss, capital loss, Tax credit or other Tax attribute of such party; provided, further, that, for the avoidance of doubt, Section 338(h)(10) Election Taxes shall be equal to zero in the event a 338(h)(10) Election is not made pursuant to this Agreement (including as a result of not obtaining the consent of all Stockholders).

“Stockholder Approval” has the meaning specified in Section 9.3(a).

“Stockholder Matters” has the meaning specified in Section 9.3(a).

“Stockholders” means all Persons who hold one or more Common Shares immediately prior to the Effective Time.

“Straddle Period” means any taxable period that begins on or before, and ends after, the Closing Date.

“Straddle Period Tax Returns” has the meaning specified in Section 9.5(a).

“Subsidiary” means, with respect to a Person, a corporation or other entity of which more than 50% of the voting power of the equity securities or equity interests is owned, directly or indirectly, by such Person.

“Survival Expiration Date” has the meaning specified in Section 13.1.

“Surviving Corporation” has the meaning specified in Section 2.1(b).

“Tax Contest Claims” has the meaning specified in Section 9.5(c).

“Tax Refund” has the meaning specified in Section 9.5(e).

“Tax Returns” means any return, declaration, report, statement, information statement or other document filed or required to be filed with respect to Taxes, including any claims for refunds of Taxes and any amendments or supplements of any of the foregoing.

“Taxes” means all federal, state, local, foreign or other tax, including all income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, ad valorem, value added, inventory, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, alternative or add-on minimum, or estimated tax, and including any interest, penalty or addition thereto.

“Terminating Buyer Breach” has the meaning specified in Section 11.1.

“Terminating Company Breach” has the meaning specified in Section 11.1(b).

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“Termination Date” has the meaning specified in Section 11.1(b).

“Unitholder Approval” has the meaning specified in Section 9.3(b).

“Unitholder Matters” has the meaning specified in Section 9.3(b).

“Unitholders” means all Persons who hold one or more Units immediately prior to the Effective Time.

“Units” means units of FMFH.

“VLLCA” means the Virginia Limited Liability Company Act, as amended, or any successor Law.

“VSCA” means the Virginia Stock Corporation Act, as amended, or any successor Law.

1.2 Construction.

(a) Unless the context of this Agreement otherwise requires, (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms “hereof,” “herein,” “hereby,” “hereto” and derivative or similar words refer to this entire Agreement; (iv) the terms “Article,” “Section,” “Schedule” or “Annex” refer to the specified Article or Section of, or Schedule or Annex to, this Agreement; (v) the word “including” shall mean “including, without limitation,” and (vi) the word “or” shall be disjunctive but not exclusive.

(b) Unless the context of this Agreement otherwise requires, references to agreements and other documents shall be deemed to include all subsequent amendments and other modifications thereto.

(c) Unless the context of this Agreement otherwise requires, references to statutes shall include all rules and regulations promulgated thereunder.

(d) The language used in this Agreement shall be deemed to be the language chosen jointly by the parties to express their mutual intent and no rule of strict construction shall be applied against any party.

(e) Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

(f) The phrase “to the extent” shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply “if”.

(g) All accounting terms used herein and not expressly defined herein shall have the meanings given to them under GAAP.

(h) All amounts payable pursuant to this Agreement shall be paid in U.S. dollars, and all references to “\$” or “dollars” shall mean the lawful currency of the United States of America.

1.3 Knowledge. As used herein, the phrase “to the knowledge” of any party shall mean the actual knowledge (without any implied duty to investigate) of, in the case of the Companies, Michael Doherty, and in the case of all other parties, such party’s executive officers.

ARTICLE II. THE CORP MERGER

2.1 The Corp Merger.

(a) Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the applicable provisions of the VSCA, Buyer, Merger Sub Corp and CMP (Merger Sub Corp and CMP sometimes being referred to herein as the “Constituent Corporations”) shall cause Merger Sub Corp to be merged with and into CMP effective as of the Effective Time, with CMP being the surviving corporation (the “Corp Merger”). The Corp Merger shall be consummated at the Effective Time in accordance with this Agreement and evidenced by articles of merger relating to the Corp Merger in substantially the form of Annex A (the “Articles of Corp Merger”).

(b) Upon consummation of the Corp Merger, the separate corporate existence of Merger Sub Corp shall cease and CMP, as the surviving corporation of the Corp Merger (hereinafter referred to for the periods at and after the Effective Time as the “Surviving Corporation”), shall continue its corporate existence under the VSCA as a wholly owned subsidiary of Buyer.

2.2 Effects of the Merger. At and after the Effective Time, the effect of the Corp Merger shall be as provided in this Agreement and the applicable provisions of the VSCA. Without limiting the foregoing, the Surviving Corporation shall thereupon and thereafter possess all of the rights, property, privileges, powers and franchises, of a public as well as a private nature, of the Constituent Corporations, and shall become subject to all the restrictions, disabilities and duties of each of the Constituent Corporations.

2.3 Certificate of Incorporation and Bylaws of the Surviving Corporation.

(a) At the Effective Time, the certificate of incorporation of CMP, as in effect immediately prior to the Effective Time, shall be amended as of the Effective Time to read in its entirety in the form of a certificate of incorporation to be mutually agreed by Buyer and the Holder Representative prior to Closing, and, as so amended, shall become the certificate of incorporation of the Surviving Corporation until thereafter amended in accordance with the applicable provisions of the VSCA and such certificate of incorporation; provided that any such amendment must comply with Section 8.1.

(b) The parties hereto shall take all actions necessary so that the bylaws of CMP in effect immediately prior to the Effective Time shall, from and after the Effective Time, be

amended in their entirety in the form of the bylaws of Merger Sub Corp as in effect immediately prior to the Effective Time (except that (i) in any event such amended bylaws must comply with Section 8.1 and (ii) all references to the name of Merger Sub Corp shall be changed to refer to the name of CMP), until thereafter amended in accordance with the applicable provisions of the VSCA, the certificate of incorporation of the Surviving Corporation and such bylaws; provided that any such amendment must comply with Section 8.1.

2.4 Directors and Officers of the Surviving Corporation.

(a) The directors of Merger Sub Corp immediately prior to the Effective Time shall be the directors of the Surviving Corporation immediately after the Effective Time, each to hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation until their respective successors are duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the certificate of incorporation and bylaws of the Surviving Corporation.

(b) The officers of CMP immediately prior to the Effective Time shall be the officers of the Surviving Corporation immediately after the Effective Time, each to hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation until their respective successors are duly appointed or until their earlier death, resignation or removal in accordance with the certificate of incorporation and bylaws of the Surviving Corporation.

2.5 Conversion of Common Shares.

(a) At the Effective Time, by virtue of the Corp Merger and without any further action on the part of Buyer, Merger Sub Corp, CMP or any Stockholder, each share of Common Stock held by Buyer, Merger Sub Corp or CMP, in treasury or otherwise, shall be canceled and retired and shall cease to exist, and no consideration shall be delivered or deliverable in exchange therefor (such shares, “Cancelled Shares”).

(b) At the Effective Time, by virtue of the Corp Merger and without any action on the part of Buyer or Merger Sub Corp, each share of common stock, par value \$0.01 per share, of Merger Sub Corp shall be converted into one share of common stock, par value \$0.01 per share, of the Surviving Corporation.

(c) At the Effective Time, by virtue of the Corp Merger and without any action on the part of Buyer, Merger Sub Corp, CMP or any Stockholder (other than compliance with Section 4.3(b) by the applicable Stockholder), each share (a “Common Share”) of Common Stock that is issued and outstanding immediately prior to the Effective Time (other than (x) Cancelled Shares and (y) shares (each, a “Dissenting Share”) of Common Stock held by Persons who object to the Corp Merger and comply with the provisions of the VSCA concerning the rights of holders of Common Stock to dissent from the Merger and require appraisal of their shares of Common Stock (the “Dissenting Stockholders”), which Cancelled Shares and Dissenting Shares shall not constitute “Common Shares” hereunder) shall thereupon be canceled and converted into and become the right to receive the applicable portion of the Corp Merger

Consideration, as determined pursuant to Section 2.5(d) and as set forth on the Allocation Schedule.

(d) The Corp Merger Consideration shall be allocated among the Stockholders as set forth below in this Section 2.5(d) and shall be payable in accordance with this Agreement, including Sections 4.3 and 13.8. Each Stockholder shall be entitled to receive, in respect of the Common Shares held by such holder immediately prior to the Effective Time, the sum of (x) a portion of the Corp Merger Consideration equal to the product of (I) the Cash Per Common Share (as defined below), multiplied by (II) the number of Common Shares held by such Stockholder immediately prior to the Effective Time, plus (y) such Stockholder’s Section 338(h)(10) Election Taxes. For purposes of the foregoing, the “Cash Per Common Share” shall mean (i) the Corp Merger Consideration divided by (ii) the Aggregate Common Shares.

(e) From and after the Effective Time, (i) holders of CMP Certificates shall cease to have any rights as Stockholders and (ii) the consideration paid pursuant to Article IV upon the surrender of CMP Certificates in accordance with the terms hereof shall be deemed to have been paid in full satisfaction of all rights pertaining to the Common Shares, subject to the continuing rights of the Stockholders under this Agreement and the Escrow Agreement. At the Effective Time, the transfer books of CMP shall be closed and no transfer of Common Shares shall be made thereafter. If, between the date of this Agreement and the Effective Time, the shares of Common Stock are changed into a different number or class of shares by means of any stock split, division or subdivision of shares, stock dividend, reverse stock split, consolidation of shares, reclassification or other similar transaction, then the Cash Per Common Share shall be appropriately adjusted.

ARTICLE III. THE LLC MERGER

3.1 The LLC Merger.

(a) Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the applicable provisions of the VLLCA, Buyer, Merger Sub LLC and FMFH (Merger Sub LLC and FMFH sometimes being referred to herein as the “Constituent LLCs”) shall cause Merger Sub LLC to be merged with and into FMFH effective as of the Effective Time, with FMFH being the surviving limited liability company (the “LLC Merger” and, together with the Corp Merger, the “Mergers”). The LLC Merger shall be consummated at the Effective Time in accordance with this Agreement and evidenced by articles of merger relating to the LLC Merger in substantially the form of Annex B (the “Articles of LLC Merger” and, together with the Articles of Corp Merger, the “Articles of Merger”).

(b) Upon consummation of the LLC Merger, the separate existence of Merger Sub LLC shall cease and FMFH, as the surviving limited liability company of the LLC Merger (hereinafter referred to for the periods at and after the Effective Time as the “Surviving LLC”), shall continue its existence under the VLLCA as a wholly owned subsidiary of Buyer.

3.2 Effects of the LLC Merger. At and after the Effective Time, the effect of the LLC Merger shall be as provided in this Agreement and the applicable provisions of the VLLCA. Without limiting the foregoing, the Surviving LLC shall thereupon and thereafter possess all of the rights, property, privileges, powers and franchises, of a public as well as a private nature, of the Constituent LLCs, and shall become subject to all the restrictions, disabilities and duties of each of the Constituent LLCs.

3.3 Operating Agreement of the Surviving LLC. At the Effective Time, the Operating Agreement, as in effect immediately prior to the Effective Time, shall be amended and restated in its entirety in form and substance reasonably determined by Buyer, and as so amended and restated (the “Surviving LLC Operating Agreement”) shall become the limited liability company agreement of the Surviving LLC until thereafter amended in accordance with the applicable provisions of the VSCA, the certificate of formation of the Surviving LLC and such Surviving LLC Operating Agreement; provided that such Surviving LLC Operating Agreement (and any such amendment) must comply with Section 8.1.

3.4 Managers and Officers. From and after the Effective Time, the managers and officers of the Surviving LLC shall be as set forth in the Surviving LLC Operating Agreement, in each case, until their respective successors are duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the certificate of formation of the Surviving LLC and the Surviving LLC Operating Agreement.

3.5 Conversion of Units.

(a) At the Effective Time, by virtue of the LLC Merger and without any further action on the part of Buyer, Merger Sub LLC, FMFH or any Unitholder, each Unit held by Buyer or Merger Sub LLC shall be canceled and extinguished without any conversion thereof, and no cash or other consideration shall be delivered or deliverable in exchange therefor (such Units, “Cancelled Units”).

(b) At the Effective Time, by virtue of the LLC Merger and without any action on the part of Buyer or Merger Sub LLC, the limited liability company interests of Merger Sub LLC outstanding immediately prior to the Effective Time shall be converted into an interest in the Surviving LLC equal to one hundred percent (100%) of the limited liability company interests of the Surviving LLC.

(c) At the Effective Time, by virtue of the LLC Merger and without any action on the part of Buyer, Merger Sub LLC, FMFH or any Unitholder (other than compliance with Section 4.3(b) by the applicable Unitholder), each Unit that is issued and outstanding immediately prior to the Effective Time (other than the Cancelled Units) shall thereupon be canceled and converted into and become the right to receive the applicable portion of the LLC Merger Consideration, as determined pursuant to Section 3.5(d) and as set forth on the Allocation Schedule.

(d) The LLC Merger Consideration shall be allocated among the Unitholders as set forth below in this Section 3.5(d) and shall be payable in accordance with this Agreement,

including Sections 4.3 and 13.8. Each Unitholder shall be entitled to receive, in respect of the Units held by such holder immediately prior to the Effective Time, a portion of the LLC Merger Consideration equal to (x) the Cash Per Unit (as defined below), multiplied by (y) the number of Units held by such holder immediately prior to the Effective Time. For purposes of the foregoing, the “Cash Per Unit” shall mean (i) the LLC Merger Consideration divided by (ii) the Aggregate Units.

(e) From and after the Effective Time, (i) Unitholders shall cease to have any rights as members of FMFH and (ii) the consideration paid pursuant to Article IV in accordance with the terms hereof shall be deemed to have been paid in full satisfaction of all rights pertaining to the Units, subject to the continuing rights of the Unitholders under this Agreement and the Escrow Agreement. At the Effective Time, the transfer books of FMFH shall be closed and no transfer of Units shall be made thereafter.

ARTICLE IV. CLOSING; PAYMENTS

4.1 Closing; Effective Time. Subject to the terms and conditions of this Agreement, the closing of the Mergers (the “Closing”) shall take place at the offices of Latham & Watkins LLP, 555 Eleventh Street, N.W., Washington, DC 20004, at 10:00 a.m. (Eastern time) on the date which is two (2) Business Days after the date on which all conditions set forth in Section 10.1 shall have been satisfied or waived (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions) or such other time and place as Buyer and the Companies may mutually agree. The date on which the Closing actually occurs is referred to in this Agreement as the “Closing Date”. Subject to the satisfaction or waiver of all of the conditions set forth in Article X, and provided this Agreement has not theretofore been terminated pursuant to its terms, Buyer, Merger Subs and the Companies shall cause the Articles of Merger to be executed, acknowledged and filed with the State Corporation Commission of Virginia (the “Commission”) as provided in Section 13.1-720 of the VSCA or Section 13.1-1072 of the VLLCA, as applicable. Each Merger shall become effective at the time when the applicable Articles of Merger have been duly filed with the Commission or at such later time as may be agreed by Buyer and the Companies in writing and specified in such Articles of Merger (the “Effective Time”).

4.2 Merger Consideration.

(a) The “Corp Merger Consideration” shall consist of (i) \$50,000,000 in cash, less (ii) the Closing Date CMP Debt, plus (iii) the Closing Date CMP Cash, less (iv) [***] in accordance with Section 4.5 to be agreed by the Board of Directors of CMP and the Board of Managers of FMFH. In addition, the Pre-Closing Holders will be entitled to payment of their respective Section 338(h)(10) Election Taxes as set forth herein.

(b) The “LLC Merger Consideration” shall consist of (i) \$50,000,000 in cash, less (ii) the Closing Date FMFH Debt, plus (iii) the Closing Date FMFH Cash, less (iv) [***] with Section 4.5 to be agreed by the Board of Directors of CMP and the Board of Managers of FMFH (provided that the sum of the portions described in Section 4.2(a)(iv) and Section 4.2(b)(iv) will

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equal the aggregate amount of Holder Representative Expenses paid by Buyer to the Holder Representative at Closing in accordance with Section 4.5).

(c) The “Merger Consideration” shall equal the sum of the Corp Merger Consideration plus the LLC Merger Consideration. Prior to the Closing, the Companies intend to (i) distribute to the Pre-Closing Holders all or substantially all of each Company’s Cash and (ii) repay certain Debt and pay certain fees and expenses incurred by the Companies in connection with the transactions contemplated hereby.

4.3 Payment and Exchange of Certificates.

(a) Immediately prior to the Effective Time, Buyer shall pay to an exchange agent (the “Exchange Agent”) selected by the Holder Representative and reasonably acceptable to Buyer, by wire transfer of immediately available funds, an amount in cash (the “Funding Amount”) equal to (i) the Merger Consideration, plus (ii) in the event a 338(h)(10) Election is being made at the Closing, the Closing Date Section 338(h)(10) Election Taxes minus (iii) the product of (A) the number of Dissenting Shares and (B) the Cash Per Common Share, minus (iv) the Escrow Amount; provided that Buyer will promptly thereafter pay to the Exchange Agent any amounts by which the Funding Amount increases due to any Dissenting Shares becoming Common Shares in accordance with Section 4.8.

