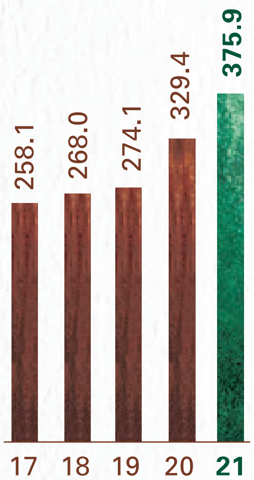
CARRIAGE SERVICES

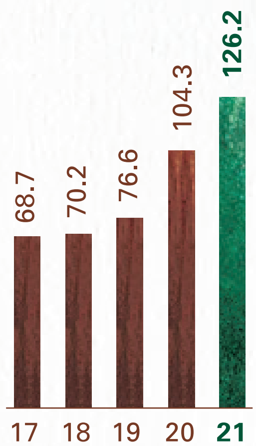
The Best is Yet to Come

2021 Annual Report

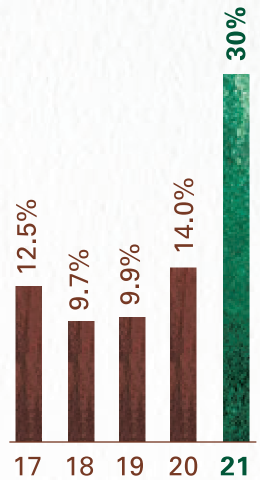
Total Revenue
(In Millions)



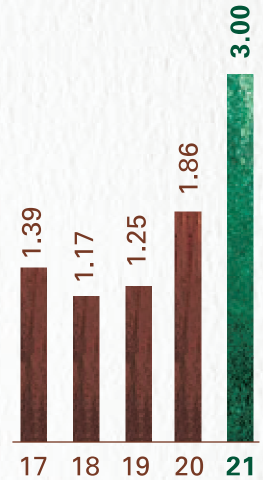
Adjusted Consolidated EBITDA
(In Millions)



Adjusted Return on Equity

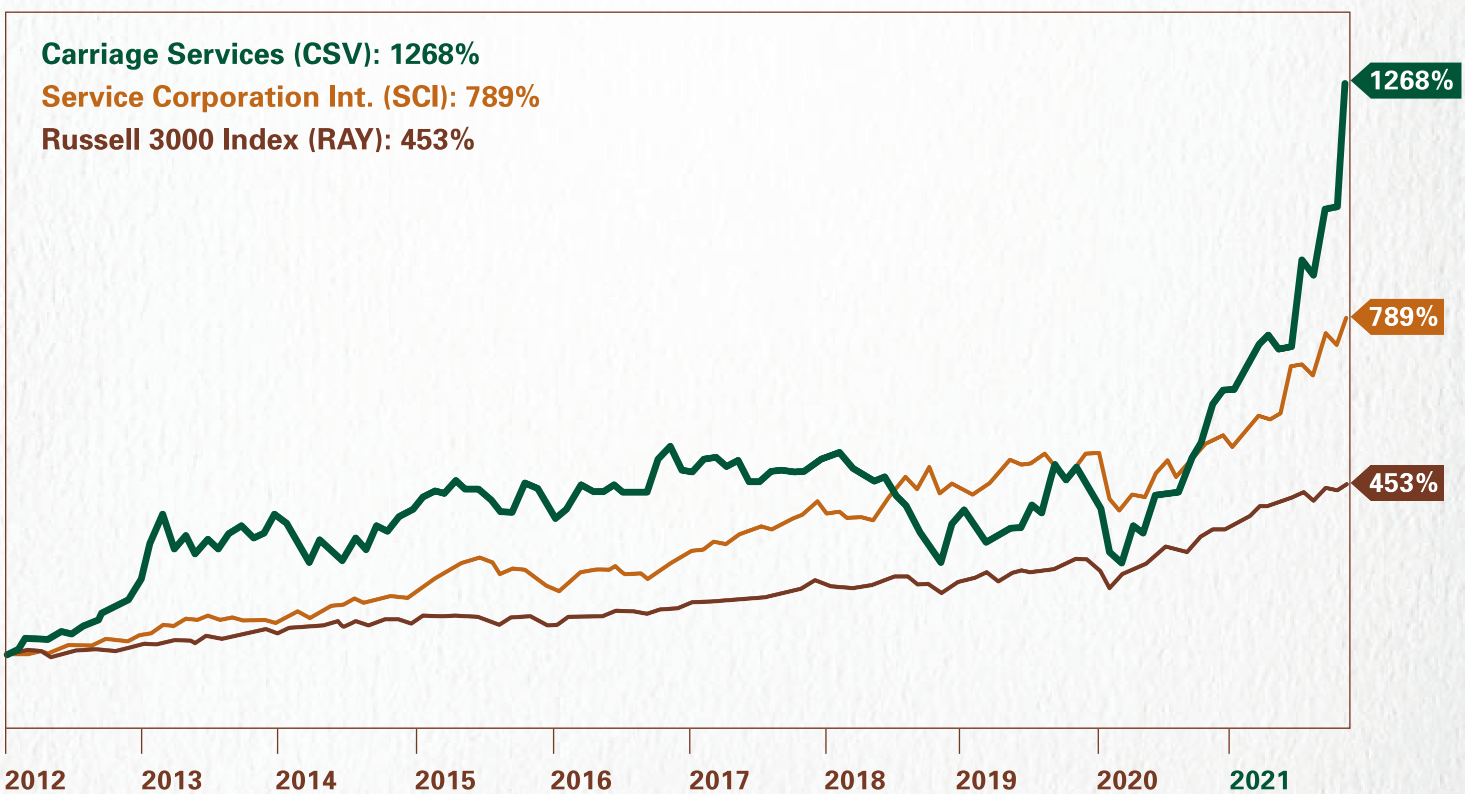


Adjusted Diluted Earnings Per Share



Total Return 2012-2021 YTD December*

* Total Return includes stock price appreciation and dividend reinvestment



In the best-selling iconic book, ***Good To Great*** by Jim Collins in 2001, each of the eleven **Good To Great** companies researched by Jim and his team had a "Transition Date" after which their share price growth began to compound at much higher long-term rates compared to their "good" sector peers. As I previously explained in my 2016 Shareholder Letter, that transition date for Carriage was November 4, 2011, after which we launched on January 1, 2012 the First Five Year Timeframe of our **Good To Great Journey** that never ends. We just completed our Second Five Year **Good To Great Journey** Timeframe, and the Ten Year Carriage Shareholder Returns are extremely compelling:

- CSV share price increased 11.5 times (a 10.5 bagger) from $5.60 at year end 2011 to $64.44 at year end 2021;
- A Total 10 Year Return including dividends of 1,268%;
- A 10 Year CAGR including dividends of 28.91%.