(b) Prior to the Closing Date, the Companies shall mail to each Pre-Closing Holder of record as of a recent date a letter of transmittal in the form attached hereto as Annex C, in the case of the Stockholders (the “CMP Letter of Transmittal”), or Annex D, in the case of the Unitholders (the “FMFH Letter of Transmittal” and, together with the CMP Letter of Transmittal, each a “Letter of Transmittal”) (which shall include, among other things, an executed consent to the appointment of the Holder Representative as contemplated by Article XII). The Buyer shall, promptly after the Effective Time, deliver the applicable Letter(s) of Transmittal to any Person who was a Pre-Closing Holder of record as of the Closing who did not receive such materials prior to the Closing, to the extent Buyer is made aware of those Persons. After the Effective Time, each Pre-Closing Holder, upon surrender to the Exchange Agent of (i) an outstanding certificate or certificates for Common Shares (collectively, the “CMP Certificates”) and/or an outstanding certificate or certificates for Units, if any (collectively, the “FMFH Certificates” and, together with the CMP Certificates, the “Certificates”), as applicable, (ii) the applicable Letter(s) of Transmittal and (iii) such other documentation as may be reasonably requested by the Exchange Agent, Buyer or the Holder Representative, shall be entitled to receive from the Exchange Agent in exchange therefor such portion of the Merger Consideration and Section 338(h)(10) Election Taxes (if applicable) into which such holder’s Common Shares and/or Units, as applicable, shall have been converted as a result of the Merger, as set forth on the Allocation Schedule; provided, however, that a portion of the Merger Consideration and Section 338(h)(10) Election Taxes (if applicable) otherwise payable to each Pre-Closing Holder equal to the sum of (x) the product of (A) the Escrow Amount (less the portion of the Escrow Amount attributable to the Estimated Section 338(h)(10) Election Taxes in the event a 338(h)(10) Election is not being made at the Closing) multiplied by (B) such holder’s Escrow Percentage plus (y) in the event a 338(h)(10) Election is not being made at the Closing, the Estimated Section 338(h)(10) Election

Taxes attributable to such Pre-Closing Holder shall be held in escrow in accordance with the terms of the Escrow Agreement. Notwithstanding the foregoing, in the event that any Pre-Closing Holder delivers the Certificate(s) representing such Common Shares and/or Units, as applicable, to Buyer at the Closing, Buyer shall pay the amount which such holder is entitled in consideration therefor directly to such holder at the Closing by wire transfer of immediately available funds and the Funding Amount payable to the Exchange Agent shall be reduced by such amount. Pending such surrender and exchange of a Pre-Closing Holder’s Certificate(s), a holder’s Certificate(s) shall be deemed for all purposes to evidence such holder’s right to receive the portion of the Merger Consideration into which such Common Shares and/or Units, as applicable, shall have been converted as a result of the Merger, as set forth on the Allocation Schedule.

(c) At the Closing, (i) Buyer shall pay a portion of the Merger Consideration equal to the Escrow Amount to Fidelity National Title Insurance Company, 2701 Emerywood Parkway, Suite 200, Richmond, Virginia 23294, as escrow agent of the parties hereto (the “Escrow Agent”), to be held in escrow in accordance with the terms of the Escrow Agreement; provided that Buyer will promptly thereafter pay to the Escrow Agent any amounts by which the Escrow Amount increases due to any Dissenting Shares becoming Common Shares in accordance with Section 4.8, and (ii) Buyer shall, or shall cause Merger Subs to, pay (A) to the intended beneficiaries thereof (as identified in the Pay-Off Letter) any Closing Date CMP Debt and Closing Date FMFH Debt that has not been repaid in full prior to the Closing and (B) the Holder Representative Expenses, as set forth in Section 4.5.

4.4 Closing Date Debt; Closing Date Cash. Not less than two (2) Business Days prior to the Closing Date and in no event more than ten (10) Business Days prior to the Closing Date, the Companies shall deliver to Buyer (a) a written statement setting forth (i) a calculation of Debt of CMP (“Closing Date CMP Debt”), (ii) a calculation of Cash of CMP (“Closing Date CMP Cash”), (iii) a calculation of Debt of FMFH (“Closing Date FMFH Debt”), (iv) a calculation of Cash of FMFH (“Closing Date FMFH Cash”) and (v) a calculation of the Section 338(h)(10) Election Taxes (“Closing Date Section 338(h)(10) Election Taxes”), in each case, calculated as of 11:59 p.m. (Eastern time) on the Closing Date, (b) pay-off letters for the repayment in full of any Closing Date CMP Debt and Closing Date FMFH Debt (the “Pay-Off Letter”) and (c) a schedule in the form attached hereto as Annex E reflecting (I) the Corp Merger Consideration, the LLC Merger Consideration and the Merger Consideration, (II) the Cash Per Common Share and the Cash Per Unit, (III) the amount of cash payable to each Pre-Closing Holder as a result of the Closing, including each Pre-Closing Holder’s respective Closing Date Section 338(h)(10) Election Taxes (if applicable), and (IV) each Pre-Closing Holder’s Escrow Percentage (the schedule described in this clause (c), the “Allocation Schedule”). For the avoidance of doubt, the calculations described in clause (a) above shall disregard any actions occurring on the Closing Date and after the Closing (including, without limitation, any such actions taken by Buyer or Merger Sub).

4.5 [***].

4.6 Exchange Agent. Promptly following the date which is one year after the Effective Time, Buyer shall instruct the Exchange Agent to deliver to Buyer all cash, Certificates and other documents in its possession relating to the transactions contemplated hereby, and the Exchange Agent’s duties shall terminate. Thereafter, each Pre-Closing Holder of a Certificate (other than Certificates representing Dissenting Shares) may surrender such Certificate to Buyer and (subject to applicable abandoned property, escheat and similar Laws) receive in consideration therefor, and Buyer shall promptly pay, the portion of the Merger Consideration deliverable in respect thereof as determined in accordance with Article III and this Article IV without any interest thereon.

4.7 Lost Certificate. In the event any Certificate has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration deliverable in respect thereof as determined in accordance with Article III and this Article IV.

4.8 Dissenting Shares. Notwithstanding the foregoing provisions of Article III and this Article IV, the Dissenting Shares shall not be converted into a right to receive any portion of the Merger Consideration and the holders thereof shall be entitled to such rights as are granted by Section 13.1-730 of the VSCA. Each holder of Dissenting Shares who becomes entitled to payment for such shares pursuant to Section 13.1-730 of the VSCA shall receive payment therefor from the Surviving Corporation in accordance with the VSCA; provided, however, that (i) if any such holder of Dissenting Shares shall have failed to establish such holder’s entitlement to appraisal rights as provided in Section 13.1-730 of the VSCA, or (ii) if any such holder of Dissenting Shares shall have effectively withdrawn such holder’s demand for appraisal of such shares or lost such holder’s right to appraisal and payment for such holder’s shares under Section 13.1-730 of the VSCA, such holder shall forfeit the right to appraisal of such shares and each such share shall not constitute a Dissenting Share and shall be treated as if it had been a Common Share immediately prior to the Effective Time and converted, as of the Effective Time, into a right to receive from the Surviving Corporation the portion of the Corp Merger Consideration deliverable in respect thereof as determined in accordance with Article II, as set forth on the Allocation Schedule, without any interest thereon (and such holder shall be treated as a Pre-Closing Holder). CMP will give Buyer reasonable notice of all written notices received by CMP pursuant to Section 13.1-733 of the VSCA. Without the prior written consent of Buyer (which shall not be unreasonably withheld, conditioned or delayed), CMP shall not voluntarily make any payment with respect to, or settle or offer to settle, any such demand for payment. From and after the Effective Time, no Stockholder who has properly exercised and perfected appraisal rights pursuant to Section 13.1-735.1 of the VSCA shall be entitled to vote his or her shares of Common Stock for any purpose or receive payment of dividends or other distributions with respect to his or her shares of Common Stock (except dividends and distributions payable to stockholders of record at a date which is prior to the Effective Time).

ARTICLE V.
REPRESENTATIONS AND WARRANTIES OF THE COMPANIES

** Portions of this exhibit have been redacted in accordance with Item 601(b)(10) of Regulation S-K. The information is not material and would cause competitive harm to the registrant if publicly disclosed. “[***]” indicates that information has been redacted.

Except as set forth in the schedules to this Agreement previously exchanged among the parties (the “Schedules”), each Company represents and warrants to Buyer and Merger Subs as of the date of this Agreement as follows, but solely to the extent the following representations and warranties relate to such Company:

5.1 Organization of the Companies. CMP has been duly incorporated and is validly existing as a corporation in good standing under the Laws of the Commonwealth of Virginia and has the corporate power and authority to own or lease its properties and to conduct its business as it is now being conducted. The copies of the certificate of incorporation and bylaws of CMP previously made available by CMP to Buyer or its representatives are true and complete. FMFH has been duly organized and is validly existing as a limited liability company in good standing under the Laws of the Commonwealth of Virginia and has the limited liability company power and authority to own or lease its properties and to conduct its business as it is now being conducted. The copies of the certificate of formation of FMFH and the Operating Agreement previously made available by FMFH to Buyer or its representatives are true and complete. Each Company is duly licensed or qualified to do business and (where applicable) is in good standing as a foreign corporation or limited liability company, as applicable, in each jurisdiction in which the ownership of its property or the character of its activities is such as to require it to be so licensed or qualified or in good standing, as applicable, except where the failure to be so licensed or qualified or in good standing would not reasonably be expected to have a Material Adverse Effect on the Companies. Neither Company has any Subsidiary.

5.2 Due Authorization. Each Company has all requisite power and authority to execute and deliver this Agreement and (subject to the consents, approvals, authorizations and other requirements described in Section 5.4) to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by each Company and the consummation by such Company of the transactions contemplated hereby have been duly and validly authorized and approved by the Board of Directors of CMP, in the case of CMP, and the Board of Managers of FMFH, in the case of FMFH, and no other corporate (in the case of CMP) or limited liability company (in the case of FMFH) proceeding on the part of such Company is necessary to authorize this Agreement (other than the Merger Approvals). This Agreement has been duly and validly executed and delivered by each Company and (assuming this Agreement constitutes a legal, valid and binding obligation of Buyer and Merger Subs) constitutes a legal, valid and binding obligation of such Company, enforceable against such Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar Laws affecting creditors’ rights generally and subject, as to enforceability, to general principles of equity (collectively, the “Remedies Exception”).

5.3 No Conflict. Except as set forth on Schedule 5.3 and except as may result from any facts or circumstances relating solely to Buyer or any of its Affiliates, subject to the receipt of the consents, approvals, authorizations and other requirements set forth in Section 5.4 or on Schedule 5.4, the execution and delivery of this Agreement by each Company and the consummation by such Company of the transactions contemplated hereby do not and will not, as of the Closing, (a) violate any provision of, or result in the breach of, any applicable Law to which such Company is subject or by which any property or asset of such Company is bound, (b)

conflict with the certificate of incorporation, bylaws, Operating Agreement or other organizational documents of such Company, (c) violate any provision of or result in a breach of, or require a consent under, any Contract listed on Schedule 5.10, or terminate or result in the termination of any such Contract, or result in the creation of any Lien under any such Contract upon any of the properties or assets of such Company, or constitute an event which, after notice or lapse of time or both, would result in any such violation, breach, termination or creation of a Lien or (d) result in a violation or revocation of any required license, permit or approval from any Governmental Authority, except to the extent that the occurrence of any of the foregoing items set forth in clauses (a), (c) or (d) would not reasonably be expected to have (x) a material adverse effect on the ability of such Company to enter into and perform its obligations under this Agreement or (y) a Material Adverse Effect on the Companies.

5.4 Governmental Consents. Assuming the truth and completeness of the representations and warranties of Buyer contained in this Agreement and except as may result from any facts or circumstances relating solely to Buyer or any of its Affiliates, no consent, approval or authorization of, or designation, declaration or filing with, any Governmental Authority is required on the part of either Company with respect to such Company’s execution or delivery of this Agreement or the consummation by such Company of the transactions contemplated hereby, except for (a) any consents, approvals, authorizations, designations, declarations or filings, the absence of which would not reasonably be expected to have a Material Adverse Effect on the Companies, (b) compliance with any applicable requirements of the securities Laws, (c) as otherwise disclosed on Schedule 5.4 and (D) the filing of the Articles of Merger in accordance with the VSCA and VLLCA, as applicable.

5.5 Capitalization of the Companies.

(a) The authorized capital stock of CMP consists of 20,000 shares of Common Stock, of which 13,114 shares are issued and outstanding as of the date of this Agreement. All of the issued and outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and nonassessable and have not been issued in violation of any preemptive or similar rights.

(b) The authorized capital stock of FMFH consists of 20,000 Units, of which 13,430 are issued and outstanding as of the date of this Agreement. The rights and privileges of the Units are set forth in the Operating Agreement. All of the issued and outstanding Units have been duly authorized and validly issued and are fully paid and nonassessable and have not been issued in violation of any preemptive or similar rights.

(c) A true, correct and complete list of record holders of the issued and outstanding shares of Common Stock and Units as of the date of this Agreement is set forth in Schedule 5.5. Except as set forth on Schedule 5.5, neither Company has granted any outstanding options, warrants, rights or other securities convertible into or exchangeable or exercisable for shares of Common Stock or Units, or any other commitments or agreements providing for the issuance of additional shares or Units, the sale of treasury shares, or for the repurchase or redemption of shares of Common Stock or Units, and there are no agreements of any kind which may obligate either Company to issue, purchase, register for sale, redeem or otherwise acquire any of its

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capital stock or Units. Except for this Agreement, there is no voting trust, proxy or other agreement or understanding with respect to the voting of the shares of Common Stock or Units.

5.6 Financial Statements. Attached as Schedule 5.6 are (a) the reviewed balance sheets and statements of income and other comprehensive income, retained earnings and accumulated other comprehensive income and cash flows of CMP as of and for the twelve-month periods ended December 31, 2017 and December 31, 2018 (the “CMP Financial Statements”) and (b) the reviewed balance sheets and statements of income, changes in members’ equity and cash flows of FMFH as of and for the twelve-month periods ended December 31, 2017 and December 31, 2018 (the “FMFH Financial Statements” and, together with the CMP Financial Statements, the “Financial Statements”). Except as set forth on Schedule 5.6, the Financial Statements present fairly, in all material respects, the respective financial positions and results of operations of the applicable Company as of the dates and for the periods indicated in such Financial Statements.

5.7 Undisclosed Liabilities. Except as set forth on Schedule 5.7, as of the date of this Agreement, to the knowledge of the Companies, there is no liability, debt or obligation of either Company of a type required to be reflected or reserved for on a balance sheet prepared in accordance with GAAP, except for liabilities and obligations (a) reflected or reserved for on the Financial Statements or disclosed in the notes thereto, (b) that have arisen since the date of the most recent balance sheet included in the Financial Statements in the ordinary course of the operation of business of such Company, (c) incurred in connection with the transactions contemplated by this Agreement, (d) disclosed in the Schedules or (e) which would not reasonably be expected to have a Material Adverse Effect on the Companies.

5.8 Litigation and Proceedings. Except (a) as set forth on Schedule 5.8 and (b) Actions under Environmental Law (as to which certain representations and warranties are made pursuant to Section 5.20), as of the date of this Agreement, there are no pending or, to the knowledge of the Companies, threatened, lawsuits, actions, suits, claims or other proceedings at law or in equity or, to the knowledge of the Companies, investigations, in each case, before or by any Governmental Authority against either Company that, in each case, if resolved adversely to such Company, would reasonably be expected to have a Material Adverse Effect on the Companies. As of the date hereof, there is no unsatisfied judgment or any open injunction binding upon either Company which would reasonably be expected to have a Material Adverse Effect on the Companies.

5.9 Legal Compliance. Except with respect to (a) matters set forth on Schedule 5.9, (b) compliance with Environmental Laws (as to which certain representations and warranties are made pursuant to Section 5.20) and (c) compliance with Laws related to employment of labor (as to which certain representations and warranties are made pursuant to Section 5.12), to the knowledge of the Companies, each Company is, as of the date of this Agreement, in compliance with all applicable Laws, except where the failure to be in compliance with such Laws would not reasonably be expected to have a Material Adverse Effect on the Companies. As of the date hereof, neither Company has received any written notice from any Governmental Authority of a

material violation of any applicable Law at any time during the past two years that would reasonably be expected to have a Material Adverse Effect on the Companies.

5.10 Contracts; No Defaults.

(a) Schedule 5.10 contains a listing of all Contracts described in clauses (i) through (viii) below to which, as of the date of this Agreement, either Company is a party (other than Company Benefit Plans, Contracts for labor and employment matters set forth on Schedule 5.12 and Contracts relating to insurance policies set forth on Schedule 5.15). True and complete copies of the Contracts listed on Schedule 5.10 have been delivered to or made available to Buyer or its representatives.