After reading our 2021 Shareholder Letter, as spectacular as the last ten years have been for our shareholders, we believe you will join all of our leaders, employees and Board Members in **AN UNBREAKABLE UNION OF BELIEF** that **THE BEST IS YET TO COME!**

INTRODUCTION TO SHAREHOLDER LETTER

It is Sunday, March 13, 2022, and I am sitting at my desk in my home library reflecting not only on Carriage's amazing 2021 record performance, but more deeply and profoundly on the evolution of a radical new methodology for operating and consolidating a highly fragmented industry of family-owned businesses since I co-founded Carriage on June 1, 1991. I have previously written extensively about the high performance idea and concept of our unorthodox and counterintuitive Standards Operating Model for the funeral and cemetery business (2016, 2017, 2018 and 2020 Shareholder Letters, quarterly earnings reports last two years, etc.), yet I am quite certain that most equity investors and even most industry participants (business owners, industry publications and associations, suppliers, brokers, top A Player talent) have a very weak or vague understanding as to how Carriage actually works beneath the covers of a New York Stock Exchange listed company.

As a long time student of investing and particularly leadership and entrepreneurial success life biographies, I use IBD's 10 Secrets Of Success to teach, develop and mentor younger leaders in Carriage (at 79¼ years of age, that's **EVERYBODY!**). Secret Number 8 reads: "**DON'T BE AFRAID TO INNOVATE, BE DIFFERENT**: Following the herd is a sure way to mediocrity." If any of you would like to spend a little time with someone who **HATES MEDIOCRITY WITH A PASSION**, I invite you to have lunch with me at Carriage!

So to be radically different if not the first New York Stock Exchange listed company to do so, I decided to convert our record fourth quarter and full year earnings release dated February 23, 2022, into our FYE 2021 Shareholder Letter, co-written by the other three members of Carriage's Strategic Vision and Principles Group ("SVPG"), Carlos Quezada, Ben Brink, and Steve Metzger, who are being developed into the future Executive Leaders of Carriage. This letter is chock-full of content related to outstanding execution of our Standards Operating Model, including high performance and very detailed operating and financial data covering past, present and future performance, along with narrative interpretation by each of the SVPG Members.

After getting "wiped out" financially in the Black Monday Market Crash on October 19, 1987 (DOW down over 22%), I realized I had been speculating rather than investing in a bull market, and reached two profound conclusions that would change the future choices and course of my life:

- I would study all the master investors of the time until finding one whose philosophy and style would most likely match my own and thereby reward my strengths while protecting me from my weaknesses; and
- I had to start my own company from scratch and build it "My Way" based on Five Guiding Principles, and over time **Become The Best** at that business; thereby creating superior equity value and financial independence for me as the founder / owner as well as for all those leader/owners who helped me build it; and a company whose equity even a master investor would want to own.

After co-founding Carriage in 1991, I continued my intensive focus on studying all the master investors, finally determining that Warren Buffett and Charlie Munger and their awesomely clear yet simple thinking and concepts fit me and my background perfectly, not just related to investing but also related to understanding human nature and living a good and meaningful life. But what was most compelling to me was not only their investment philosophy related to public company securities, but also the unorthodox radical decentralization of the business model of Berkshire Hathaway and all of its wholly owned subsidiary companies that had been acquired.

I can see many similarities of Carriage today to Berkshire Hathaway maybe thirty to forty years ago and even now, while there are also distinct differences as well since we are restricted to the funeral and cemetery industry and have all of the support functions and personnel at our Houston Support Center for all the individual businesses in our portfolio (they have 29 people and no support personnel). But one similarity stands tall above all the rest and is worth mentioning in this introduction to our 2021 Shareholder Letter. In his authorized autobiography by Alice Schroeder, ***The Snowball: Warren Buffett and the Business of Life***, Warren is quoted as describing his job at Berkshire Hathaway as follows:

> *"I feel like I'm on my back, and there's the Sistine Chapel, and I'm painting away. I like it when people say, 'Gee, that's a pretty good-looking painting.' But it's my painting, and when somebody says, 'Why don't you use more red instead of blue?' Good-bye. And I don't care what they sell it for. The painting itself will never be finished. That's one of the great things about it."*

Warren's "Founder's view" of Berkshire Hathaway perfectly captures my thinking about Carriage, which is why we say internally that our **Mission / Vision of Being The Best** means that we can always get better and therefore we are on a **Good To Great Journey** that never ends. I have had to say "Good-bye" to many operational, financial, and other executives and Board Members over the last thirty years, including my three co-founders, because they either didn't like the way I wanted to paint the Carriage Sistine Chapel or even understand the ideas and concepts related to the painting. They wanted to use different colors and shapes that often were the opposite of where my vision of the painting was going.

I have often wondered whether I could have somehow sped-up or short-cut the almost twenty years of evolutionary change within all areas of Carriage after first introducing the idea of a Funeral Standards Operating Model in August 2003. I have concluded each time upon reflection that the process of experimentation and adaptation, while agonizingly slow in hindsight, was absolutely critical to the process of painting the Carriage Sistine Chapel as it exists today. I have often said that the evolutionary learning journey related to our Standards Operating Model involved application of the scientific method of experimentation and observation and went completely against the grain of how most people think and behave after achieving success somewhere else.

On Page 39 of my 2016 Shareholder Letter, I referenced reading the book ***Harnessing Complexity*** with the subtitle ***Organizational Implications of a Scientific Frontier***, co-authored by Robert Axelrod and Michael D. Cohen in 2000. When I read this book after a reference on the work of Robert Axelrod by Mark Leonard in his 2014 Constellation Software Shareholder Letter, I was encouraged and even excited that some of the core ideas and concepts of Carriage's Standards Operating Model, Partnership Organizational Structure, Radical Decentralization of Decision Making, Leader Ownership Mindset and Incentives, etc., were so closely aligned with the scientific findings in this book.

After the **High Performance Transformation** that our leadership teams have executed at Carriage since 2018, I have concluded that we have evolved into a rather advanced state of "harnessing the high performance complexity" of successfully operating and consolidating the highly fragmented funeral and cemetery industry for the huge benefit over time of all our leader/owners and employees, long-term shareholders, bondholders, banks, suppliers and especially the client families and communities that we are privileged and honored to serve. This process is beautifully depicted on the front cover of this Annual Report in the form of our **Carriage Flywheel** (Sistine Chapel) being painted by a Master Painter.

Never in our history could I have imagined that Carriage would be as full as it is today of A Player Leaders at all levels and in all functions with the "leadership alignment and painting skills" to continue the high performance growth and sustainability of Carriage as an Operating, Consolidation and Value Creation Platform for the funeral and cemetery industries. The best news of all is that the Master Painter on the front cover of Carriage's Shareholder Letter / Annual Report is no longer solely me but represents all of the leaders within Carriage that have **AN UNBREAKABLE UNION OF BELIEF** that **THE BEST IS YET TO COME!**

2021 Shareholder Letter

- Full Year Performance Release Represents 2021 Shareholder Letter;
- Carlos Quezada promoted to President and Chief Operating Officer;
- Fourth Quarter Revenue of $95.9 million, GAAP Diluted EPS of $0.77 and Adjusted Diluted EPS of $0.78;
- Full Year Revenue of $375.9 million, GAAP Diluted EPS of $1.81 and Adjusted Diluted EPS of $3.02;
- Full Year Adjusted Free Cash Flow of $75.7 million; Net Operating Cash Flow of $84.2 million;
- Issues new Three Year Roughly Right Ranges Performance Scenario through 2024 with a likely Capital Allocation Scenario and Share Price Valuation Ranges for each year;
- Invested $142.5 million since May 13, 2021 to repurchase 2.9 million shares (16.0% of outstanding at $49.01 per share);
- Board approved a new $75 million authorization for Stock Repurchase Program; and
- Increase of $5 per share in Intrinsic Value Roughly Right Range to $70 to $80 per share.

Mel Payne, Chairman and CEO, stated, "Our funeral and cemetery portfolio revenue and earnings momentum continued through the fourth quarter of 2021 with record revenue of $95.9 million (up 6.5%) and record Adjusted Diluted EPS of $0.78 (up 36.8%) despite a tough comparison with our fourth quarter of last year because of a spike in COVID-19 deaths, especially in California beginning in December 2020 through January 2021. The other good news is that our GAAP Diluted EPS for the fourth quarter of $0.77 was essentially equal to our Adjusted Diluted EPS after the "noisy Non-GAAP addbacks" during the last several years, which should continue to be the case in most quarters in the future. Our full year revenue was a record $375.9 million (up 14.1%) while Adjusted Diluted EPS increased 62.4% from $1.86 per share in 2020 to $3.02 per share in 2021 (GAAP Diluted EPS of $1.81, up 68.6%), which like night follows day led to our share price more than doubling from $31.32 at year-end 2020 to $64.44 at year-end 2021. In other words, our 2021 performance during the continuing COVID-19 Pandemic was in perfect alignment with our annual theme of:

CARRIAGE SERVICES 2021: ACCELERATING HIGH PERFORMANCE FLYWHEEL EFFECT!

After we raised our Roughly Right Range of Intrinsic Value by $10 per share to $65 to $75 per share in our third quarter earnings release dated October 27, 2021, we continued to aggressively buy our shares into the end of the year. Since our senior notes refinancing on May 13, 2021, we have repurchased a little over 2.9 million shares (16.0% of total outstanding) for about $142.5 million or $49.01 per share, $26 per share or 34.7% below the $75 per share midpoint of our increased Intrinsic Value Per Share Roughly Right Range of $70 to $80 per share. So long as Mr. Market Rodney Dangerfield continues to significantly undervalue the ownership and future prospects of our company, we will continue to prioritize share repurchases within the Capital Allocation Framework of High Return on Invested Capital uses of our increasing Free Cash Flow.

As I have previously stated often externally and "at all times" internally, Carriage is defined by our unique Standards Operating Model and High Performance Culture Framework for operating and consolidating the highly fragmented funeral and cemetery industry. Our success as a consolidation platform is driven by a customized data-based language of High Performance Standards whose relevance and oversight for each funeral and cemetery business in our portfolio is provided by the "**Best of the Best**" Managing Partners who currently serve on our eleven-member Standards Council.

When executed to a high degree of "Standards Achievement" by most of our Managing Partners most of the time, our Funeral and Cemetery Standards deliver high and sustainable operating and financial performance over both the short term (one year) and long term (five years) while requiring continuous improvement to drive market share growth, as we always update our Rolling Four Quarter Performance Outlook each quarter and our Five Year Roughly Right Ranges Performance Scenario at the beginning of each year. Moreover, all our leaders in both our individual businesses and field and Houston Support Center roles are 100% aligned with one-year and five-year high performance financial and recognition incentives that also align perfectly with superior long term compounded returns for our shareholders.

In my 2016 Shareholder Letter titled **1991-2016: The Evolution of Our Learning Journey**, it took forty-four pages for me to cover the first twenty-five years of Carriage and the evolution of the idea of a Funeral Standards Operating Model beginning in August 2003. In my 2020 Shareholder Letter titled **A Tale of High Performance Transformation**, it took fifty-one pages for me to cover the amazing transformation of Carriage since I had to once again step back into the role of Chief Operating Officer in September 2018. This full year 2021 earnings release will also for the first time represent our 2021 Shareholder Letter, covering the remarkable **High Performance Transformation** in our cemetery portfolio, funeral portfolio, realignment of short and long term incentives with sustained high operating and financial performance standards, as well as transformation and cultural alignment of our Houston Support Center Departments and Teams from 2018 to 2021. I will begin by sharing the highlights of our 2021 year and record performance in all areas of our company.

The greatest strategic achievement of this past year was that I formally established on June 2, 2021 a succession plan format for the future Executive Leaders of Carriage when I am no longer here, although I have no plans or health reasons to not be here serving as Chairman and CEO over the next five to ten years of optimum value creation. On June 2, 2021 (extensive press release on their individual backgrounds and qualifications), I promoted Carlos Quezada to Executive Vice President and Chief Operating Officer, Steve Metzger to Executive Vice President and Chief Administrative Officer, and Ben Brink to Executive Vice President and Principal Financial Officer in addition to their other responsibilities and roles, and to membership in our new Strategic Vision and Principles Group (SVPG) chaired by me.

Based on his amazing achievements and contributions that Carlos has made to Carriage since joining our **Good To Great Journey** on June 26, 2020, I am very honored to announce that he has also been promoted to President and Chief Operating Officer effective today. I got the biggest promotion with these succession plan moves, as I can now allocate my time to its highest and best use, which I view as developing Carlos, Steve and Ben to be the future Executive Leaders of Carriage, as well as mentoring them on optimizing long term shareholder value creation through wise, savvy, flexible and highly disciplined Capital Allocation as covered so brilliantly in the 2012 book ***The Outsiders*** by Will Thorndike.