(i) Each Contract (other than (x) purchase orders with suppliers or customers entered into in the ordinary course of business and (y) Contracts of the type (without giving effect to dollar thresholds) described in other clauses of this Section 5.10(a)) that either Company reasonably anticipates will involve annual payments or consideration furnished by or to such Company of more than \$35,000 which are not cancelable (without penalty, cost or other liability) by giving notice of ninety (90) days or less;

(ii) Each note, debenture, other evidence of indebtedness, guarantee, loan, credit or financing agreement or instrument or other contract for money borrowed by either Company, in each case, having an outstanding principal amount in excess of \$5,000;

(iii) Each Contract for the acquisition of any Person or any business division thereof or the disposition of any material assets of either Company (other than in the ordinary course of business), in each case, involving payments in excess of \$10,000, other than Contracts in which the applicable acquisition or disposition has been consummated and there are no material obligations ongoing;

(iv) other than Contracts entered into with customers in the ordinary course, each lease, rental or occupancy agreement, real property license, installment and conditional sale agreement or other Contract that, in each case, (x) provides for the ownership of, leasing of, title to, use of, or any leasehold or other interest in any real or personal property and (y) involves annual payments in excess of \$10,000;

(v) Each joint venture Contract, partnership agreement or limited liability company agreement with a third party;

(vi) Each Contract containing covenants expressly limiting in any material respect the freedom of either Company to compete with any Person in a product line or line of business or to operate in any geographic area; and

(vii) Each Contract pursuant to which either Company licenses material Intellectual Property from a third party, other than click-wrap, shrink-wrap and off-the-shelf software licenses, and any other software licenses that are available on

standard terms to the public generally with license, maintenance, support and other fees less than \$5,000 per year.

(b) Except as set forth on Schedule 5.10(b), as of the date of this Agreement, all of the Contracts set forth on Schedule 5.10(a) are (i) in full force and effect, subject to the Remedies Exception, and (ii) represent the valid and binding obligations of the Company party thereto and, to the knowledge of the Companies, represent the valid and binding obligations of the other parties thereto. Except as set forth on Schedule 5.10(b), and except, in each case, where the occurrence of such breach or default would not reasonably be expected to have a Material Adverse Effect on the Companies, (x) neither Company nor, to the knowledge of the Companies, any other party thereto is in breach of or default under any such Contract, (y) as of the date of this Agreement, neither Company has received any claim or notice of material breach of or material default under any such Contract and (z) to the knowledge of the Companies, no event has occurred which, individually or together with other events, would reasonably be expected to result in a breach of or a default under any such Contract (in each case, with or without notice or lapse of time or both).

5.11 Company Benefit Plans.

(a) Schedule 5.11 sets forth a complete list of each material, written “employee benefit plan” as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and any other material written plan, policy or program providing compensation or other benefits to any current or former director, officer or employee, which are maintained, sponsored or contributed to or by any Company and under which any Company has any material obligation or liability (each a “Company Benefit Plan”).

(b) With respect to each Company Benefit Plan, the Companies have delivered or made available to Buyer or its representatives copies of (i) such Company Benefit Plan and any trust agreement relating to such plan, (ii) the most recent summary plan description for such Company Benefit Plan for which such summary plan description is required, (iii) the most recent annual report on Form 5500 and all attachments thereto filed with the Internal Revenue Service with respect to such Company Benefit Plan (if applicable) and (iv) the most recent determination or opinion letter, if any, issued by the Internal Revenue Service with respect to such Company Benefit Plan.

(c) Except as would not reasonably be expected to have a Material Adverse Effect on the Companies: (i) each Company Benefit Plan has been administered in accordance with its terms and all applicable Laws, including ERISA and the Code; (ii) all contributions required to be made with respect to any Company Benefit Plan on or before the date hereof have been made; and (iii) each Company Benefit Plan which is intended to be qualified within the meaning of Section 401(a) of the Code (A) has received a favorable determination or opinion letter as to its qualification, (B) has been established under a standardized master and prototype or volume submitter plan for which a current favorable Internal Revenue Service advisory letter or opinion letter has been obtained by the plan sponsor and is valid as to the adopting employer, or (C) has time remaining under applicable Laws and related guidance to apply for a determination or

opinion letter or to make any amendments necessary to obtain a favorable determination or opinion letter within the remedial amendment period.

(d) Except as set forth on Schedule 5.11, no Company Benefit Plan is a multiemployer pension plan (as defined in Section 3(37) of ERISA) (a “Multiemployer Plan”) or other pension plan, in each case, that is subject to Title IV of ERISA and neither Company has sponsored or contributed to or been required to contribute to a Multiemployer Plan or other pension plan subject to Title IV of ERISA at any time within the previous six (6) years.

(e) Except as would not reasonably be expected to have a Material Adverse Effect on the Companies, with respect to the Company Benefit Plans, (i) as of the date hereof, no actions, suits or claims (other than routine claims for benefits in the ordinary course) are pending or, to the knowledge of the Companies, threatened, and (ii) to the knowledge of the Companies, no facts or circumstances exist that would reasonably be expected to give rise to any such actions, suits or claims.

5.12 Labor Relations. Except as set forth on Schedule 5.12, as of the date of this Agreement, neither Company is a party to any collective bargaining agreement. The Contracts listed on Schedule 5.12 include all individual written employment, retention, change in control bonus or severance agreements to which, as of the date of this Agreement, a Company is a party with respect to any current employee whose salary and bonus during the fiscal year ended December 31, 2018 exceeded \$250,000 and which may not be terminated at will, or by giving notice of 90 days or less, without cost or penalty. The Companies have delivered or made available to Buyer or its representatives true and complete copies of each such Contract.

5.13 Taxes. Except as set forth on Schedule 5.13:

(a) Each Company has filed all material Tax Returns required to be filed by or with respect to such Company, and all such Tax Returns are true and complete in all material respects.

(b) Each Company has fully paid all material Taxes which are due and payable by such Company.

(c) Each Company has withheld and paid over to the appropriate Governmental Authority all material Taxes required to be withheld by such Company.

(d) No deficiency for any material Taxes has been asserted or assessed by any Governmental Authority in writing against such Company, except for deficiencies which have been satisfied by payment, settled or withdrawn. As of the date hereof, no audit or other proceeding by any Governmental Authority is pending or threatened in writing against such Company with respect to any material Taxes due from such Company.

(e) There are no material Tax indemnification or Tax sharing agreements (other than pursuant to any customary commercial contract the principal subject of which is not Taxes) under which such Company would reasonably be expected to be liable after the Closing Date for the Tax liability of any Person that is not a Company.

(f) CMP is an S corporation within the meaning of Section 1361 of the Code.

Notwithstanding anything to the contrary in this Agreement, the representations and warranties in this Section 5.13 shall be the only representations or warranties of the Companies in this Agreement with respect to Tax matters and may only be relied upon for purposes of liability for taxable periods (or portions thereof) ending on or prior to the Closing Date.

5.14 Brokers’ Fees. [***], no broker, finder, investment banker or other Person is entitled to any brokerage fee, finders’ fee or other similar commission, for which Buyer or either Company would be liable in connection with the transactions contemplated by this Agreement based upon arrangements made by such Company or any of its Affiliates.

5.15 Insurance. Schedule 5.15 contains a list of all material policies of property, fire and casualty, product liability, workers’ compensation, and other forms of insurance held by, or for the benefit of, either Company as of the date of this Agreement. True and complete copies of such insurance policies have been made available to Buyer or its representatives. Except as set forth in Schedule 5.15, (a) as of the date hereof, neither Company has received any written notice from any insurer under any such insurance policies, canceling or materially adversely amending any such policy or denying renewal of coverage thereunder and (b) all premiums on such insurance policies due and payable as of the date hereof have been paid.

5.16 Licenses, Permits and Authorizations. Except as set forth on Schedule 5.16, and except with respect to licenses, approvals, consents, registrations and permits required under applicable Environmental Laws (as to which certain representations and warranties are made pursuant to Section 5.20), each Company has obtained, and is, as of the date of this Agreement, in material compliance with, all of the material licenses, approvals, consents, registrations and permits necessary under applicable Laws to permit such Company to own, operate, use and maintain their assets in the manner in which they are now operated, used and maintained and to conduct the business of such Company as currently conducted, except where the absence of, or the failure to be in material compliance with, any such license, approval, consent, registration or permit would not reasonably be expected to have a Material Adverse Effect on the Companies. As of the date hereof, there are no pending or, to the knowledge of the Companies, threatened claims, actions, suits or other proceedings or, to the knowledge of the Companies, investigations before or by any Governmental Authority that would reasonably be expected to result in the revocation or termination of any such license, approval, consent, registration or permit that is material to the conduct of the business of either Company as currently conducted, except for any such revocation or termination that would not reasonably be expected to have a Material Adverse Effect on the Companies.

5.17 Machinery, Equipment and Other Tangible Personal Property. Except as set forth on Schedule 5.17, each Company owns and has good title to all material machinery, equipment and other tangible personal property reflected on the books of such Company as owned by such Company, free and clear of all Liens other than Permitted Liens, except as would not reasonably be expected to have a Material Adverse Effect on the Companies. All such material machinery, equipment and other tangible personal property, taken as a whole, is in all material respects in good working order and condition, ordinary wear and tear excepted.

5.18 Real Property.

(a) Schedule 5.18 lists, as of the date of this Agreement, all Owned Real Property. Except as set forth on Schedule 5.18, or except as would not reasonably be expected to have a Material Adverse Effect on the Companies, each Company has good and marketable fee simple title to all Owned Real Property owned by such Company, subject only to any Permitted Liens.

(b) Schedule 5.18 lists, as of the date of this Agreement, all Leased Real Property. Except as set forth on Schedule 5.18 or except as would not reasonably be expected to have a Material Adverse Effect on the Companies, (i) each Company has a valid and enforceable leasehold estate in, and enjoys peaceful and undisturbed possession of, all Leased Real Property leased by such Company, subject to the Remedies Exception and any Permitted Liens, and (ii) as of the date hereof, such Company has not received any written notice from any lessor of such Leased Real Property of, nor does such Company have knowledge of the existence of, any default, event or circumstance that, with notice or lapse of time, or both, would constitute a default by the party that is the lessee or lessor of such Leased Real Property.

5.19 Intellectual Property.

(a) Schedule 5.19 lists each material patent, registered trademark, registered service mark or trade name and registered copyright owned by each Company as of the date of this Agreement for which applications have been filed or registrations or patents have been obtained, whether in the United States or internationally as of the date of this Agreement. Except as set forth on Schedule 5.19, to the knowledge of the Companies, each Company owns or has the right to use pursuant to license, sublicense, agreement or permission all other Intellectual Property used in the operation of the business of such Company, as presently conducted, except where the failure to have such rights would not reasonably be expected to have a Material Adverse Effect on the Companies.

(b) Except as set forth on Schedule 5.19, or except as would not reasonably be expected to have a Material Adverse Effect on the Companies, (i) to the knowledge of the Companies, neither Company is infringing upon, misappropriating or otherwise violating any Intellectual Property of any Person and (ii) as of the date of this Agreement, neither Company has received from any Person in the past twelve (12) months any written notice, charge, complaint, claim or other written assertion of any infringement or violation by, or misappropriation of, any Intellectual Property of any Person.

5.20 Environmental Matters. Except as set forth on Schedule 5.20, to the knowledge of the Companies, as of the date of this Agreement, each Company is in substantial compliance with all Environmental Laws, except for any such instance of non-compliance that would not reasonably be expected to have a Material Adverse Effect on the Companies. Except as set forth on Schedule 5.20, as of the date of this Agreement, each Company holds, and is in material compliance with, all permits required under applicable Environmental Laws to permit such Company to operate its assets in a manner in which they are now operated and maintained and to conduct the business of such Company as currently conducted, except where the absence of, or the failure to be in material compliance with, any such permit would not reasonably be expected

to have a Material Adverse Effect on the Companies. Except as set forth on Schedule 5.20, as of the date of this Agreement, there are no written claims or notices of violation pending or, to the knowledge of the Companies, threatened against either Company alleging violations of or liability under any Environmental Law, except for any such claim or notice that would not reasonably be expected to have a Material Adverse Effect on the Companies. This Section 5.20 provides the sole and exclusive representations and warranties of each Company in respect of environmental matters, including any and all matters arising under Environmental Laws.

5.21 Absence of Changes.

(a) Except as set forth on Schedule 5.21, from the date of the most recent balance sheet included in the Financial Statements to the date of this Agreement, there has not been any Material Adverse Effect on the Companies.

(b) Except as set forth on Schedule 5.21 or as expressly contemplated by this Agreement, from the date of the most recent balance sheet included in the Financial Statements through the date of this Agreement, each Company has, in all material respects, conducted its business and operated its properties in the ordinary course of business consistent with past practice.

5.22 Affiliate Matters. Except (a) as set forth on Schedule 5.22, (b) the Company Benefit Plans and (c) Contracts relating to labor and employment matters set forth on Schedule 5.12, neither Company is party to any material Contract with any (i) present or former officer or director of either Company or (ii) Affiliate of either Company, in each case, that will not be terminated prior to the Closing.

5.23 No Additional Representations or Warranties. Except as provided in this Article V, neither Company nor any of its Affiliates, nor any of their respective directors, officers, employees, stockholders, partners, members or representatives has made, or is making, any representation or warranty whatsoever to Buyer or Merger Subs or their respective Affiliates, or any of their respective directors, officers, employees, stockholders, partners, members or representatives, and no such party shall be liable in respect of the accuracy or completeness of any information provided to Buyer or Merger Subs or their respective Affiliates, directors, officers, employees, stockholders, partners, members or representatives.

ARTICLE VI.
REPRESENTATIONS AND WARRANTIES OF BUYER AND MERGER SUBS

Except as set forth in the Schedules, Buyer and Merger Subs represent and warrant to each Company as of the date of this Agreement as follows:

6.1 Organization. Each of Buyer and Merger Sub Corp has been duly incorporated and is validly existing as a corporation in good standing under the Laws of the Commonwealth of Virginia and has the corporate power and authority to own or lease its properties and to conduct its business as it is now being conducted. The copies of the certificate of incorporation and bylaws of each of Buyer and Merger Sub Corp previously delivered by Buyer to the

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Companies are true and complete. Merger Sub LLC has been duly organized and is validly existing as a limited liability company in good standing under the Laws of the Commonwealth of Virginia and has the limited liability company power and authority to own or lease its properties and to conduct its business as it is now being conducted. The copies of the certificate of formation and operating agreement of Merger Sub LLC previously delivered by Buyer to the Companies are true and complete. Buyer and Merger Subs are each duly licensed or qualified and (where applicable) in good standing as a foreign corporation or limited liability company, as applicable, in each jurisdiction in which the ownership of its property or the character of its activities is such as to require it to be so licensed or qualified or in good standing, as applicable, except where failure to be so licensed or qualified or in good standing would not reasonably be expected to have a Material Adverse Effect on Buyer or either Merger Sub. Buyer owns, beneficially and of record, all of the outstanding shares of capital stock, membership interests or other equity interests, as applicable, of each Merger Sub, free and clear of all Liens.

6.2 Due Authorization. Buyer and Merger Subs each have all requisite corporate or limited liability company power and authority, as applicable, to execute and deliver this Agreement and (subject to the consents, approvals, authorizations and other requirements described in Section 6.5) to perform all obligations to be performed by it hereunder. The execution and delivery of this Agreement by Buyer and Merger Subs and the consummation by them of the transactions contemplated hereby have been duly and validly authorized and approved by the Boards of Directors of each of Buyer and Merger Sub Corp and the Board of Managers of Merger Sub LLC, and no other corporate or limited liability company proceeding, as applicable, on the part of Buyer or either Merger Sub is necessary to authorize this Agreement (other than the adoption of this Agreement (i) by Buyer in its capacity as the sole stockholder of Merger Sub Corp and (ii) by Buyer in its capacity as the sole member of Merger Sub LLC, which adoptions will occur immediately following the execution of this Agreement by Merger Subs). This Agreement has been duly and validly executed and delivered by Buyer and each Merger Sub and (assuming this Agreement constitutes a legal, valid and binding obligation of the Companies and Holder Representative) constitutes a legal, valid and binding obligation of Buyer and each Merger Sub, enforceable against Buyer and each Merger Sub in accordance with its terms, subject to the Remedies Exception.

6.3 No Conflict. Except as set forth on Schedule 6.3, the execution and delivery of this Agreement by Buyer and Merger Subs and the consummation by them of the transactions contemplated hereby do not and will not, as of the Closing, (a) violate any provision of, or result in the breach of, any applicable Law to which Buyer or either Merger Sub is subject or by which any property or asset of Buyer or either Merger Sub is bound, (b) conflict with the certificate of incorporation, bylaws, operating agreement or other organizational documents of Buyer or any Subsidiary of Buyer (including each Merger Sub) or (c) violate any provision of or result in a breach of, or require a consent under, any agreement, indenture or other instrument to which Buyer or any Subsidiary of Buyer (including each Merger Sub) is a party or by which Buyer or any Subsidiary of Buyer (including each Merger Sub) may be bound, or terminate or result in the termination of any such agreement, indenture or instrument, or result in the creation of any Lien under any such agreement, indenture or instrument upon any of the properties or assets of Buyer or any Subsidiary of Buyer (including each Merger Sub) or constitute an event which, after

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notice or lapse of time or both, would result in any such violation, breach, termination or creation of a Lien, except to the extent that the occurrence of the foregoing items set forth in clauses (a) or (b) would not reasonably be expected to have a Material Adverse Effect on Buyer or either Merger Sub.