After co-founding Carriage at 48 years young on June 1, 1991, the company has finally evolved after more than thirty years into a **Being The Best Mission / Vision Company** in our industry. Yet only now do I believe that as an equity investment "**The Best Is Yet To Come**." Accordingly, I will begin this 2021 Shareholder Letter with the analogy of Carriage on February 23, 2022 to that of London at the height of the British Empire in the timeframe 1775-1792, as depicted by Charles Dickens in his famous 1859 novel of historical fiction "***A Tale of Two Cities***," whose vivid descriptions are shown below (as compared to Paris and France in the timeframe).

<table>
<tr><th>1775-1792
London</th><th>2020-2030
Carriage</th></tr>
<tr><td colspan="2">Best of Times
Age of Wisdom
Epoch of Belief
Season of Light
Spring of Hope
Everything Before Us</td></tr>
<tr><td>Center of Learning
Center of Commerce
British Empire Peak</td><td>High Performance CSV
CSV Good To Great Journey
CSV Premium High Valuation
CSV Built To Last Future</td></tr>
</table>

Carriage's future is perfectly captured by the vivid descriptions of London, as our leaders are passionately committed to an "**Epoch of Belief in Themselves, Belief in Each Other** and **Belief in the Power of People Through Individual Initiative and Teamwork.**" Which together has created "**AN UNBREAKABLE UNION OF BELIEF**" throughout Carriage that after thirty years of innovative business model and organizational development evolution, we have entered the "**Best of Times with Everything Before Us!**"

The balance of this 2021 Shareholder Letter has been a collaboration between myself, Carlos, Steve and Ben as the four members of SVPG, putting **TRUTH** to my earlier assertion that I got the biggest promotion. Much of the content in certain specific and highly relevant areas and reporting sections covered in this letter has never been shown publicly in such transparent detail, particularly as trends over five full years including Pre-COVID years, which is intended along with “takeaway insights” by SVPG members to provide a greater understanding of our past, present and likely future performance.

But more profoundly important and rare in this Shareholder Letter is that we will also present total consolidated performance ranges of what our **High Performance Transformation** is expected to look like over the next three years under a likely Capital Allocation Scenario, and for the first time what our shares could potentially be worth each year with continued outstanding execution of our three core models. The Table of Contents for this Shareholder Letter is shown below sequentially in sections covered by each SVPG member:

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FOURTH QUARTER AND FULL YEAR COMPARATIVE PERFORMANCE HIGHLIGHTS

Fourth Quarter 2021 Comparative Performance Highlights

- Total Revenue(1) of $95.9 million, an increase of $5.8 million or 6.5%.

- GAAP Funeral Operating Income of $23.2 million, an increase of $3.7 million or 19.1%;
- GAAP Funeral Operating Income Margin of 33.3%, an increase of 420 basis points;
- GAAP Cemetery Operating Income of $9.9 million, an increase of $1.5 million or 17.5%;
- GAAP Cemetery Operating Income Margin of 37.5%, an increase of 130 basis points;
- GAAP Net Income of $13.3 million, an increase of $5.0 million or 59.6%;
- GAAP Net Income Margin of 13.9%, an increase of 460 basis points;
- GAAP Diluted EPS of $0.77, an increase of $0.31 or 67.4%;
- GAAP Net Cash Provided by Operating Activities of $14.5 million, a decrease of 3.6%; and
- GAAP Net Cash Provided by Operating Activities as a percentage of Total Revenue of 15.2%, a decrease of 160 basis points.

- Same Store Funeral Revenue of $55.3 million, an increase of $2.7 million or 5.1%;
- Acquisition Funeral Revenue of $10.0 million, an increase of $0.6 million or 6.8%;
- Same Store Cemetery Revenue of $16.3 million, an increase of $1.5 million or 9.9%;
- Acquisition Cemetery Revenue of $6.3 million, an increase of $0.8 million or 14.6%; and
- Financial Revenue of $6.2 million, an increase of $0.9 million or 17.1%.

- Total Field EBITDA of $44.2 million, an increase of $2.9 million or 6.9%;
- Total Field EBITDA Margin of 46.1%, an increase of 20 basis points;
- Adjusted Consolidated EBITDA of $30.4 million, an increase of $2.1 million or 7.4%; and
- Adjusted Consolidated EBITDA Margin of 31.7%, an increase of 30 basis points.

- Adjusted Diluted EPS of $0.78, an increase of $0.21 or 36.8%;
- Adjusted Free Cash Flow of $10.3 million, a decrease of $1.6 million or 13.2%; and
- Adjusted Free Cash Flow Margin of 10.7%, a decrease of 250 basis points.

Full Year 2021 Comparative Performance Highlights

- Total Revenue(1) of $375.9 million, an increase of $46.4 million or 14.1%;

- GAAP Funeral Operating Income of $88.6 million, an increase of $31.0 million or 53.7%;
- GAAP Funeral Operating Income Margin of 32.8%, an increase of 970 basis points;
- GAAP Cemetery Operating Income of $40.4 million, an increase of $13.5 million or 50.2%;
- GAAP Cemetery Operating Income Margin of 38.1%, an increase of 470 basis points;
- GAAP Net Income of $33.2 million, an increase of $17.1 million or 106.1%;
- GAAP Net Income Margin of 8.8%, an increase of 390 basis points;
- GAAP Diluted EPS of $1.81, an increase of $0.92 or 103.4%;
- GAAP Net Cash Provided by Operating Activities of $84.2 million, an increase of 1.6%; and
- GAAP Net Cash Provided by Operating Activities as a percentage of Total Revenue of 22.4%, a decrease of 280 basis points.

- Same Store Funeral Contracts of 41,307, an increase of 3,505 or 9.3%;
- Same Store Funeral Revenue of $215.0 million, an increase of $23.3 million or 12.1%;
- Same Store Funeral Field EBITDA of $93.0 million, an increase of $13.2 million or 16.5%;
- Same Store Funeral Field EBITDA Margin of 43.3%, an increase of 170 basis points;
- Acquisition Funeral Revenue of $38.0 million, an increase of $2.6 million or 7.2%;
- Acquisition Funeral Field EBITDA of $16.0 million, an increase of $2.4 million or 17.5%;
- Acquisition Funeral Field EBITDA Margin of 42.1%, an increase of 370 basis points;
- Same Store Cemetery Revenue of $64.2 million, an increase of $12.4 million or 24.0%;
- Same Store Cemetery Field EBITDA of $27.0 million, an increase of $7.5 million or 38.5%;

- Same Store Cemetery Field EBITDA Margin of 42.1%, an increase of 440 basis points;
- Acquisition Cemetery Revenue of $27.8 million, an increase of $10.2 million or 58.3%;
- Acquisition Cemetery Field EBITDA of $15.5 million, an increase of $8.4 million or 117.8%; and
- Acquisition Cemetery Field EBITDA Margin of 55.8%, an increase of 1,530 basis points.

- Financial Revenue of $22.9 million, an increase of $3.0 million or 15.2%;
- Financial Field EBITDA of $21.4 million, an increase of $2.8 million or 15.1%; and
- Financial Field EBITDA Margin of 93.2%, a decrease of 10 basis points.

- Total Field EBITDA of $174.6 million, an increase of $32.7 million or 23.0%;
- Total Field EBITDA Margin of 46.5%, an increase of 340 basis points;
- Adjusted Consolidated EBITDA of $126.2 million, an increase of $21.9 million or 21.0%; and
- Adjusted Consolidated EBITDA Margin of 33.6%, an increase of 200 basis points.

- Adjusted Diluted EPS of $3.02, an increase of $1.16 or 62.4%;
- Adjusted Free Cash Flow of $75.7 million, an increase of $5.7 million or 8.2%;
- Adjusted Free Cash Flow Margin of 20.1%, a decrease of 110 basis points;
- Adjusted Proforma Free Cash Flow of $79.7 million, an increase of $9.7 million or 13.9%; and
- Adjusted Proforma Free Cash Flow Margin of 21.2%, the same as 2020.

- Total Debt Outstanding to Adjusted Consolidated EBITDA Ratio of 4.5 times at 12/31/21, 4.38 times at February 23, 2022.

(1) Total Revenue is comprised of Same Store Funeral Revenue, Acquisition Funeral Revenue, Same Store Cemetery Revenue, Acquisition Cemetery Revenue, Divested Revenue, Ancillary Revenue and Financial Revenue. The most comparable GAAP measures to the Non-GAAP measures presented in this table can be found in the Reconciliation of Non-GAAP Financial Measures section of this press release.

After navigating through the uncertainty, fear and extraordinary challenges of the first year of the COVID-19 Pandemic in 2020 to a record performance, our Operating and Field Support Teams together with our Managing Partners, Sales Managers and their **Being The Best** Employee Teams, supported as always by our Houston Support Center Teams "come hell or high water," adapted and thrived through subsequent COVID Variants and delivered a second record performance during 2021 in all five Field Reporting Segments. Our revenue and profit momentum from our third quarter of 2021 carried through the end of the year and actually accelerated in December 2021 and into January 2022 against what we expected would be almost impossibly high performance comparisons to December 2020 and January 2021, which will be covered in detail later in this release.

TWO MAJOR STRATEGIC ACHIEVEMENTS / PUBLIC DEATHCARE SECTOR 2022 VERSUS 1990'S

There were two major strategic achievements in 2021 that position Carriage for continued, even extraordinary success over the next seven years as a superior operating, consolidation and especially shareholder value creation platform in the highly fragmented funeral and cemetery industry. The first major strategic achievement was the formation of SVPG on June 2, 2021 as my Founder's Vision succession plan. The second major strategic achievement was completion of a refinancing on May 13, 2021 of $400 million of 6.625% eight-year senior notes due 2026 with a new $400 million of 4.25% eight-year senior notes due May 2029, which along with our amended and restated $150 million five-year bank revolving credit facility provides Carriage with a long-term, low rate capital structure that was the last piece of a complete transformation of Carriage into a **Free Cash Flow Machine**.

Carriage now has the Free Cash Flow sustainable earnings power, forecast to be about $82 million to $86 million in 2022, to self-finance a meaningful highly selective acquisition growth strategy without becoming over-leveraged, as we have proven since the beginning of 2020 that we can deleverage our balance sheet rapidly even in adverse environments.

I know of no other sector (can't think of any but curious to know a sector and company name) where over the last twenty years the number of domestic public deathcare consolidation companies have shrunk from five to two (SCI and CSV), and both of us have materially shrunk our outstanding share count (SCI by over 50%, CSV by 41%) while growing steadily and sometimes in spurts financed mostly by Free Cash Flow (SCI consolidated Alderwoods in 2006, Keystone in 2010 and Stewart Enterprises in 2013; Carriage made four large strategic, transformative acquisitions at the end of 2019). Our credit profiles have substantially improved throughout this timeframe and are second to none in the high yield category (Junk label is a Joke!), as the last time an investor lost money on deathcare debt because of a payment default was when Loewen Group out of Canada filed for bankruptcy in June 1999.

Both SCI and Carriage have become excellent Free Cash Flow operators and consolidators over the last twenty years at a time when all those revenue elements not under our control such as death rates, cremation/ burial mix changes (cremation market share easier to take from competition), customer value perception of funeral ritual and of preplanning funeral and cemetery details, value perception of cremations with personalized services, etc., have switched from being secular revenue winds in our face and turned decidedly to revenue trends that are in our favor. Consequently, the outlook for long-term organic revenue growth for Carriage both in our funeral and cemetery portfolio has never been better or higher.

When Stewart Enterprises was acquired by SCI for $1.17 billion ($13.25 per share) plus assumption of debt in 2013, it had about 88 million fully diluted shares outstanding, $526.9 million in Revenue and $115.5 million in Adjusted Consolidated EBITDA equal to an Adjusted Consolidated EBITDA Margin of 21.9%. After repurchasing approximately 2.9 million shares in 2021, Carriage currently has 16.5 million fully diluted GAAP shares outstanding, Total Revenue of about $376 million in 2021, Adjusted Consolidated EBITDA of $126.2 million (Adjusted Consolidated EBITDA Margin of 33.6%), and Proforma Free Cash Flow of $79.7 million. Our Proforma Free Cash Flow Margin of 21.2% in 2021 was almost equal to the Adjusted Consolidated EBITDA Margin of Stewart Enterprises when it sold to SCI in 2013. Now that's the definition of a **Carriage Free Cash Flow Machine!**

During the 1990's, all five domestic deathcare consolidation companies needed (lots of) external bank debt and secondary equity offerings (No Free Cash Flow For Nobody At No Time!) to execute an aggressive growth by acquisition consolidation mania that crashed in early 1999 (No Capital For Nobody At No Time!). Carriage now produces each year from Free Cash Flow the equivalent of an $80 million plus secondary equity offering, the "Cash Capital Proceeds" of which are allocated to optimize Intrinsic Value Per Share. Whereas the last secondary common equity offering in our domestic sector was by Stewart Enterprises in February 1999 when they issued $219.1 million at about $16.75 per share (13.6 million shares) to save the company from bankruptcy. In other words, Stewart Enterprises issued almost as many shares in one offering for desperation defense than we currently have outstanding!