6.4 Litigation and Proceedings. There are no lawsuits, actions, suits, claims or other proceedings at law or in equity, or, to the knowledge of Buyer, investigations, pending before or by any Governmental Authority or, to the knowledge of Buyer, threatened, against Buyer or either Merger Sub which, if determined adversely, would reasonably be expected to have a Material Adverse Effect on Buyer or either Merger Sub. There is no unsatisfied judgment or any open injunction binding upon Buyer or either Merger Sub which would reasonably be expected to have a Material Adverse Effect on Buyer or either Merger Sub.

6.5 Governmental Consents. Assuming the truth and completeness of the representations and warranties of the Companies contained in this Agreement, no consent, approval or authorization of, or designation, declaration or filing with, any Governmental Authority is required on the part of Buyer or either Merger Sub with respect to Buyer’s or either Merger Sub’s execution or delivery of this Agreement or the consummation by Buyer or either Merger Sub of the transactions contemplated hereby, except for (a) any consents, approvals, authorizations, designations, declarations or filings, the absence of which would not reasonably be expected to have a Material Adverse Effect on Buyer or either Merger Sub, (b) compliance with any applicable securities Laws and (c) as otherwise disclosed on Schedule 6.5.

6.6 Financial Ability. [***]. Neither Buyer nor either Merger Sub has incurred any obligation, commitment, restriction or liability of any kind, and is not contemplating or aware of any obligation, commitment, restriction or liability of any kind, in either case which would reasonably be expected to impair or adversely affect such resources.

6.7 Brokers’ Fees. [***], no broker, finder, investment banker or other Person is entitled to any brokerage fee, finders’ fee or other similar commission in connection with the transactions contemplated by this Agreement based upon arrangements made by Buyer or any of its Affiliates.

6.8 Solvency; Surviving Corporation After the Merger. Neither Buyer nor either Merger Sub is entering into this Agreement or the transactions contemplated hereby with the actual intent to hinder, delay or defraud either present or future creditors. Assuming that the representations and warranties of the Companies contained in this Agreement are true and correct in all material respects, and after giving effect to the Mergers, at and immediately after the Effective Time, each of Buyer, the Surviving Corporation and the Surviving LLC (a) will be solvent (in that both the fair value of its assets will not be less than the sum of its debts and that the present fair saleable value of its assets will not be less than the amount required to pay its probable liability on its recourse debts as they mature or become due), (b) will have adequate capital and liquidity with which to engage in its business and (c) will not have incurred and does not plan to incur debts beyond its ability to pay as they mature or become due.

6.9 [***].

6.10 Acquisition of Interests for Investment. Buyer and each Merger Sub has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its participation in the Mergers. Buyer and each Merger Sub confirms that the Companies have made available to Buyer and Merger Subs and Buyer’s and Merger Subs’ agents and representatives the opportunity to ask questions of the officers and management employees of the Companies as well as access to the documents, information and records of the Companies and to acquire additional information about the business and financial condition of the Companies, and Buyer and each Merger Sub confirms that it has made an independent investigation, analysis and evaluation of the Companies and their respective properties, assets, business, financial condition, documents, information and records. Buyer is acquiring the capital stock and equity interests of the Surviving Corporation and the Surviving LLC for investment and not with a view toward or for sale in connection with any distribution thereof, or with any present intention of distributing or selling common stock of the Surviving Corporation or equity interests of the Surviving LLC. Buyer understands and agrees that stock of the Surviving Corporation and equity interests of the Surviving LLC may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without registration under the Securities Act of 1933, as amended, except pursuant to an exemption from such registration available under such Act, and without compliance with state, local and foreign securities Laws, in each case, to the extent applicable.

ARTICLE VII. COVENANTS OF THE COMPANIES

7.1 Conduct of Business.

(a) From the date of this Agreement through the Closing, each Company shall, except as would constitute a violation of applicable Law, as set forth on Schedule 7.1, as contemplated by this Agreement or as consented to by Buyer in writing (which consent shall not be unreasonably conditioned, withheld, delayed or denied), use its commercially reasonable efforts to operate its business in the ordinary course and substantially in accordance with past practice. Without limiting the generality of the foregoing, except as would constitute a violation of applicable Law, as set forth on Schedule 7.1 or as consented to by Buyer in writing (which consent shall not be unreasonably conditioned, withheld, delayed or denied), each Company shall not, except as otherwise contemplated by this Agreement:

(i) (1) change or amend the certificate of incorporation, bylaws, Operating Agreement or other organizational documents of such Company, except as otherwise required by Law; or (2) authorize for issuance, issue, grant, sell, deliver, dispose of, pledge or otherwise encumber any equity interests of such Company;

(ii) except in the ordinary course of business, materially adversely modify or terminate (excluding any expiration in accordance with its terms) any Contract of a type required to be listed on Schedule 5.10 or any material insurance policy required to be listed on Schedule 5.15;

(iii) sell, assign, transfer, convey, lease or otherwise dispose of any material assets or properties, except in the ordinary course of business;

(iv) except in the ordinary course of business or pursuant to existing Company Benefit Plans or existing Contracts or as otherwise required by Law, (A) take any action with respect to the grant of any material severance or material termination pay to any employee which will become due and payable after the Closing Date; (B) make any material change in the key management structure of such Company, including the hiring of additional officers or the termination of existing officers (other than terminations for cause); (C) adopt, enter into or materially amend any Company Benefit Plan or, other than in connection with an individual’s promotion, any individual employment, consulting, retention, change in control bonus or severance agreement; or (D) enter into any collective bargaining agreement;

(v) acquire by merger or consolidation with, or merge or consolidate with, or purchase all or substantially all of the assets of, any corporation, partnership, association, joint venture or other business organization or division thereof;

(vi) make any material loans or material advances of money to any Person, except for advances to employees or officers of such Company for expenses incurred in the ordinary course of business;

(vii) (A) make or rescind any material income tax election to the extent such action would adversely affect Buyer or such Company with respect to a taxable period (or portion thereof) beginning after the Closing Date or (B) except as required or permitted by GAAP, make any material change to any accounting principles, methods or practices; or

(viii) enter into any agreement, or otherwise become obligated, to do any action prohibited under this Section 7.1(a).

(b) Nothing contained in this Agreement shall give Buyer, directly or indirectly, any right to control or direct the operations of either Company prior to the Closing. Prior to the Closing, each of the Companies and Buyer shall exercise, consistent with the other terms and conditions of this Agreement, complete control and supervision over their respective businesses.

7.2 Inspection. Subject to confidentiality obligations and similar restrictions that may be applicable to information furnished to the Companies by third parties that may be in a Company’s possession from time to time, and except for any information that is subject to attorney-client privilege or other privilege from disclosure, each Company shall afford to Buyer and its accountants, counsel and other representatives reasonable access, during normal business hours, in such manner as to not interfere with the normal operation of such Company, to the properties, books, contracts, tax returns, records and appropriate officers and employees of such Company, and shall furnish such representatives with financial and operating data and other information concerning the affairs of such Company, in each case, as such representatives may reasonably request for the sole purpose of preparing for the operation of the business of such

Company following the Closing; provided, that (i) such investigation shall be conducted in accordance with all applicable competition Laws, shall only be upon reasonable notice and shall be at Buyer’s sole cost and expense; and (ii) Buyer and its representatives shall not be permitted to perform any environmental sampling at any real property owned or leased by either Company, including sampling of soil, groundwater, surface water, building materials, or air or wastewater emissions. All information obtained by Buyer, Merger Subs and their respective representatives shall be subject to the Confidentiality Agreement. All requests for access to the properties, books and records of either Company shall be made to the Holder Representative or such representatives of the Companies as the Holder Representative shall designate.

7.3 Financing Cooperation. Prior to Closing, the Companies shall, and shall use commercially reasonable efforts to cause their representatives to, use commercially reasonable efforts to provide to Buyer and Buyer’s Affiliates such assistance with any of Buyer’s financing efforts related to this Agreement as is reasonably requested by Buyer in connection with arranging and obtaining the financing, including using commercially reasonable efforts to provide the following: (i) reasonable cooperation with the due diligence requests of Buyer’s financing sources with respect to the Companies to the extent customary; (ii) promptly once available, furnishing Buyer with financial information related to the Companies and assisting Buyer in its preparation of any pro forma financial statements to the extent related to the Companies; (iii) assisting Buyer, its representatives and potential financing sources in preparing information regarding the business, operations and projections of the Companies; and (iv) providing all documentation and information about the Companies as is reasonably requested by Buyer at least five (5) Business Days prior to the Closing Date in connection with any potential financing efforts. The Companies hereby consent to the reasonable use of all of the Companies’ logos in connection with the Buyer’s financing efforts, provided that such logos are used solely in a manner that is not intended to or reasonably likely to harm or disparage the Companies or their reputation or goodwill. Notwithstanding the foregoing, nothing in this Section 7.3 shall require either Company to (A) provide any cooperation to the extent it would interfere unreasonably with the business or operations of such Company, (B) pay any commitment or similar fee or make any other payment in connection with such financing or enter into any agreement, document or instrument in connection with such financing, (C) make any representation or warranty or deliver any certificate in connection with such financing or the marketing or arrangement thereof or (D) provide any cooperation, or take any action, that would cause any condition to Closing set forth in this Agreement to fail to be satisfied. Buyer shall, promptly upon request by any Company, reimburse such Company for all of such Company’s and its Affiliates’ and representatives’ reasonable out-of-pocket costs and expenses incurred by such Company and its Affiliates and representatives in connection with providing the cooperation described in this Section 7.3. Buyer shall indemnify and hold harmless the Companies and their representatives from and against any and all losses suffered or incurred by them in connection with the arrangement of any financing of Buyer in connection with the transactions contemplated hereby and any information utilized in connection therewith. All non-public information regarding the Companies provided to Buyer, its Affiliates or their representatives pursuant to this Section 7.3 shall be kept confidential in accordance with the Confidentiality Agreement.

ARTICLE VIII. COVENANTS OF BUYER

8.1 Indemnification and Insurance.

(a) From and after the Effective Time, Buyer agrees that it shall indemnify and hold harmless each present and former director, manager, officer and employee of each Company against any costs or expenses (including reasonable attorneys’ fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any Action, whether civil, criminal, administrative or investigative, arising out of or pertaining to matters existing or occurring at or prior to the Effective Time, whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent that such Company would have been permitted under applicable Law and its respective certificate of incorporation, bylaws, Operating Agreement or other organizational documents in effect on the date of this Agreement to indemnify such person (including promptly advancing reasonable and necessary expenses as incurred to the fullest extent permitted under applicable Law). Without limiting the foregoing, [***] (i) to maintain provisions in its certificate of incorporation, bylaws, operating agreement or other organizational documents concerning the indemnification and exoneration (including provisions relating to expense advancement) of such Company’s present and former directors, managers, officers and employees that are no less favorable to those Persons than the provisions of the certificate of incorporation, bylaws, Operating Agreement or other organizational documents of such Company, as applicable, in each case, as of the date of this Agreement, and (ii) not to amend, repeal or otherwise modify such provisions in any respect that would adversely affect the rights of those Persons thereunder, in each case, except as required by Law.

(b) The rights of indemnification and to receive advancement of reasonable and necessary expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which any Person entitled to indemnification under this Section 8.1 (an “Indemnified Person”) may at any time be entitled. No right or remedy herein conferred by this Agreement is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at Law or in equity or otherwise. The assertion of any right or remedy hereunder, or otherwise, shall not prevent the concurrent or subsequent assertion of any other right or remedy. Buyer hereby acknowledges that the Indemnified Persons have or may in the future have certain rights to indemnification, advancement of expenses or insurance provided by other Persons (collectively, “Other Indemnitors”). Buyer hereby agrees that, with respect to any advancement or indemnification obligation owed, at any time, to an Indemnified Person by Buyer, the Surviving Corporation, the Surviving LLC or any Other Indemnitor, whether pursuant to any certificate of incorporation, bylaws, partnership agreement, operating agreement, indemnification agreement or other document or agreement or pursuant to this Section 8.1 (any of the foregoing, an “Indemnification Obligation”), and, after the Effective Time, Buyer shall, and shall cause the Surviving Corporation and the Surviving LLC to, (i) at all times be the indemnitors of first resort (i.e., Buyer’s, the Surviving Corporation’s and the Surviving LLC’s obligations to an Indemnified Person shall be primary and any obligation of the Other Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by an

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Indemnified Person shall be secondary) and (ii) at all times, be required to advance, and shall be liable for, the full amount of all expenses, judgments, penalties, fines and amounts paid in settlement to the extent legally permitted and as required by the terms of this Agreement or any Indemnification Obligation, without regard to any rights that an Indemnified Person may have against the Other Indemnitors. Furthermore, Buyer irrevocably waives, relinquishes and releases the Other Indemnitors from any and all claims (x) against the Other Indemnitors for contribution, subrogation, indemnification or any other recovery of any kind in respect thereof and (y) that the Indemnified Person must seek expense advancement, reimbursement or indemnification from any Other Indemnitor before Buyer, the Surviving Corporation or the Surviving LLC must perform its expense advancement, reimbursement and indemnification obligations under this Agreement. Buyer hereby further agrees that no advancement, indemnification or other payment by the Other Indemnitors on behalf of an Indemnified Person with respect to any claim for which an Indemnified Person has sought indemnification from Buyer, the Surviving Corporation or the Surviving LLC shall affect the foregoing, and the Other Indemnitors shall have a right of contribution or be subrogated to the extent of such advancement, indemnification or other payment to all of the rights of recovery of such Indemnified Person against Buyer, the Surviving Corporation or the Surviving LLC, and Buyer, the Surviving Corporation and the Surviving LLC shall indemnify and hold harmless against such amounts actually paid by the Other Indemnitors to or on behalf of such Indemnified Person to the extent such amounts would have otherwise been payable by Buyer, the Surviving Corporation or the Surviving LLC under any Indemnification Obligation.

(c) Notwithstanding anything contained in this Agreement to the contrary, this Section 8.1 shall survive the consummation of the Mergers indefinitely and shall be binding, jointly and severally, on all successors and assigns of Buyer, the Surviving Corporation and the Surviving LLC. In the event that Buyer, the Surviving Corporation, the Surviving LLC or any of their respective successors or assigns consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger, or transfers or conveys all or substantially all of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors and assigns of Buyer, the Surviving Corporation or the Surviving LLC, as the case may be, shall succeed to the obligations set forth in this Section 8.1.

(d) Buyer shall assume, and be jointly and severally liable for, and shall cause the Companies to honor, each of the covenants in this Section 8.1.

8.2 Employment Matters.

(a) [***].

(b) [***].

(c) [***].

(d) Buyer further agrees to implement and adhere to the employee and related matters set forth on Schedule 8.2(d).

(e) Nothing in this Section 8.2 shall (i) be construed as an amendment or other modification of any Company Benefit Plan, (ii) give any third party any right to enforce the provisions of this Agreement or (iii) limit the right of Buyer, the Surviving Corporation or the Surviving LLC to amend, terminate or otherwise modify any Company Benefit Plan.

8.3 Retention of Books and Records. Buyer shall cause each Company to retain all books, ledgers, files, reports, plans, operating records and any other material documents pertaining to such Company in existence at the Closing that are required to be retained under current retention policies for a period of seven (7) years from the Closing Date, and to make the same available after the Closing for inspection and copying by the Holder Representative or its representatives at the Holder Representative’s expense, during regular business hours and upon reasonable request and upon reasonable advance notice.

8.4 Contact with Customers and Suppliers. Until the Closing Date, Buyer shall not, and shall cause its representatives not to, contact or communicate with the employees, customers,

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potential customers, suppliers, distributors or licensors of either Company, or any other Persons having a business relationship with either Company, concerning the transactions contemplated hereby without the prior written consent of the Holder Representative.

8.5 Conduct of Business. Buyer shall not, and shall not permit any of its Subsidiaries to, take any action or fail to take any action that could reasonably be expected to result in any of the conditions set forth in Article X not being satisfied or that could otherwise be reasonably expected to prevent or delay the consummation of the transactions contemplated by this Agreement.

ARTICLE IX. JOINT COVENANTS

9.1 Support of Transaction. Without limiting any covenant contained in Article VII or Article VIII, Buyer and the Companies shall each, and shall each cause their respective Subsidiaries to: (a) use reasonable best efforts to obtain all material consents and approvals of third parties that any of Buyer, either Company or their respective Affiliates are required to obtain in order to consummate the Mergers, and (b) take such other action as may reasonably be necessary or as another party may reasonably request to satisfy the conditions of Article X or otherwise to comply with this Agreement and to consummate the transactions contemplated hereby as soon as practicable (but in any event prior to the Termination Date). Notwithstanding the foregoing, in no event shall either Company be obligated to bear any expense or pay any fee (other than the payment of nominal administrative, processing or similar fees or charges) or grant any concession in connection with obtaining any consents, authorizations or approvals required in order to consummate either Merger pursuant to the terms of any Contract to which such Company is a party.

9.2 Escrow Agreement. Each of the Companies, the Holder Representative and Buyer shall execute and deliver to one another, at the Closing, an Escrow Agreement in a form to be mutually agreed by Buyer and the Holder Representative prior to Closing (the “Escrow Agreement”).