After the milestone high performance achievements of the last three years, Carriage for the first time in our 30 year history is in a "**Value Creation Sweetspot**" with an accelerating offense from Free Cash Flow and a Capital Allocation Strategy that produces balanced and highly profitable revenue growth over a base of fewer common shares outstanding, which in turn should create higher compounded rates of growth in Intrinsic Value Per Share for many years into the future. Now that's the definition of a **Carriage High Performance Value Creation Transformation!**

THREE YEAR ROUGHLY RIGHT RANGES PERFORMANCE SCENARIO 2020 - 2022 COMPARED TO 2022 - 2024

After partially turning around performance trends in our funeral portfolio during 2019, we made four large strategic acquisitions at the end of 2019 and beginning of 2020, three of which were large funeral / cemetery combination businesses. In our year-end 2019 earnings release on February 19, 2020, I made the following statements shown below:

"Reflecting back on Carriage's performance decline in 2018, the performance turnaround we have already achieved, and the performance milestones we will achieve over the next three years, our company will have executed what we believe in hindsight will be viewed as a complete Carriage Leadership, Portfolio High Performance, Balance Sheet, Earnings and Free Cash Flow Transformation as a Value Creation Platform.

Shown below is an expanded Milestone Three Year Roughly Right Scenario for 2020 to 2022 demonstrating the shareholder value creation opportunity."

INITIAL THREE YEAR ROUGHLY RIGHT RANGES SCENARIO DATED FEBRUARY 19, 2020 (MILLIONS)

Performance Outlook Scenario	**Years Ending December 31** (Actual Performance in Parentheses)			**2022 Performance Range**	
	2019(A)	**2020(A)**	**2021(A)**	**2022 - 2/19/20**	**2022 - 2/23/22**
Total Revenue	$274.1	$315 - $319 ($329.4)	$320 - $324 ($375.9)	$328 - $332	$380 - $390
Total Field EBITDA	$109.8	$127 - $131 ($141.9)	$133 - $137 ($174.6)	$139 - $144	$178 - $184
Total Field EBITDA Margin	40.0%	40% - 41% (43.1%)	41% - 42% (46.5%)	42% - 43%	46% - 47%
Adj. Consol. EBITDA	$76.6	$92 - $96 ($104.3)	$97 - $101 ($126.2)	$102 - $106	$128 - $133
Adj. Consol. EBITDA Margin	27.9%	29% - 30% (31.6%)	30% - 31% (33.6%)	31% - 32%	33.5% - 34.5%
Adjusted Diluted EPS	$1.25	$1.55 - $1.65 ($1.86)	$1.92 - $2.10 ($3.02)	$2.25 - $2.40	$3.55 - $3.65
Shares Outstanding	18.0	18.1	18.3	-	16.2
Adjusted Free Cash Flow	$38.8	$42 - $45 ($70.0)	$53 - $56 ($75.7)	$60 - $63	$82 - $86
Total Debt Outstanding	$534.0(1)	$480 - $490 ($461.1)	$440 - $450 ($565.4)	$390 - $440	$560 - $570
Total Debt to EBITDA Multiple	7.0(2)	5.0 - 5.2 (4.4)	4.3 - 4.5 (4.5)	3.8 - 4.0	4.1 - 4.4

(1) January 3, 2020 acquisition of Oakmont Memorial Park & Mortuary and peak debt. The most comparable GAAP measures to the Non-GAAP measures presented in this table can be found in the Reconciliation of Non-GAAP Financial Measures section of the press release dated February 23, 2022.

(2) Does not include Proforma EBITDA for acquisitions.

Shown below is our new Three Year Roughly Right Ranges Performance Scenario dated February 23, 2022 (new 2022 shown in table above as comparison to old) with a likely Capital Allocation Scenario together with potential Share Price Ranges for each year using three different valuation methodologies. Because our company is already performing at such a high level in every "meter moving performance metric," and we have already repurchased 16% of CSV ownership since May 13, 2021, we have biased this likely Base Case Capital Allocation Strategy toward selective acquisitions in the second half of 2022 and thereafter in 2023 and 2024, as outlined below:

FREE CASH FLOW CAPITAL ALLOCATION BY CATEGORY BY YEAR

Category Percentage Free Cash Flow (%)	2022	2023	2024
Free Cash Flow Range (Millions)	$82 - $86	$86 - $90	$94 - $100
Growth Capex	13%	15%	15%
• Funeral	3%	3%	3%
• Cemetery	10%	12%	12%
Acquisition	38%	76%	76%
• Funeral	23%	46%	46%
• Cemetery	15%	30%	30%
Share Repurchase	40%	-	-
Dividends	9%	9%	9%
Debt Repayment	-	-	-
Total % Free Cash Flow	**100%**	**100%**	**100%**

Shown below are tables reflecting our new Three Year Roughly Right Ranges Performance Scenario as of February 23, 2022, with our likely Capital Allocation Scenario by year from the prior page and share price ranges for each year using reasonable benchmark valuation multiples for our industry.

THREE YEAR ROUGHLY RIGHT RANGES PERFORMANCE SCENARIO 2022 THROUGH 2024

Performance Outlook Ranges	Actual Performance			Three Year Scenario			
Yrs. Ending 12/31 (Millions)	2019A	2020A	2021A	2022	2023	2024	CAGR
Total Revenue	$274.1	$329.4	$375.9	$380 - $390	$410 - $420	$450 - $460	10.7%
Total Field EBITDA	$109.8	$141.9	$174.6	$178 - $184	$190 - $200	$210 - $220	14.4%
Total Field EBITDA Margin	40.0%	43.1%	46.5%	46% - 47%	46.5% - 47.5%	47% - 48%	3.5%
Adj. Consol. EBITDA	$76.6	$104.3	$126.2	$128 - $133	$140 - $145	$155 - $160	15.5%
Adj. Consol. EBITDA Margin	27.9%	31.6%	33.6%	33.5% - 34.5%	33.5% - 34.5%	34% - 35%	4.3%
Adjusted Diluted EPS	$1.25	$1.86	$3.02	$3.55 - $3.65	$3.90 - $4.00	$4.40 - $4.50	28.9%
Diluted Shares Outstanding	18.0	18.1	18.3	16.2	16.5	16.7	(1.5%)
Adjusted Free Cash Flow	$38.8	$70.0	$75.7	$82 - $86	$86 - $90	$94 - $100	20.1%
Adj. Free Cash Flow Margin	14.2%	21.2%	20.1%	21.0% - 22.0%	21.0% - 22.0%	21.0% - 22.0%	8.7%
Total Debt Outstanding	$534.0(1)	$461.1	$565.4	$560 - $570	$560 - $580	$570 - $590	1.7%
Total Debt to EBITDA Ratio	7.0(2)	4.4	4.5	4.1 - 4.4	3.8 - 4.2	3.8 - 4.2	(10.6%)

(1) January 3, 2020 acquisition of Oakmont Memorial Park & Mortuary and peak debt. The most comparable GAAP measures to the Non-GAAP measures presented in this table can be found in the Reconciliation of Non-GAAP Financial Measures section of the press release dated February 23, 2022.

(2) Does not include Proforma EBITDA for acquisitions.

SHARE PRICE VALUATION METHODOLOGIES – POTENTIAL SHARE PRICE RANGES

5 Year Enterprise Valuation Methodologies	Potential Performance at Valuation Multiples			Three Year Scenario			
		2020	2021	2022	2023	2024	CAGR
EV / EBITDA Multiple	11	$38.09	$44.65	$53.45	$61.92	$71.04	16.9%
EV / EBITDA Multiple	12	$43.88	$51.54	$61.46	$70.66	$80.54	16.4%
EV / EBITDA Multiple	13	$49.67	$58.43	$69.47	$79.40	$90.05	16.0%
EV / EBITDA Multiple	14	$55.47	$65.32	$77.48	$88.13	$99.55	15.7%
EV / EBITDA Multiple	15	$61.26	$72.20	$85.49	$96.87	$109.05	15.5%
5 Year P/E Valuation Matrix	**Potential Performance at Valuation Multiples**			**Three Year Scenario**			
		2020	2021	2022	2023	2024	CAGR
P/E Multiple	15	$27.59	$45.12	$53.75	$59.10	$66.63	24.7%
P/E Multiple	20	$36.79	$60.17	$71.66	$78.81	$88.84	24.7%
P/E Multiple	25	$45.99	$75.21	$89.58	$98.51	$111.06	24.7%
5 Year FCF Valuation Matrix	**Potential Performance at Valuation Multiples**			**Three Year Scenario**			
		2020	2021	2022	2023	2024	CAGR
Free Cash Flow Equity Yield	8%	$48.61	$51.41	$66.86	$67.29	$74.88	11.4%
Free Cash Flow Equity Yield	7%	$55.56	$58.75	$76.42	$76.91	$85.58	11.4%
Free Cash Flow Equity Yield	6%	$64.81	$68.55	$89.15	$89.72	$99.84	11.4%
Free Cash Flow Equity Yield	5%	$77.78	$82.26	$106.98	$107.67	$119.81	11.4%
Actual Share Price Range	**Actual Share Price Range**			**Three Year Scenario**			
Carriage Services (CSV)	N/A	$13.80-$31.40	$30.97-$65.91	?	?	?	

I am truly amazed at the wide spread of 52-week high and low common share prices each year for most public companies, which is often in a range of 20% - 40% and frequently much more each year, often when nothing material has changed fundamentally in the company's performance or outlook. This phenomenon is apparent in the CSV share price potential ranges shown on the previous page for 2020 and 2021 using actual performance metrics and various degrees of valuation multiples each year. Our share price had wild swings in both 2020 (way, way down in the COVID market crash, then way up to above $30 per share for the first time) and 2021 (up 105.7% mostly in the last quarter). Yet our share price only got close to our opinion of the Roughly Right Range of Intrinsic Value Per Share at the time ($65 to $75) late in 2021 before declining over 20% to under $50 per share in the highly volatile downward market since the beginning of 2022.

Which is why in our May 13, 2021 press release on our senior notes refinancing at a rate of 4.25%, I referred to our bond pricing as Tom Brady Pricing whereas our equity pricing was akin to Rodney Dangerfield Pricing, both then and now. Our Free Cash Flow Equity Yield was 10.8% then, is 9.8% now using 2021 Proforma Free Cash Flow of $79.7 million and 16.5 million fully diluted shares, and will be about 10.4% at today's share price of $49 using the $84 million midpoint of the 2022 Roughly Right Range of Free Cash Flow.

As the tables reflect, our share price potential upside over the next three years is huge with the possibility that we could double our current price by the end of 2024 as we continue to execute at a very high level of operating and financial performance, and Mr. Market begins to price our high performance and future prospects into today's share price through an expansion of our (lowest in class) valuation multiples. As the saying goes, "Beauty (and valuation multiples) are in the eyes of the beholder!"

Of course we cannot predict what external factors might impact domestic and international equity and debt markets including valuation multiples given the continuing economic uncertainty relating to the COVID-19 Pandemic, rapidly rising inflation and interest rates, geopolitical minefields (Russia and Ukraine, China and Taiwan, etc.) that seem to be popping up across the world, new Black Swan Events (Don't Look Up!), etc. But speaking as a 10% owner of Carriage with my wife and two adult children, Carriage is looking downright "Gorgeous!"

However, if Mr. Market assigns a substantially discounted price to our opinion of Intrinsic Value Per Share relative to sector benchmark peers for external reasons that aren't linked to and therefore don't materially impact the upward trend and sustainability of the Roughly Right Ranges of Performance Metrics in our Three Year Scenario through 2024, then we will simply increase the amount of Capital Allocation for share repurchases, knowing that Mr. Market Rodney Dangerfield is back on the job offering us a deal to increase our ownership in CSV on the cheap!

The last three years of **Transformative High Performance** at Carriage have been absolutely "**PROOF OF CONCEPT**" years for the counterintuitive ideas and concepts that we have been evolving since 2003 centered around "Radical Decentralization and Partnership" of how best to operate and consolidate a highly fragmented industry. We have a sense of pride and achievement that our company is positioned for future success like never before, anchored heavily by experience and learning from mistakes. But especially the wisdom that **Being The Best** and staying that way requires continuous improvement in the face of unrelenting change, together with necessary and frequent recalibration of High Performance Standards and Leadership on a **Good To Great Journey** that never ends.