9.3 Merger Approvals.

(a) As soon as practicable after the execution and delivery of this Agreement, CMP shall (i) take all action necessary in accordance with the VSCA and CMP’s certificate of incorporation and bylaws to duly call and hold a meeting of the Stockholders to consider the adoption of this Agreement and the approval of the Corp Merger and the other transactions contemplated hereby (the “Stockholder Matters”), (ii) recommend to the Stockholders that they vote in favor of the Stockholder Matters and (iii) use its reasonable best efforts to secure the vote of Stockholders holding at least two-thirds of the outstanding shares of Common Stock in favor of the Stockholder Matters (the “Stockholder Approval”).

(b) As soon as practicable after the execution and delivery of this Agreement, FMFH shall (i) take all action necessary in accordance with the VLLCA, the Operating Agreement and FMFH’s certificate of formation to duly call and hold a meeting of the Unitholders to consider

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the adoption of this Agreement and the approval of the LLC Merger and the other transactions contemplated hereby (the “Unitholder Matters”), (ii) recommend to the Unitholders that they vote in favor of the Unitholder Matters and (iii) use its reasonable best efforts to secure the vote of Unitholders holding at least two-thirds of the outstanding Units in favor of the Unitholder Matters (the “Unitholder Approval” and, together with the Stockholder Approval, the “Merger Approvals”).

(c) Immediately following the execution and delivery of this Agreement, Buyer, as the sole stockholder of Merger Sub Corp and as the sole member of Merger Sub LLC, shall adopt this Agreement and approve the Mergers and the other transactions contemplated hereby in accordance with the VSCA and VLLCA, as applicable, Merger Sub Corp’s certificate of incorporation and bylaws and Merger Sub LLC’s certificate of formation and operating agreement.

9.4 Further Assurances. Each party hereto agrees that, from time to time after the Closing Date, it will execute and deliver, or cause its Affiliates to execute and deliver, such further instruments, and take (or cause its Affiliates to take) such other action, as may be reasonably necessary to carry out the purposes and intents of this Agreement.

9.5 Tax Matters.

(a) Buyer shall cause each Company to prepare and timely file or cause to be prepared and timely filed, in each case in a manner consistent with past practices of such Company (except where otherwise required by applicable Law), all Tax Returns of such Company for (i) all taxable periods ending on or before the Closing Date but which are due to be filed after the Closing Date (taking into account all applicable extensions of time for filing) (such Tax Returns, “Pre-Closing Tax Returns”) and (ii) all Straddle Periods (such Tax Returns, “Straddle Period Tax Returns”). Buyer agrees that it shall cause the Companies to retain YHB CPAs & Consultants to prepare all such Pre-Closing Income Tax Returns and Buyer shall cause all such Pre-Closing Income Tax Returns to be delivered to the Holder Representative no later than thirty (30) days before the due date (after giving effect to any applicable extensions of time for filing) for such Pre-Closing Income Tax Returns. The fees and expenses associated with such preparation by YHB CPAs & Consultants shall be borne by the Holder Representative or prepaid by the Companies prior to the Closing. Buyer shall cause all other Pre-Closing Tax Returns and all Straddle Period Tax Returns to be delivered to the Holder Representative a reasonable period of time prior to the due date for such Tax Returns (after giving effect to any applicable extensions of time for filing) so that the Holder Representative has a meaningful opportunity to review and comment on such Tax Returns. Buyer shall (or shall cause the applicable Company to) incorporate any reasonable comments provided in writing by the Holder Representative to Buyer with respect to all Pre-Closing Tax Returns and Straddle Period Tax Returns. Buyer shall cause the Companies and their Subsidiaries to timely file all Pre-Closing Tax Returns and Straddle Period Tax Returns.

(b) Buyer and the Holder Representative shall cooperate fully, and shall cause their respective Affiliates to cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns and any Action regarding Taxes of, or with

respect to, the Companies or their Subsidiaries. The party requesting such cooperation shall pay the reasonable out-of-pocket expenses of the other party. Such cooperation shall include the retention of and (upon the other party’s request) the provision of records and information reasonably relevant to any such Action and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder, and the provision of such powers of attorney as may be necessary to allow for the control of Tax audits or proceedings as described in Section 9.5(c).

(c) Buyer shall promptly notify the Holder Representative in writing upon receipt by any Company or any of its Subsidiaries of notice of any pending or threatened Tax audits or assessments or other Actions relating to Taxes for which the Pre-Closing Holders could be liable, including any Taxes for which the Buyer Indemnified Parties may be entitled to indemnification under Section 13.2(a) (“Tax Contest Claims”); provided, however, no failure or delay by Buyer to provide notice of a Tax Contest Claim shall reduce or otherwise affect the obligation of Buyer hereunder except to the extent the defense of such Tax Contest Claim is prejudiced thereby. Such notice shall include a copy of the relevant portion of any correspondence received from the relevant Governmental Authority and describe in reasonable detail the nature of such Tax Contest Claim. Buyer and the Holder Representative shall cooperate with each other in the conduct of any Tax Contest Claim. The Holder Representative shall have the right to control the conduct of any Tax Contest Claim; provided, that the Holder Representative shall keep Buyer informed regarding the progress and substantive aspects of such Tax Contest Claim, Buyer shall be entitled at its expense to participate in such Tax Contest Claim and the Holder Representative shall not compromise or settle such Tax Contest Claim without obtaining Buyer’s prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed) if the resolution or settlement of such Tax Contest Claim would materially increase the Tax liability of Buyer, any Company or its Subsidiaries in a taxable period (or portion thereof) that ends after the Closing Date. If the Holder Representative does not elect to control the conduct of a Tax Contest Claim, then Buyer shall keep the Holder Representative informed regarding the progress and substantive aspects of such Tax Contest Claim, the Holder Representative shall be entitled to participate in such Tax Contest Claim and Buyer shall not compromise or settle any such Tax Contest Claim without obtaining the Holder Representative’s prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed). In the event of any conflict between the provisions of this Section 9.5(c) and Section 13.3, this Section 9.5(c) shall control.

(d) The parties hereto agree for purposes of preparing all relevant Tax Returns relating to each Company, that to the extent permitted under applicable Law, each Company shall elect to file a Tax Return for the taxable period ending on the Closing Date; provided that if such Company is required to file a Tax Return for a Straddle Period, the portion of any Taxes that are payable for such Straddle Period and relate to the portion of such Straddle Period ending on the Closing Date shall (i) in the case of ad valorem or property Taxes, be deemed to be the amount of such Tax for the entire Straddle Period multiplied by a fraction the numerator of which is the number of days in the Straddle Period ending on the Closing Date and the denominator of which is the number of days in the entire Straddle Period and (ii) in the case of any other Tax, be deemed equal to the amount which would be payable computed on closing of the books basis as if the relevant Tax period ended as of the close of business on the Closing Date. Without the

written consent of the Holder Representative, Buyer shall not, and shall cause the Companies and their Subsidiaries not to (i) take any action on the Closing Date other than in the ordinary course of business, (ii) make any Tax election or deemed election (other than pursuant to Section 9.5(f)) or (iii) amend any Tax Return; make, revoke or change any Tax election; grant an extension of any applicable statute of limitations; or take any action, fail to take any action or enter into any transaction that could increase the amount of the entitlement of any Buyer Indemnified Party to indemnification pursuant to Section 13.2(a) or change the Tax liability of the Pre-Closing Holders for any Pre-Closing Tax Period or Pre-Closing Straddle Period.

(e) Any Tax refund, credit or similar benefit (including any interest paid or credited by a Governmental Authority with respect thereto) relating to taxable periods (or portions thereof) of a Company that end on or before the Closing Date (a “Tax Refund”) shall be for the sole benefit of the Pre-Closing Holders. To the extent that Buyer or any of its Affiliates (including the Companies or any of their Subsidiaries) receives or utilizes any Tax Refund, Buyer shall pay to the Holder Representative (on behalf of the Pre-Closing Holders) such Tax Refund within ten (10) days of receipt of such Tax Refund or the filing of any Tax Return utilizing such Tax Refund (in the form of a credit or offset to Taxes otherwise payable), as the case may be. The parties hereto agree that Tax Refunds for the portion of a Straddle Period ending on the Closing Date shall be determined using the methodologies set forth in Section 9.5(d). Buyer and its Affiliates shall, and shall cause the Companies or any of their Subsidiaries to, promptly take all actions (including those actions reasonably requested by the Holder Representative) to file for and obtain any Tax refund, credit or similar benefit (including the carryback of any net operating loss, capital loss or other Tax credit carryover) that would give rise to a Tax Refund. Buyer shall, upon request, permit the Holder Representative to participate in the prosecution of any such Tax refund claim and shall not settle or otherwise resolve any such Tax refund claim without the prior written consent of the Holder Representative.

(f) The Holder Representative shall, at the request of Buyer, use commercially reasonable efforts to cause the Pre-Closing Holders of CMP to join with Buyer in making an election under Section 338(h)(10) of the Code and any corresponding election permitted under the applicable laws of any local or state jurisdiction (collectively, the “338(h)(10) Election”) with respect to the Buyer’s acquisition of CMP; provided, that the Holder Representative shall not be required to undertake any such efforts that could be expected to cause the Holder Representative, CMP, or any Pre-Closing Holder of CMP to incur any costs, expenses or liabilities relating thereto (other than Taxes arising from the 338(h)(10) Elections). In advance of Closing, if the Buyer requests that CMP make a 338(h)(10) Election, Buyer shall prepare IRS Form 8023 and related or comparable forms for state or local purposes (collectively, the “338(h)(10) Forms”) and shall provide them to the Holder Representative for completion and execution by the Pre-Closing Holders of CMP subject to this Section 9.5(f).

(g) All transfer, documentary, sales, use, stamp, registration and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement shall be paid by Buyer when due, and Buyer shall, or shall cause the applicable Company to, at their own respective expense, file all necessary Tax Returns and other documentation with respect to all such transfer, documentary, sales, use, stamp, registration and other Taxes and fees.

(h) If a 338(h)(10) Election is made, Buyer and the Holder Representative shall allocate the Merger Consideration (plus other relevant items, including the Section 338(h)(10) Election Taxes and the liabilities of each Company that Buyer is deemed to assume and are properly treated as purchase price for Tax purposes) among the respective assets of the applicable Company in accordance with Sections 751, 755, 1060 and 338 of the Code, as applicable, and the regulations promulgated thereunder (the “Purchase Price Allocation”); provided, that parties hereto agree that fifty-percent (50%) of the Merger Consideration shall be allocated to the purchase and sale of CMP and fifty-percent of the Merger Consideration shall be allocated to the purchase and sale of FMFH. Buyer shall deliver to the Holder Representative the Purchase Price Allocation no later than sixty (60) days following the Closing Date. The Holder Representative shall notify Buyer of any objections to the Purchase Price Allocation within thirty (30) days after the Holder Representative receives the Purchase Price Allocation. If the Holder Representative does not notify Buyer of any objections to the Purchase Price Allocation within such thirty (30) day period, the Purchase Price Allocation shall be construed as final. If the Holder Representative notifies Buyer of an objection to the Purchase Price Allocation by the end of such thirty (30) day period, and Buyer and the Holder Representative are unable to resolve their differences within fifteen (15) days thereafter (the “Dispute Resolution Period”), then the disputed items on the Purchase Price Allocation shall be submitted to the national office of a firm of independent accountants of nationally recognized standing reasonably satisfactory to the Holder Representative and Buyer within five (5) days after the end of the Dispute Resolution Period for resolution, with the costs paid fifty percent (50%) by the Pre-Closing Holders, on the one hand, and fifty percent (50%) by Buyer, on the other hand, and such firm of independent accountants shall be instructed to resolve the issue or issues in dispute. Buyer, the Holder Representative and their respective Affiliates shall report, act and file all Tax Returns (including Internal Revenue Service Form 8883) in all respects and for all purposes consistent with the Purchase Price Allocation as well as any amendments to such Tax Returns required with respect to any adjustment to the Merger Consideration. None of Buyer, the Pre-Closing Holders or any of their respective Affiliates shall take any position with respect to Taxes (whether in audits or on Tax Returns) that is inconsistent with the information set forth on the final Purchase Price Allocation, unless required to do so by applicable Law.

(i) If a 338(h)(10) Election is made, within thirty (30) days following the determination of the Purchase Price Allocation described in Section 9.5(h), Holder Representative shall prepare and deliver to Buyer a calculation of the Section 338(h)(10) Election Taxes. The Buyer shall notify the Holder Representative of any objections to the Section 338(h)(10) Election Taxes within thirty (30) days after Buyer receives such calculation. If Buyer does not notify Holder Representative of any objections to such calculation of Section 338(h)(10) Election Taxes within such thirty (30) day period, the Section 338(h)(10) Election Taxes shall be construed as final. If the Buyer notified the Holder Representative of an objection to the such Section 338(h)(10) Election Taxes by the end of such thirty (30) day period, and Buyer and the Holder Representative are unable to resolve their differences within fifteen (15) days thereafter, then the disputed items shall be submitted to the national office of a firm of independent accountants of nationally recognized standing reasonably satisfactory to the Holder Representative and Buyer within five (5) days after the end of such period for resolution, with the costs paid fifty percent (50%) by the Pre-Closing Holders, on the one hand, and fifty percent

(50%) by Buyer, on the other hand, and such firm of independent accountants shall be instructed to resolve the issue or issues in dispute. In the event that a 338(h)(10) Election was made at the Closing and the amount of Section 338(h)(10) Election Taxes, as finally determined pursuant to this Section 9.5(i), exceeds the Closing Date Section 338(h)(10) Election Taxes, Buyer shall promptly pay to the Stockholders the amount of such excess; provided, however, that such payment shall be allocated among the Stockholders in accordance with each Stockholder’s share of the excess Section 338(h)(10) Election Taxes, as finally determined pursuant to this Section 9.5(i), relating to such payment. In the event that a Section 338(h)(10) Election was made at the Closing and the amount of Closing Date Section 338(h)(10) Election Taxes exceeds the amount of Section 338(h)(10) Election Taxes, as finally determined pursuant to this Section 9.5(i), an amount equal to such excess shall be released to Buyer from any remaining Escrow Funds; provided, that such release shall be allocated among the Stockholders in accordance with each Stockholder’s share of the excess Closing Date Section 338(h)(10) Election Taxes, as finally determined pursuant to this Section 9.5(i), relating to such release and in no event shall exceed an amount equal to any such Stockholder’s proportionate share of the remaining Escrow Funds. In the event a 338(h)(10) Election was not made at Closing but is ultimately made pursuant to this Agreement, Buyer shall promptly pay to the Stockholders an amount equal to the Section 338(h)(10) Election Taxes, as finally determined pursuant to this Section 9.5(i); provided, however, that such amount shall first be satisfied from any Estimated Section 338(h)(10) Taxes placed in the Escrow Funds at Closing with Buyer directly paying to the Stockholders any amount of Section 338(h)(10) Election Taxes, as finally determined pursuant to this Section 9.5(i), in excess of such Estimated Section 338(h)(10) Taxes; provided, further, that any such payment and/or release from the Escrow Funds shall be allocated among the Stockholders in accordance with each Stockholder’s share of such excess Section 338(h)(10) Election Taxes and/or of the Estimated Section 338(h)(10) Election Taxes. All Section 338(h)(10) Election Taxes shall be treated by the parties hereto for all Tax purposes as adjustments to the Merger Consideration (if applicable).

(j) The Holder Representative shall use commercially reasonable efforts to (i) cause each Pre-Closing Holder to deliver to Buyer, at or prior to the Closing Date, an Internal Revenue Service Form W-9 and/or (ii) cause CMP to deliver to Buyer at or prior to the Closing Date, to the extent CMP is legally entitled to do so, a certificate in accordance with the requirements of Treasury Regulation Sections 1.897-2(h) and 1.1445-2(c)(3) certifying that CMP is not a “United States real property holding corporation” within the meaning of Section 897(c)(2) of the Code and/or (iii) cause FMFH to deliver to Buyer at or prior to the Closing Date, to the extent FMFH is legally entitled to do so, a certificate in accordance with the requirements of Treasury Regulations Section 1.1445-11T certifying that fifty percent or more of the fair market value of the gross assets of FMFH does not consist of “United States real property interests” or that ninety percent or more of the fair market value of the gross assets of FMFH does not consist of “United States real property interests” plus “cash or cash equivalents” (as such terms are defined by Treasury Regulations Section 1.1445-11T(d)(1)).

**ARTICLE X.
CONDITIONS TO OBLIGATIONS**

10.1 Conditions to the Obligations of Buyer, Merger Subs and the Companies. The obligations of Buyer, Merger Subs and the Companies to consummate, or cause to be consummated, the Mergers are subject to the satisfaction of the following conditions, any one or more of which may be waived in writing by all of such parties:

(a) There shall not be in force any injunction or order of any court of competent jurisdiction enjoining or prohibiting the consummation of either Merger.

(b) (i) The Stockholder Approval shall have been validly obtained under the VSCA and CMP’s certificate of incorporation and bylaws and (ii) the Unitholder Approval shall have been validly obtained under the VLLCA, FMFH’s certificate of formation and the Operating Agreement.

10.2 Conditions to the Obligations of Buyer and Merger Subs. The obligations of Buyer and Merger Subs to consummate, or cause to be consummated, the Mergers are subject to the satisfaction of the following additional conditions, any one or more of which may be waived in writing by Buyer:

(a) Each of the representations and warranties of the Companies contained in Article V shall be true and correct (without giving effect to any “material”, “materially”, “Material Adverse Effect” or similar qualifiers contained in any of such representations and warranties) as of the Closing Date, as if made anew at and as of that date, except with respect to representations and warranties which speak as to an earlier date, which representations and warranties shall be true and correct at and as of such date, except for (i) any inaccuracy or omission that would not reasonably be expected to have a Material Adverse Effect on the Companies and (ii) any changes after the date of this Agreement which are contemplated or expressly permitted by this Agreement.

(b) Each of the covenants of the Companies to be performed at or prior to the Closing shall have been performed in all material respects.

(c) Each Company shall have delivered to Buyer a certificate signed by an officer of such Company, dated as of the Closing Date, certifying that, to the knowledge and belief of such officer, the conditions specified in Section 10.2(a) and Section 10.2(b) with respect to such Company have been fulfilled.

10.3 Conditions to the Obligations of the Companies. The obligations of the Companies to consummate, or cause to be consummated, the Mergers are subject to the satisfaction of the following additional conditions, any one or more of which may be waived in writing by the Companies:

(a) Each of the representations and warranties of Buyer and Merger Subs contained in Article VI shall be true and correct (without giving effect to any “material”, “materially”, “Material Adverse Effect” or similar qualifiers contained in any of such representations and warranties) as of the Closing Date, as if made anew at and as of that date, except with respect to representations and warranties which speak as to an earlier date, which representations and

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warranties shall be true and correct at and as of such date, except for (i) any inaccuracy or omission that would not reasonably be expected to have a Material Adverse Effect on Buyer or either Merger Sub and (ii) any changes after the date of this Agreement which are contemplated or expressly permitted by this Agreement.

(b) Each of the covenants of Buyer and Merger Subs to be performed at or prior to the Closing shall have been performed in all material respects.

(c) Buyer shall have delivered to the Companies a certificate signed by an officer of Buyer, dated as of the Closing Date, certifying that, to the knowledge and belief of such officer, the conditions specified in Section 10.3(a) and Section 10.3(b) have been fulfilled.

(d) Each Merger is expected to be consummated concurrently with the other Merger.

10.4 Waiver of Conditions; Frustration of Conditions. All conditions to the Closing shall be deemed to have been satisfied or waived from and after the Effective Time. None of the Companies, Buyer or Merger Subs may rely on the failure of any condition set forth in this Article X to be satisfied if such failure was caused by the failure of a Company, on the one hand, or Buyer or a Merger Sub, on the other hand, respectively, to (i) use reasonable best efforts to consummate the Mergers and the other transactions contemplated hereby and (ii) otherwise comply with its obligations under this Agreement.

ARTICLE XI. TERMINATION/EFFECTIVENESS

11.1 Termination. This Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing:

(a) by written consent of the Holder Representative and Buyer;

(b) by written notice to the Companies from Buyer if:

(i) there is any material breach of any representation, warranty, covenant or agreement on the part of either Company set forth in this Agreement, such that the conditions specified in Section 10.2(a) or Section 10.2(b) would not be satisfied at the Closing (a “Terminating Company Breach”), except that, if such Terminating Company Breach is curable by either Company through the exercise of its reasonable best efforts, then, for a period of up to thirty (30) days after receipt by such Company of notice from Buyer of such breach, but only as long as such Company continues to use its reasonable best efforts to cure such Terminating Company Breach (the “Company Cure Period”), such termination shall not be effective and the Termination Date shall be automatically extended until the end of the Company Cure Period, and such termination shall become effective only if the Terminating Company Breach is not cured within the Company Cure Period;

(ii) the Closing has not occurred on or before January 31, 2020 (subject to (A) Sections 11.1(b)(i), 11.1(c)(i) and 14.14 and (B) the proviso to this clause (ii), the “Termination Date”), unless (I) Buyer’s or either Merger Sub’s willful breach is the primary reason for the Closing not occurring on or before such date or (II) Buyer has failed to take any action required to fulfill any obligation under this Agreement (including the failure to use the level of efforts required by this Agreement to cause the Closing to occur); or

(iii) the consummation of any of the transactions contemplated hereby is permanently enjoined, prohibited or otherwise restrained by the terms of a final, non-appealable order or judgment of a court of competent jurisdiction; provided, however, that the right to terminate this Agreement under this Section 11.1(b)(iii) shall not be available to Buyer if Buyer’s failure to take any action required to fulfill any obligation under this Agreement (including the failure to use the level of efforts required by this Agreement to cause the Closing to occur) shall have been the cause of, or shall have resulted in, the issuance of such a final, non-appealable order or judgment; or

(c) by written notice to Buyer from either Company if:

(i) (A) there is any material breach of any representation, warranty, covenant or agreement on the part of Buyer or either Merger Sub set forth in this Agreement, such that the conditions specified in Section 10.3(a) or Section 10.3(b) would not be satisfied at the Closing (a “Terminating Buyer Breach”), except that, if any such Terminating Buyer Breach is curable by Buyer through the exercise of its reasonable best efforts, then, for a period of up to thirty (30) days after receipt by Buyer of notice from such Company of such breach, but only as long as Buyer continues to exercise such reasonable best efforts to cure such Terminating Buyer Breach (the “Buyer Cure Period”), such termination shall not be effective and the Termination Date shall automatically be extended until the end of the Buyer Cure Period, and such termination shall become effective only if the Terminating Buyer Breach is not cured within the Buyer Cure Period, or (B) (1) all of the conditions set forth in Sections 10.1 and 10.2 have been satisfied (other than those conditions that by their nature are to be satisfied at the Closing) as of the date the Closing should have occurred pursuant to Section 4.1, and (2) Buyer or either Merger Sub has failed to consummate the transactions contemplated by this Agreement within three (3) Business Days following the date the Closing should have occurred pursuant to Section 4.1;

(ii) the Closing has not occurred on or before the Termination Date, unless either Company’s willful breach is the primary reason for the Closing not occurring on or before such date; or

(iii) the consummation of any of the transactions contemplated hereby is permanently enjoined, prohibited or otherwise restrained by the terms of a final, non-appealable order or judgment of a court of competent jurisdiction.

11.2 Effect of Termination. Except as otherwise set forth in this Section 11.2, in the event of the termination of this Agreement pursuant to Section 11.1, this Agreement shall forthwith become void and have no effect, without any liability on the part of any party hereto or its respective Affiliates, officers, directors, employees or stockholders, other than liability of any of the Companies, Buyer or Merger Subs, as the case may be, for any intentional and willful breach of this Agreement occurring prior to such termination; provided, however, that a failure of Buyer or Merger Subs to consummate the Mergers, or take any other action, in breach of this Agreement shall be deemed to be intentional and willful whether or not Buyer and Merger Subs had sufficient funds available to consummate the Mergers or take such action. In determining losses or damages recoverable upon termination by a party hereto for the other party’s breach, the parties hereto acknowledge and agree that such losses and damages shall not be limited to reimbursement of expenses or out-of-pocket costs, and shall include the benefit of the bargain lost by such party or, in the case of the Companies, the Pre-Closing Holders (taking into consideration relevant matters, including other opportunities and the time value of money), which shall be deemed to be damages of such party. The provisions of this Section 11.2, Articles XII and XIV and the Confidentiality Agreement shall survive any termination of this Agreement.

ARTICLE XII.
HOLDER REPRESENTATIVE

12.1 Designation and Replacement of Holder Representative. The parties have agreed that it is desirable to designate a representative to act on behalf of the Pre-Closing Holders for certain limited purposes, as specified herein (the “Holder Representative”). The parties have designated David Dodrill as the initial Holder Representative, and approval of this Agreement by the Pre-Closing Holders shall constitute ratification and approval of such designation. The Holder Representative may resign at any time, and the Holder Representative may be removed by the vote of Persons which collectively owned more than fifty percent (50%) of the Aggregate Common Shares and fifty percent (50%) of the Units immediately prior to the Effective Time (the “Majority Holders”). In the event that the initial Holder Representative is unable to serve, Timothy Harper will serve as the Holder Representative, and thereafter if he or any subsequent Holder Representative has resigned or been removed, a new Holder Representative shall be appointed by a vote of the Majority Holders, such appointment to become effective upon the written acceptance thereof by the new Holder Representative. The designation of any Person as the Holder Representative is and shall be coupled with an interest, and, except as set forth in this Article XII, such designation is irrevocable and shall not be affected by the death, incapacity, illness, bankruptcy, dissolution or other inability to act of any Pre-Closing Holder.

12.2 Authority and Rights of the Holder Representative; Limitations on Liability. The Holder Representative shall have such powers and authority as are necessary to carry out the functions assigned to it under this Agreement; provided, however, that the Holder Representative shall have no obligation to act, except as expressly provided herein. Without limiting the generality of the foregoing, the Holder Representative shall have full power, authority and discretion to (i) estimate and determine the amounts of Holder Representative Expenses and to pay such Holder Representative Expenses in accordance with Section 4.5 and (ii) after the Closing, negotiate and enter into amendments to this Agreement and the Escrow Agreement for

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and on behalf of the Pre-Closing Holders. All actions taken by the Holder Representative under this Agreement shall be binding upon the Pre-Closing Holders and their successors as if expressly confirmed and ratified in writing by each of them. The Holder Representative shall have no liability to Buyer, the Companies or any Pre-Closing Holder with respect to actions taken or omitted to be taken in its capacity as the Holder Representative. The Holder Representative shall at all times be entitled to rely on any directions received from the Majority Holders; provided, however, that the Holder Representative shall not be required to follow any such direction, and shall be under no obligation to take any action in its capacity as the Holder Representative, unless the Holder Representative is holding funds delivered to it under Section 4.5 and has been provided with other funds, security or indemnities which, in the sole determination of the Holder Representative, are sufficient to protect the Holder Representative against the costs, expenses and liabilities which may be incurred by the Holder Representative in responding to such direction or taking such action. The Holder Representative shall be entitled to engage such counsel, experts and other agents and consultants as it shall deem necessary in connection with exercising its powers and performing its function hereunder and (in the absence of bad faith on the part of the Holder Representative) shall be entitled to conclusively rely on the opinions and advice of such Persons. The Holder Representative shall be entitled to reimbursement from funds paid to it under Section 4.5, released from the Escrow Funds for the benefit of Pre-Closing Holders or otherwise received by it in its capacity as the Holder Representative pursuant to or in connection with this Agreement, for all reasonable expenses, disbursements and advances (including fees and disbursements of its counsel, experts and other agents and consultants) incurred by the Holder Representative in such capacity, and shall be entitled to indemnification against any loss, liability or expenses arising out of actions taken or omitted to be taken in its capacity as the Holder Representative (except for those arising out of the Holder Representative’s gross negligence or willful misconduct), including the costs and expenses of investigation and defense of claims. In the event that the Holder Representative determines, in its sole and absolute discretion, that the funds paid to the Holder Representative pursuant to Section 4.5 exceed the Holder Representative Expenses, prior to the final release of the Escrow Funds, the Holder Representative shall transfer such excess amount to the Escrow Agent solely for disbursement (or otherwise cause such excess amount to be disbursed) to the Pre-Closing Holders as Merger Consideration; provided, however, that notwithstanding anything to the contrary in this Agreement or the Escrow Agreement, in no event shall such excess amount become part of the Escrow Funds or otherwise become payable to Buyer.

ARTICLE XIII. INDEMNIFICATION

13.1 Survival of Representations, Warranties and Covenants. Each representation warranty, covenant and obligation contained herein and any certificate related to any such representation, warranty, covenant or obligation will survive the Closing and continue in full force and effect for twelve (12) months after the Closing Date (the “Survival Expiration Date”); provided, however, that any covenant contained in this Agreement that, by its terms, provides for performance following the Closing shall survive until such covenant is performed. No claim for indemnification for breach of any representation, warranty, covenant or agreement contained in, or otherwise pursuant to, this Agreement (other than any covenant (excluding this Article XIII))

that provides for performance following the Closing) may be asserted pursuant to this Agreement unless (i) on or before the Survival Expiration Date, such claim is asserted by proper written notice in accordance with this Article XIII, specifying, in reasonable detail, the basis of the claim, and (ii)(A) such claim is made in respect of Damages specified, in reasonable detail, and incurred prior to the Survival Expiration Date or (B) to the extent arising out of a third party claim (including any claim by any Governmental Authority) asserted in writing prior to the Survival Expiration Date, (1) such third party has actually commenced a lawsuit, action or regulatory proceeding or, with respect to any claim relating to Taxes, such third party has actually issued a written notice of assessment or written notice of deficiency, in each case, with respect to the specific matters addressed in such claim and (2) such claim is made in respect of a reasonably estimated amount of Damages reasonably expected to arise in connection with such third party claim.

13.2 Indemnification.

(a) Subject to Section 13.4, from and after the Closing, Buyer and its Subsidiaries and its and their respective officers, directors, employees, shareholders, agents and representatives (collectively, the “Buyer Indemnified Parties”) shall be entitled to indemnification solely from the Escrow Funds for any and all Damages to the extent arising from (i) any breach of any representation or warranty either Company has made in this Agreement, (ii) any breach by either Company of any covenant or agreement of such Company in this Agreement that, by its terms, provides for performance by such Company prior to the Closing or (iii) any breach by the Holder Representative of any covenant or agreement of the Holder Representative in this Agreement that, by its terms, provides for performance by the Holder Representative prior to the Closing. Notwithstanding anything to the contrary in this Agreement, any Escrow Funds attributable to that portion of the Escrow Amount attributable to the Estimated Section 338(h)(10) Election Taxes (if applicable) shall only be used to satisfy any adjustment pursuant to Section 9.5(i) and may not be used to satisfy any Indemnification Claim that may otherwise be made with respect to the Escrow Funds.

(b) Subject to Section 13.4, from and after the Closing, Buyer shall indemnify, defend and hold harmless the Holder Representative and the Pre-Closing Holders and its and their respective officers, directors, employees, shareholders, agents and representatives (collectively, the “Seller Indemnified Parties”) for any and all Damages to the extent arising from (i) any breach of any representation or warranty Buyer or either Merger Sub has made in this Agreement or (ii) any breach by (A) Buyer or either Merger Sub of any covenant or agreement of Buyer or either Merger Sub in this Agreement or (B) either Company of any covenant or agreement of such Company in this Agreement that, by its terms, provides for performance by such Company after the Closing.

(c) The amount of indemnification to which an Indemnified Party shall be entitled under this Article XIII shall be determined: (i) by the written agreement between the Indemnified Party and the Indemnitor; (ii) by a final judgment or decree of any court of competent jurisdiction; or (iii) by any other means to which the Indemnified Party and the Indemnitor shall agree. The judgment or decree of a court shall be deemed final when the time for appeal, if any,

shall have expired and no appeal shall have been taken or when all appeals taken shall have been finally determined. The Indemnified Party shall have the burden of proof in establishing the amount of Damages suffered by it.

13.3 Indemnification Claim Procedures.

(a) If any Action is commenced or threatened that may give rise to a claim for indemnification (an “Indemnification Claim”) by any Person entitled to indemnification under this Agreement (each, an “Indemnified Party”), then such Indemnified Party shall promptly (i) notify the Indemnitor and (ii) deliver to the Indemnitor a written notice (A) describing in reasonable detail the nature of the Action, (B) including a copy of all papers served with respect to such Action, (C) including the Indemnified Party’s best estimate of the amount of Damages that may arise from such Action, and (D) describing in reasonable detail the basis for the Indemnified Party’s request for indemnification under this Agreement. Failure to notify the Indemnitor in accordance with this Section 13.3(a) will not relieve the Indemnitor of any liability that it may have to the Indemnified Party, except to the extent (1) the defense of such Action is prejudiced by the Indemnified Party’s failure to give such notice or (2) the Indemnified Party fails to notify the Indemnitor of such Indemnification Claim in accordance with this Section 13.3(a) prior to the Survival Expiration Date.

(b) An Indemnitor may elect at any time to assume and thereafter conduct the defense of any Action subject to any such Indemnification Claim with counsel of the Indemnitor’s choice and to settle or compromise any such Action, and each Indemnified Party shall cooperate in all respects with the conduct of such defense by the Indemnitor (including the making of any related claims, counterclaim or cross complaint against any Person in connection with the Action) and the settlement of such Action by the Indemnitor; provided, however, that the Indemnitor will not approve of the entry of any judgment or enter into any settlement or compromise with respect to such Action without the Indemnified Party’s prior written approval (which must not be unreasonably withheld or delayed), unless the terms of such settlement provide for a complete release of the claims that are the subject of such Action in favor of the Indemnified Party. If the Indemnified Party gives an Indemnitor notice of an Indemnification Claim and the Indemnitor does not, within sixty (60) days after such notice is given, (i) give notice to the Indemnified Party of its election to assume the defense of the Action(s) subject to such Indemnification Claim and (ii) thereafter promptly assume such defense, then the Indemnified Party may conduct the defense of such Action(s); provided, however, that (A) the Indemnified Party will not agree to the entry of any judgment or enter into any settlement or compromise with respect to such Action(s) without the prior written consent of the Indemnitor (which consent shall not be unreasonably withheld) and (B) if at any time the Indemnitor acknowledges in writing that such Action is a Damage subject to this Article XIII, the Indemnitor may thereafter assume the defense of such Action. To the extent the defense of any Action subject to any Indemnification Claim is assumed by the Holder Representative as the Indemnitor, at the election of the Indemnitor, the costs and expenses of such defense of, and any payment in respect of, any Action, including any settlement thereof, shall be paid from the Escrow Funds, and Buyer and the Holder Representative shall instruct the Escrow Agent to disburse such portion of the Escrow Funds as is reasonably requested in writing by the Holder Representative to pay such costs and

expenses or other amounts; provided, however, that no amounts (other than, at the election of the Holder Representative, costs and expenses of the Holder Representative as Indemnitor) will be payable from the Escrow Funds unless the Indemnified Party is actually entitled to indemnification hereunder.

(c) If any Indemnified Party becomes aware of any circumstances that may give rise to an Indemnification Claim for any matter not involving an Action, then such Indemnified Party shall promptly (i) notify the Indemnitor and (ii) deliver to the Indemnitor a written notice (A) describing in reasonable detail the nature of the circumstances giving rise to the Indemnification Claim, (B) including the Indemnified Party’s best estimate of the amount of Damages that may arise from such circumstances and (C) describing in reasonable detail the basis for the Indemnified Party’s request for indemnification under this Agreement. Failure to notify the Indemnitor in accordance with this Section 14.2(c) will not relieve the Indemnitor of any liability that it may have to the Indemnified Party, except to the extent (1) the defense of such Indemnification Claim is prejudiced by the Indemnified Party’s failure to give such notice or (2) the Indemnified Party fails to notify the Indemnitor of such Indemnification Claim in accordance with this Section 14.2(c) prior to the Survival Expiration Date.

(d) At the reasonable request of the Indemnitor, each Indemnified Party shall grant the Indemnitor and its representatives all reasonable access to the books, records, employees and properties of such Indemnified Party to the extent reasonably related to the matters to which the applicable Indemnification Claim relates. All such access shall be granted during normal business hours and shall be granted under the conditions which shall not unreasonably interfere with the business and operations of such Indemnified Party.

13.4 Limitations on Indemnification Liability. Notwithstanding any provision of this Agreement to the contrary, any claims an Indemnified Party makes under this Article XIII will be limited as follows:

(a) Indemnification Cap. The aggregate amount of Damages for which the Buyer Indemnified Parties shall be entitled to indemnification under this Agreement, including pursuant to this Article XIII, will not exceed the Escrow Amount. The Escrow Funds then remaining in escrow shall serve as the sole and exclusive source of payment of any claim for indemnification pursuant to Section 13.2(a).

(b) Claims Basket. The Buyer Indemnified Parties shall not be entitled to indemnification pursuant to this Article XIII with respect to any claim for indemnification unless and until the amount of Damages (excluding costs and expenses of Buyer Indemnified Parties incurred in connection with making such claim under this Agreement) incurred by the Buyer Indemnified Parties that are the subject of such claim exceeds \$[***] (the “Per-Claim Basket”), and the Buyer Indemnified Parties shall only be entitled to indemnification pursuant to this Article XIII to the extent the aggregate amount of all Damages (excluding costs and expenses of Buyer Indemnified Parties incurred in connection with making such claim under this Agreement) incurred by the Buyer Indemnified Parties for which the Buyer Indemnified Parties are entitled to indemnification pursuant to this Article XIII (excluding amounts below the applicable Per-Claim Basket) exceeds \$[***] (the “Basket Amount”), and the Buyer Indemnified Parties shall only be

entitled to indemnification for such Damages to the extent such Damages exceed the Basket Amount. Other than with respect to any claim for breach by Buyer of any representations, warranties or covenants set forth in Articles II, III or IV, the Seller Indemnified Parties shall not be entitled to indemnification pursuant to this Article XIII with respect to any claim for indemnification unless and until the amount of Damages incurred by the Seller Indemnified Parties that are the subject of such claim exceeds the Per-Claim Basket, and the Seller Indemnified Parties shall only be entitled to indemnification pursuant to this Article XIII to the extent the aggregate amount of all Damages incurred by the Seller Indemnified Parties for which the Seller Indemnified Parties are entitled to indemnification pursuant to this Article XIII (excluding amounts below the applicable Per-Claim Basket) exceeds the Basket Amount, and the Seller Indemnified Parties shall only be entitled to indemnification for such Damages to the extent such Damages exceed the Per-Claim Basket and the Basket Amount.

(c) Damages Net of Insurance Proceeds, Tax Benefits and Other Third-Party Recoveries. All Damages for which any Indemnified Party would otherwise be entitled to indemnification under this Article XIII shall be reduced by the amount of insurance proceeds, Tax benefits, indemnification payments and other third-party recoveries to which any Indemnified Party is entitled in respect of any Damages incurred by such Indemnified Party. In the event any Indemnified Party is entitled to any insurance proceeds, Tax benefits, indemnity payments or any third-party recoveries in respect of any Damages for which such Indemnified Party is entitled to indemnification pursuant to this Article XIII, such Indemnified Party shall use commercially reasonable efforts to obtain, receive or realize such proceeds, benefits, payments or recoveries. In the event that any such insurance proceeds, Tax benefits, indemnity payments or other third-party recoveries are realized by an Indemnified Party subsequent to receipt by such Indemnified Party of any indemnification payment hereunder in respect of the claims to which such insurance proceeds, Tax benefits, indemnity payments or other third-party recoveries relate, appropriate refunds shall be made promptly by the relevant Indemnified Parties of all or the relevant portion of such indemnification payment. If such a refund is required and the applicable indemnification payments were paid from the Escrow Funds, (i) if prior to the Survival Expiration Date, such amount will be deposited with the Escrow Agent to be held with the remaining Escrow Funds and (ii) thereafter, such amount will be paid to the Holder Representative for the account of the Pre-Closing Holders.

(d) Assignment of Claims. If any Indemnified Party receives any indemnification payment pursuant to this Article XIII, at the election of the Indemnitor, such Indemnified Party shall assign to the Indemnitor all of its claims for recovery against third Persons as to such Damages, whether by insurance coverage, contribution claims, subrogation or otherwise.

(e) Expenses. In the event that the Holder Representative assumes any defense of any Action for which a Buyer Indemnified Party has sought indemnification, reasonable expenses incurred by any Seller Indemnified Party in connection therewith, including reasonable legal costs and expenses, shall constitute Damages for purposes of determining the maximum aggregate amount to which the Buyer Indemnified Parties shall be entitled pursuant to Section 13.4(a).

(f) Consequential, Punitive and Certain Other Damages. No Indemnified Party shall be entitled to indemnification for any (i) special, punitive or exemplary damages, (ii) any loss of enterprise value, diminution in value of any business, damage to reputation or loss of goodwill, (iii) any lost profits, consequential, indirect or incidental damages, or (iv) any damages calculated based on a multiple of profits, revenue or any other financial metric except, in each case, to the extent such damages are finally awarded and actually paid by the Indemnified Party to an unaffiliated third party in connection with an Action against the Indemnified Party.

(g) Damages Reserved for on the Closing Balance Sheets. No Buyer Indemnified Party shall be entitled to indemnification for any Damages to the extent included or reflected in a contra-asset, liability or obligation accrued or reserved for on either Closing Balance Sheet (including any such amount reflected in the calculation of Closing Date CMP Debt, Closing Date CMP Cash, Closing Date FMFH Debt or Closing Date FMFH Cash).

(h) Knowledge of Breach. No party may make a claim for indemnification for breach of any representation, warranty, covenant or agreement to the extent that such party had knowledge of such breach at or prior to Closing.

(i) No Duplicate Claims. In the event a Buyer Indemnified Party or Seller Indemnified Party, as the case may be, recovers Damages in respect of an Indemnification Claim, no other Buyer Indemnified Party or Seller Indemnified Party, as applicable, may recover the same Damages in respect of a claim for indemnification under this Agreement.

13.5 Mitigation of Damages. An Indemnified Party shall use its reasonable best efforts to mitigate any Damages for which it is entitled to indemnification pursuant to this Article XIII. The Indemnitor shall have the right, but not the obligation, and shall be afforded the opportunity by the Indemnified Party to the extent reasonably possible, to take all available steps to minimize Damages for which the Indemnified Party is entitled to indemnification before such Damages actually are incurred by the Indemnified Party.

13.6 Escrow Funds. Claims for Damages pursuant to Section 13.2(a) shall be paid solely out of the Escrow Funds pursuant to the terms of the Escrow Agreement. All amounts paid with respect to Indemnification Claims under this Agreement shall be treated by the parties hereto for all Tax purposes as adjustments to the Merger Consideration.

13.7 Indemnification Sole and Exclusive Remedy. Except with respect to claims for specific performance of covenants, following the Closing, indemnification pursuant to this Article XIII shall be the sole and exclusive remedy of the parties and any parties claiming by or through any party (including the Indemnified Parties) related to or arising from any breach of any representation, warranty, covenant or agreement contained in, or otherwise pursuant to, this Agreement and none of Buyer, Merger Subs, the Companies, the Holder Representative or any Pre-Closing Holder shall have any other rights or remedies in connection with any breach of this Agreement or any other liability arising out of the negotiation, entry into or consummation of the transactions contemplated by this Agreement, whether based on contract, tort, strict liability, other Laws or otherwise. All representations and warranties set forth in this Agreement are contractual in nature only and subject to the sole and exclusive remedies set forth in this

Article XIII. Furthermore, Buyer, Merger Subs, the Companies, the Holder Representative (on behalf of itself and the Pre-Closing Holders) acknowledge and agree that:

(i) the parties have voluntarily agreed to define their rights, liabilities and obligations respecting the Mergers and the other transactions contemplated hereby exclusively in contract pursuant to the express terms and provisions of this Agreement and hereby waive any statutory and common law remedies, including remedies that may be available under Environmental Laws, with respect to matters relating to the transactions contemplated by this Agreement (including with respect to any environmental, health or safety matters);

(ii) the sole and exclusive remedies for any breach of the terms and provisions of this Agreement (including any representations and warranties set forth herein, made in connection herewith or as an inducement to enter into this Agreement) or any Action otherwise arising out of or related to the Mergers and the other transactions contemplated by this Agreement shall be those remedies available at law or in equity for breach of contract only (as such contractual remedies have been further limited or excluded pursuant to the express terms of this Agreement);

(iii) the provisions of and the limited remedies provided in this Article XIII were specifically bargained for among the parties and were taken into account by the parties in arriving at the Merger Consideration;

(iv) after the Closing, no party or its Affiliates may seek the rescission of the transactions contemplated by this Agreement; and

(v) the parties each hereby acknowledge that this Agreement embodies the justifiable expectations of sophisticated parties derived from arm’s-length negotiations, and the parties specifically acknowledge that no party has any special relationship with another party that would justify any expectation beyond that of an ordinary buyer and an ordinary seller in an arm’s-length transaction.

13.8 Release of Escrow. The Escrow Agreement shall specify that the Escrow Funds (if any) shall be released to the Pre-Closing Holders in accordance with such holders’ relative Escrow Percentages on the first Business Day following the Survival Expiration Date; provided, however, that if any claim pursuant to Article XIII shall have been properly asserted by any Buyer Indemnified Party in accordance with this Agreement on or prior to the Survival Expiration Date and remain pending on the Survival Expiration Date (any such claim, a “Pending Claim”), (i) the Escrow Funds released to the Pre-Closing Holders shall be the amount of Escrow Funds then held by the Escrow Agent, minus the aggregate amount of such Pending Claim and (ii) any funds that remain in escrow following the Survival Expiration Date in respect of any such Pending Claim shall be released to the Pre-Closing Holders entitled to receive the Merger Consideration in accordance with such holders’ relative Escrow Percentages promptly upon resolution or (if applicable) satisfaction of such Pending Claim. In each case in which this Section 13.8 provides for the release of Escrow Funds, each of Buyer and the Holder Representative shall promptly submit joint written instructions to the Escrow Agent instructing

the Escrow Agent to distribute the Escrow Funds in accordance with this Section 13.8 and the Escrow Agreement.

**ARTICLE XIV.
MISCELLANEOUS**

14.1 Waiver. Any party to this Agreement may, at any time prior to the Closing, by action taken by its Board of Directors, Board of Managers or officers thereunto duly authorized, waive any of the terms or conditions of this Agreement or (without limiting Section 14.10) agree to an amendment or modification to this Agreement by an agreement in writing executed in the same manner (but not necessarily by the same Persons) as this Agreement. No waiver by any of the parties hereto of any default, misrepresentation or breach of representation, warranty, covenant or other agreement hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation or breach or affect in any way any rights arising by virtue of any prior or subsequent such occurrence. No waiver by any of the parties of any of the provisions hereof shall be effective unless explicitly set forth in writing and executed by the party sought to be charged with such waiver.

14.2 Notices. All notices and other communications among the parties shall be in writing and shall be deemed to have been duly given (i) when delivered in person, (ii) when delivered after posting in the United States mail having been sent registered or certified mail return receipt requested, postage prepaid, (iii) when delivered by FedEx or other nationally recognized overnight delivery service, or (iv) when delivered by facsimile or email (in each case in this clause (iv), solely if receipt is confirmed), addressed as follows:

- (a) If to Buyer or either Merger Sub, to:
Carriage Funeral Holdings, Inc.
3040 Post Oak Blvd., Suite 300
Houston, TX 77056
Attention: General Counsel
Email: legal@carriageservices.com

- (b) If to either Company, prior to the Closing, to:

Fairfax Memorial Park
9900 Braddock Road
Fairfax, VA 22032
Attention: [***]
Email: [***]
with copies (which shall not constitute notice) to:
Latham & Watkins LLP
555 Eleventh Street, N.W., Suite 1000
Washington, D.C. 20004-1304
Attention: Paul F. Sheridan, Jr.
Email: paul.sheridan@lw.com
and to the Holder Representative:

David Dodrill

[***]

[***]

Attention: David Dodrill

Email: [***]

(c) If to the Holder Representative, to:

David Dodrill

[***]

[***]

Attention: David Dodrill

Email: [***]

with a copy (which shall not constitute notice) to:

Latham & Watkins LLP

555 Eleventh Street, N.W., Suite 1000

Washington, D.C. 20004-1304

Attention: Paul F. Sheridan, Jr.

Email: paul.sheridan@lw.com

or to such other address or addresses as the parties may from time to time designate in writing.

14.3 Assignment. No party hereto shall assign this Agreement or any part hereof without the prior written consent of the other parties. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

14.4 Rights of Third Parties. Nothing expressed or implied in this Agreement is intended or shall be construed to confer upon or give any Person, other than the parties hereto, any right or remedies under or by reason of this Agreement; provided, however, that, notwithstanding the foregoing (i) in the event the Closing occurs, the Indemnified Persons and Other Indemnitors (and their successors, heirs and representatives) are intended third-party beneficiaries of, and may enforce, Section 8.1, (ii) from and after the Effective Time, the Pre-Closing Holders (and their successors, heirs and representatives) shall be intended third-party beneficiaries of, and may enforce, Articles II, III and IV, (iii) the past, present and future directors, officers, employees, incorporators, members, partners, stockholders, Affiliates, agents, attorneys, advisors and representatives of the parties, and any Affiliate of any of the foregoing (and their successors, heirs and representatives), are intended third-party beneficiaries of, and may enforce, Section 14.15 and (iv) Prior Company Counsel and the Designated Persons shall be intended third-party beneficiaries of, and may enforce, Section 14.16.

14.5 Expenses. Each party hereto, other than the Holder Representative (whose expenses shall be paid out of funds paid to the Holder Representative under Section 4.5), shall bear its own expenses incurred in connection with this Agreement and the transactions contemplated hereby whether or not such transactions shall be consummated, including all fees

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of its legal counsel, financial advisers and accountants; provided, however, that Buyer shall pay (a) all fees of American Cemetery/Mortuary Consultants, Inc. otherwise payable by the Companies in connection with the transactions contemplated hereby and (b) Taxes arising pursuant to Section 9.5(g); provided, further, that, in the event that the transactions contemplated hereby are not consummated, (i) the Companies shall reimburse the Holder Representative for all costs and expenses incurred by the Holder Representative in connection with the transactions contemplated hereby and (ii) Buyer shall pay all fees and expenses in connection with any financing arrangements, regardless of whether such fees and expenses were to be incurred by the Companies.

14.6 Governing Law. This Agreement, and all claims or causes of action based upon, arising out of, or related to this Agreement or the transactions contemplated hereby, shall be governed by, and construed in accordance with, the Laws of the Commonwealth of Virginia, without giving effect to principles or rules of conflict of laws to the extent such principles or rules would require or permit the application of Laws of another jurisdiction.

14.7 Captions; Counterparts. The captions in this Agreement are for convenience only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14.8 Schedules and Annexes. The Schedules and Annexes referenced herein are a part of this Agreement as if fully set forth herein. All references herein to Schedules and Annexes shall be deemed references to such parts of this Agreement, unless the context shall otherwise require. Any disclosure made by a party in the Schedules with reference to any section or schedule of this Agreement shall be deemed to be a disclosure with respect to all other sections or schedules to which the relevance of such disclosure is reasonably apparent. Certain information set forth in the Schedules is included solely for informational purposes and may not be required to be disclosed pursuant to this Agreement. The disclosure of any information shall not be deemed to constitute an acknowledgment that such information is required to be disclosed in connection with the representations and warranties made in this Agreement, nor shall such information be deemed to establish a standard of materiality.

14.9 Entire Agreement. This Agreement (together with the Schedules and Annexes to this Agreement), the Escrow Agreement and that certain Confidentiality Agreement, dated as of October 21, 2019, between Buyer and the Companies (the “Confidentiality Agreement”) constitute the entire agreement among the parties relating to the transactions contemplated hereby and supersede any other agreements, whether written or oral, that may have been made or entered into by or among any of the parties hereto or any of their respective Subsidiaries relating to the transactions contemplated hereby. No representations, warranties, covenants, understandings or agreements, oral or otherwise, relating to the transactions contemplated by this Agreement exist between the parties, except as expressly set forth in this Agreement, the Escrow Agreement and the Confidentiality Agreement.

14.10 Amendments. This Agreement may be amended or modified in whole or in part, only by a duly authorized agreement in writing executed in the same manner as this Agreement and which makes reference to this Agreement. The approval of this Agreement by the Stockholders and the Unitholders shall not restrict the ability of the Board of Directors of CMP or the Board of Managers of FMFH to terminate this Agreement in accordance with Section 11.1 or to cause CMP or FMFH, respectively, to enter into an amendment to this Agreement pursuant to this Section 14.10 to the extent permitted under Section 13.1-716 of the VSCA or Section 13.1-1070 of the VLLCA, as applicable.

14.11 Publicity. The Companies and Buyer agree that, from the date hereof through the Closing Date, no public release or announcement concerning the transactions contemplated hereby shall be issued or made by or on behalf of any party without the prior consent of the other parties, except that each of the Companies may make announcements from time to time to its employees, customers, suppliers and other business relations and otherwise as such Company may reasonably determine is necessary to comply with applicable Law or the requirements of any agreement to which such Company is a party. Notwithstanding the foregoing, Buyer and the Companies shall cooperate to prepare a joint press release to be issued on December 2, 2020.

14.12 Severability. If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement shall remain in full force and effect. The parties further agree that if any provision contained herein is, to any extent, held invalid or unenforceable in any respect under the Laws governing this Agreement, they shall take any actions necessary to render the remaining provisions of this Agreement valid and enforceable to the fullest extent permitted by Law and, to the extent necessary, shall amend or otherwise modify this Agreement to replace any provision contained herein that is held invalid or unenforceable with a valid and enforceable provision giving effect to the intent of the parties.

14.13 Jurisdiction; Waiver of Jury Trial.

(a) Any Action based upon, arising out of or related to this Agreement or the transactions contemplated hereby may be brought in the state courts located in the County of Fairfax, Commonwealth of Virginia, or the federal courts of the Alexandria Division of the Eastern District Court of Virginia, in each case, appellate courts therefrom, and each of the parties irrevocably submits to the exclusive jurisdiction of each such court in any such Action, waives any objection it may now or hereafter have to personal jurisdiction, venue or to convenience of forum, agrees that all claims in respect of such Action shall be heard and determined only in any such court, and agrees not to bring any Action arising out of or relating to this Agreement or the transactions contemplated hereby in any other court. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by Law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction, in each case, to enforce judgments obtained in any Action brought pursuant to this Section 14.13(a).

(b) Each party hereto hereby waives, to the fullest extent permitted by applicable Law, any right it may have to a trial by jury in respect of any Action arising out of this Agreement or the transactions contemplated hereby. Each party hereto (i) certifies that no

representative, agent or attorney of any other party has represented, expressly or otherwise, that such party would not, in the event of any Action, seek to enforce the foregoing waiver and (ii) acknowledges that it and the other parties hereto have been induced to enter into this Agreement by, among other things, the mutual waiver and certifications in this Section 14.13(b).

14.14 Enforcement. The parties hereto agree that irreparable damage would occur, and that the parties would not have any adequate remedy at law, in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to specifically enforce the terms and provisions of this Agreement, without proof of actual damages or otherwise, in addition to any other remedy to which any party is entitled at law or in equity. Each party agrees to waive any requirement for the securing or posting of any bond in connection with such remedy. The parties further agree not to assert that a remedy of specific enforcement is unenforceable, invalid, contrary to law or inequitable for any reason, nor to assert that a remedy of monetary damages would provide an adequate remedy. To the extent any party hereto brings an Action to enforce specifically the performance of the terms and provisions of this Agreement (other than an Action to enforce specifically any provision that by its terms requires performance after the Closing or expressly survives termination of this Agreement), the Termination Date shall automatically be extended to (i) the twentieth (20th) Business Day following the resolution of such Action or (ii) such other time period established by the court presiding over such Action.

14.15 Non-Recourse. This Agreement may only be enforced against, and any claim or cause of action based upon, arising out of, or related to this Agreement or the transactions contemplated hereby may only be brought against, the entities that are expressly named as parties hereto and then only with respect to the specific obligations set forth herein with respect to such party. Except to the extent a named party to this Agreement (and then only to the extent of the specific obligations undertaken by such named party in this Agreement and not otherwise), no past, present or future director, officer, employee, incorporator, member, partner, stockholder, member, Affiliate, agent, attorney, advisor or representative or Affiliate of any of the foregoing shall have any liability (whether in contract, tort, equity or otherwise) for any one or more of the representations, warranties, covenants, agreements or other obligations or liabilities of any one or more of the Companies, Buyer or Merger Subs under this Agreement (whether for indemnification or otherwise) or of or for any claim based on, arising out of, or related to this Agreement or the transactions contemplated hereby.

14.16 Waiver of Conflicts Regarding Representations; Non-Assertion of Attorney-Client Privilege.

(a) Conflicts of Interest. Buyer acknowledges that Latham & Watkins LLP and other legal counsel (“Prior Company Counsel”) have, on or prior to the Closing Date, represented one or more of the Holder Representative, one or more Pre-Closing Holders, the Companies, their respective Affiliates, and their respective officers, employees and directors (each such Person, other than the Companies, a “Designated Person”) in one or more matters relating to this Agreement or any other agreements or transactions contemplated hereby (including any matter

that may be related a litigation, claim or dispute arising under or related to this Agreement or such other agreements or in connection with such transactions) (each, an “Existing Representation”), and that, in the event of any post-Closing matters (x) relating to this Agreement or any other agreements or transactions contemplated hereby (including any matter that may be related to a litigation, claim or dispute arising under or related to this Agreement or such other agreements or in connection with such transactions) and (y) in which Buyer or any of its Affiliates (including either Company), on the one hand, and one or more Designated Persons, on the other hand, are or may be adverse to each other (each, a “Post-Closing Matters”), the Designated Persons reasonably anticipate that Prior Company Counsel will represent them in connection with such matters. Accordingly, Buyer and each of the Companies hereby (i) waives and shall not assert, and agrees after the Closing to cause its Affiliates to waive and to not assert, any conflict of interest arising out of or relating to the representation by one or more Prior Company Counsel of one or more Designated Persons in connection with one or more Post-Closing Matters (the “Post-Closing Representations”), and (ii) agrees that, in the event that a Post-Closing Matter arises, Prior Company Counsel may represent one or more Designated Persons in Post-Closing Matter even though the interests of such Person(s) may be directly adverse to Buyer or any of its Affiliates (including the Companies), and even though Prior Company Counsel may (i) have represented the Companies in a matter substantially related to such dispute or (ii) be currently representing Buyer, the Companies or any of their respective Affiliates. Without limiting the foregoing, Buyer and each of the Companies (on behalf of itself and its Affiliates) consents to the disclosure by Prior Company Counsel, in connection with one or more Post-Closing Representations, to the Designated Persons of any information learned by Prior Company Counsel in the course of one or more Existing Representations, whether or not such information is subject to the attorney-client privilege of either Company or Prior Company Counsel’s duty of confidentiality as to such Company and whether or not such disclosure is made before or after the Closing.

(b) Attorney-Client Privilege. Buyer and each of the Companies (on behalf of itself and its Affiliates) waives and shall not assert, and agrees after the Closing to cause its Affiliates to waive and to not assert, any attorney-client privilege, attorney work-product protection or expectation of client confidence with respect to any communication between any Prior Company Counsel, on the one hand, and any Designated Person or either Company (collectively, the “Pre-Closing Designated Persons”), or any advice given to any Pre-Closing Designated Person by any Prior Company Counsel, occurring during one or more Existing Representations (collectively, “Pre-Closing Privileges”) in connection with any Post-Closing Representation, including in connection with a dispute between any Designated Person and one or more of Buyer, the Companies and their respective Affiliates, it being the intention of the parties hereto that all rights to such Pre-Closing Privileges, and all rights to waiver or otherwise control such Pre-Closing Privilege, shall be retained by the Holder Representative, and shall not pass to or be claimed or used by Buyer or the Companies, except as provided in the last sentence of this Section 14.16(b). Furthermore, Buyer and each of the Companies (on behalf of itself and its Affiliates) acknowledges and agrees that any advice given to or communication with any of the Designated Persons shall not be subject to any joint privilege (whether or not a Company also received such advice or communication) and shall be owned solely by such Designated Persons. Notwithstanding the foregoing, in the event that a dispute arises between Buyer or either

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Company, on the one hand, and a third party other than a Designated Person, on the other hand, such Company shall (and shall cause its Affiliates to) assert the Pre-Closing Privileges on behalf of the Designated Persons to prevent disclosure of Privileged Materials to such third party; provided, however, that such privilege may be waived only with the prior written consent of the Holder Representative.

(c) Privileged Materials. All such Pre-Closing Privileges, and all books and records and other documents of each Company containing any advice or communication that is subject to any Pre-Closing Privilege (“Privileged Materials”), shall be excluded from the purchase, and shall be distributed to the Holder Representative (on behalf of the applicable Designated Persons) immediately prior to the Closing with (in the case of such books and records) no copies retained by such Company. Absent the prior written consent of the Holder Representative, neither Buyer nor (following the Closing) either Company shall have a right of access to Privileged Materials.

(d) Miscellaneous. Buyer hereby acknowledges that it has had the opportunity (including on behalf of its Affiliates and the Companies) to discuss and obtain adequate information concerning the significance and material risks of, and reasonable available alternatives to, the waivers, permissions and other provisions of this Agreement, including the opportunity to consult with counsel other than Prior Company Counsel. This Section 14.16 shall be irrevocable, and no term of this Section 14.16 may be amended, waived or modified, without the prior written consent of the Holder Representative and its Affiliates and Prior Company Counsel affected thereby.

14.17 Parent Guaranty. Parent Guarantor hereby unconditionally, absolutely and irrevocably guarantees the prompt and full performance of all of Buyer’s obligations set forth in this Agreement (such obligations, the “Buyer Obligations”). The Companies (or, after the Closing, the Holder Representative) may seek remedies directly from Parent Guarantor with respect to the Buyer Obligations without first seeking or exhausting its remedies against Buyer. The liability of Parent Guarantor hereunder is in all cases subject to all defenses and counterclaims available to Buyer to performance of the Buyer Obligations (excluding bankruptcy defenses).

[Remainder of page intentionally left blank]

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IN WITNESS WHEREOF the parties have hereunto caused this Agreement to be duly executed as of the date first above written.

CARRIAGE FUNERAL HOLDINGS, INC.

By: /s/ Melvin C. Payne
Name: Melvin C. Payne
Title: Chief Executive Officer & President

CARRIAGE HOLDINGS VIRGINIA, INC.

By: /s/ Melvin C. Payne
Name: Melvin C. Payne
Title: Chief Executive Officer & President

CARRIAGE SERVICES OF VIRGINIA LLC

By: /s/ Melvin C. Payne
Name: Melvin C. Payne
Title: Chief Executive Officer & President

CARRIAGE SERVICES, INC., solely in its capacity as the Parent Guarantor hereunder

By: /s/ Melvin C. Payne
Name: Melvin C. Payne
Title: Chief Executive Officer & President

[Signature Page to Transactions Agreement]

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CALVARY MEMORIAL PARK, INC.

By: /s/ Michael H. Doherty
Name: Michael H. Doherty
Title: President

FAIRFAX MEMORIAL FUNERAL HOME, L.L.C.

By: /s/ Michael H. Doherty
Name: Michael H. Doherty
Title: President

[Signature Page to Transactions Agreement]

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DAVID DODRILL, solely in his capacity as the initial Holder Representative hereunder

/s/ David S. Dodrill
David S. Dodrill

[Signature Page to Transactions Agreement]

AMENDMENT TO THE TRANSACTIONS AGREEMENT

This amendment (the "Amendment") to that certain Transactions Agreement by and among Carriage Funeral Holdings, Inc., a Delaware corporation ("Buyer"), Carriage Holdings Virginia, Inc., a Commonwealth of Virginia corporation and a wholly owned subsidiary of Buyer ("Merger Sub Corp"), Carriage Services of Virginia LLC, a Commonwealth of Virginia limited liability company and a wholly owned subsidiary of Buyer ("Merger Sub") LLC" and, together with Merger Sub Corp, "Merger Subs" and each a "Merger Sub"), Calvary Memorial Park, Inc., a Commonwealth of Virginia corporation ("CMP"), Fairfax Memorial Funeral Home, L.L.C., a Commonwealth of Virginia limited liability company ("FMFH" and, together with CMP, the "Companies" and each a "Company"), David Dodrill, an individual, solely in his capacity as the initial Holder Representative hereunder, and Carriage Services, Inc., a Delaware corporation ("Parent Guarantor"), solely in its capacity as the Parent Guarantor thereunder, is entered into on December 30, 2019 among the foregoing parties. Any term used in this Amendment without definition has the meaning set forth for such term in the Agreement.

RECITALS

WHEREAS, the undersigned parties wish to amend the Agreement to as set forth herein.

NOW THEREFORE, in consideration of the mutual agreements and covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Section 2.3(a) of the Agreement is hereby amended and restated in to entirety to read as follows:

"After the Effective Time, the articles of incorporation of CMP, as in effect immediately prior to the Effective Time, shall be amended after the Effective Time to read in its entirety in the form of articles of incorporation to be mutually agreed by Buyer and the Holder Representative, and, as so amended, shall become the articles of incorporation of the Surviving Corporation until thereafter amended in accordance with the applicable provisions of the VSCA and such articles of incorporation; provided that any such amendment must comply with Section 8.1."

2. Further Assurances; Amendments. Except as expressly amended by this Amendment, all of the terms of the Agreement remain unmodified and in full force and effect and are hereby confirmed in all respects.

3. Entire Agreement; Amendments to this Agreement. This Amendment, along with the Agreement constitute the full and entire understanding and agreement among the parties with regard to the subject matter hereof and thereof. No amendment, change, modification or termination of this Amendment or any part hereof shall be effective or binding unless made in writing and signed by each party.

4. Binding Effect. This Amendment shall be binding upon and shall inure to the benefit of the parties and their respective successors and permitted assigns.

5. Governing Law: This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia (excluding the choice of law principles thereof).

6. Counterparts; Electronic Delivery. This Amendment may be executed and delivered in any number of counterparts, each of which, when so executed, will be deemed an original and all of which taken together will constitute one and the same agreement. Signatures of a party which are sent to the other parties by e-mail (pdf.) or by facsimile transmission shall be binding as evidence of acceptance to the terms hereof by such party.

[Signature page follows]

CALVARY MEMORIAL PARK INCORPORATED

By: /s/ David S. Dodrill
Name: David Dodrill
Its: Vice President

FAIRFAX MEMORIAL FUNERAL HOME L.L.C.

By: /s/ David S. Dodrill
Name: David Dodrill
Its: Vice President

By: /s/ David S. Dodrill
Name: David Dodrill
Its: Holder Representative

CARRIAGE FUNERAL HOLDINGS, INC.

By: /s/ Viki K. Blinderman
Name: Viki K. Blinderman
Its: Vice President

CARRIAGE HOLDINGS VIRGINIA, INC.

By: /s/ Viki K. Blinderman
Name: Viki K. Blinderman
Its: Vice President

CARRIAGE SERVICES OF VIRGINIA LLC

By: /s/ Viki K. Blinderman
Name: Viki K. Blinderman
Its: Vice President

CARRIAGE SERVICES, INC.
SUBSIDIARIES AS OF DECEMBER 31, 2019

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 February 28, 2020, with respect to the consolidated financial statements, schedule and internal control over financial reporting included in the Annual Report of Carriage Services, Inc. on Form 10-K for the year ended December 31, 2019. We consent to the incorporation by reference of said reports in the Registration Statements of Carriage Services, Inc. on Form S-3 (File No. 333-217234) and on Forms S-8 (File No. 333-136313, File No. 333-162408, File No. 333-166912, File No. 333-181724, File No. 333-218115 and File No. 333-225142).

/s/GRANT THORNTON LLP

Houston, Texas
February 28, 2020

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: February 28, 2020

/s/ Melvin C. Payne

Melvin C. Payne

Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

I, Viki K. Blinderman, 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: February 28, 2020

/s/ Viki K. Blinderman

Viki K. Blinderman

Senior Vice President, Chief Accounting Officer and Secretary
(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 Viki K. Blinderman, Senior Vice President, Chief Accounting Officer and Secretary 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: February 28, 2020

/s/ Melvin C. Payne

Melvin C. Payne

Chief Executive Officer and Chairman of the Board

(Principal Executive Officer)

/s/ Viki K. Blinderman

Viki K. Blinderman

Senior Vice President, Chief Accounting Officer and Secretary

(Principal Financial Officer)