GOOD TO GREAT II SHAREHOLDER VALUE CREATION INCENTIVE PLAN

I had no superior "future performance predictive powers" when we presented our first Three Year Roughly Right Ranges Performance Scenario on February 19, 2020. Yet I knew when our shares plummeted to as low as $13.54 on April 16, 2020 during the "bottom quickly fell out" COVID market crash that "Freaked Out Mr. Market" had likely served up an opportunity of a lifetime for all of our leaders who were critical to executing our plan of transformation in 2020, 2021 and 2022, as well as thereafter.

So I began to play around with various "back of the envelope" compound share price returns over a full five years ending December 31, 2024, and settled on five different compound annual growth rates (CAGR) using $14.38 as the base price, starting with 20% and increasing in 5% increments to 40%. Our shares had never reached $30 in our twenty-four year history as a public company, so starting with a 20% CAGR for five years got our price to $35.78, an easy "Minimum Standard" below which "Nobody Got Nothing!" Whereas a 40% CAGR would get our share price to $77.34 and would mean we would have to get a lot better as a company (especially me!) in all areas of the company over the five-year timeframe and be consistent and disciplined at doing "smart stuff" while avoiding like the plague (or COVID) doing "stupid stuff!" Achieving the 40% CAGR Tier over the second five year timeframe, after achieving a CSV share price CAGR of 38.6% ($5.60 to $28.64) in the first five year **Good To Great Journey** timeframe from 2012 through 2016, would totally align with the name of the incentive program and be a more than acceptable **Being The Best / Good To Great Journey Standard**.

Needless to say, the forty-eight **Good To Great II** participating leaders who have now already vested in the 30% CAGR Tier at $53.39 after only two years (20%, 25% and 30% Tiers **ALL** vested during 2021!) are focused like never before on doing only "Shareholder Value Creation Smart Stuff" over the next three years, and at some point before year-end 2024 moving past the 40% Top Tier price of $77.34. Even better, many if not most are wondering about how to retain as many of their performance shares as possible upon receipt at the beginning of 2025 (taxes and other "Marshmallow Test" reasons!), and then riding them as long-term owners to an even loftier **Good To Great Journey Valuation Destination** in the years ahead.

Such an "out of the box" long-term shareholder value creation returns plan in perfect alignment with the many "meter moving" leaders of Carriage would not have been possible at any prior point in the company's history. All the pieces of the value creation platform puzzle had not yet been put in place, especially the most challenging piece of getting the "**First Who, Then What**" Leadership Concept advanced to have all the right people in the right seats at the right time on the **Good To Great Journey Bus**. Yet very few equity investors noticed or took **Good To Great II** seriously at the time we announced this long-term alignment incentive program in our 2020 second quarter release dated July 28, 2020, or even thereafter until we began to use a five-year schematic of **Good To Great II** as an early page in our Investor Presentation.

SOME FINAL THOUGHTS ABOUT CARRIAGE AND THE NATURE OF BEING A PUBLIC COMPANY

We have greatly appreciated the new and outstanding equity analyst coverage this past two years from top regional equity sell side firms as well as continued outstanding equity coverage from longtime supporters who have introduced our company and its bright future prospects to many new institutional investors. Our commitment to our equity analysts is to make them look smart if not timely brilliant, and to investors who became or will become long term share owners of our company to do our best as fiduciaries of your capital so that you never have any regrets.

While your equity investment in Carriage might or might not have wide price swings in 2022 and future years, we are confident that the value of your investment will trend up substantially over time. Mr. Market can occasionally have irrational or contradictory traits during (sometimes prolonged) bouts of time when the price of a company's common shares becomes "unmoored" from the reality of the company's current fundamentals and future prospects. I covered the famous allegory of Mr. Market (and its application to Carriage), created and first introduced by Benjamin Graham in his 1949 book, ***The Intelligent Investor***, in our May 13, 2021 press release on our bond refinancing. I also referenced its most famous practitioner, Warren Buffett, which reminds me of a line relevant to Carriage now in one of Warren's Shareholder Letters many years ago on "Some Thoughts About Investing: Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard."

Warren closed out his "Some Thoughts About Investing" with this final thought, "It's vital, however, that we recognize the perimeter of our 'Circle of Competence' and stay well inside of it. Even then we will make some mistakes both with stocks and businesses. But they will not be the disasters that occur, for example, when a long-rising market induces purchases that are based on anticipated price behavior and a desire to be where the action is."

I sensed toward the end of last year after our record third quarter earnings release on October 27th (CSV closing price of $43.96 per share), after which our shares spiked 46.6% into year-end to close at $64.44, that Carriage's common shares had become one place "where the anticipated price behavior action is!" As a long time student of stock markets, companies, the price/volume dynamics of many company specific stock charts, etc., but especially of human nature and psychology-based tendencies and behaviors specifically related to individual company stocks and markets, I saw all the signs:

1. Carriage had achieved #1 Ranking in Investor's Business Daily ("IBD") Industry Group Sector of "Funeral Services and Related" with the highest possible Composite Rating of 99;
2. IBD Group Sector "Funeral Services and Related" had moved up to #6 out of 197 Industry Group Sectors based on the combined "price behavior" of those companies in our sector relative to the other 196 sectors;
3. A personal zoom interview we had with an IBD journalist about our recent sector outperformance and the temporary or permanent impact of COVID on our industry after the "Funeral Services and Related" Group Sector had moved to #6 from #66 in only six weeks;
4. Forbes "promoted" Carriage to 50th in their annual rating of the Top 100 Small Companies in America in 2021 from 97th in 2020 based on relative stock "price behavior" performance;
5. Finally and most confirming that Carriage had become a strong candidate for the winner of the "Cinderella Ball Price Behavior Beauty Contest," I began to receive articles touting Carriage as a top "anticipated price behavior" stock pick (Seeking Alpha, Zack's Investment Research, Motley Fool, various magazine articles, investment newsletters, etc.), not from investment professionals but by Managing Partner Standards Council Members, other Carriage leaders, Board members and even my wonderful brother and his equally wonderful wife!!

The 2021 year-end spike in Carriage "price behavior" was briefly exciting for those of us in Carriage, primarily because it represented recognition from those outside of Carriage that our noble work and unique high performance ideas and concepts for our industry had begun to have high equity value to investors as well. Yet we have no goal or desire to be a "fashion of the moment" momentum stock or company at any time now or in the future. We only have a passionate drive to get continually better so that we always fundamentally earn more than the price that others place on our ownership.

As a **Being The Best High Performance Culture Team of Teams**, we commit to all our shareholders, bond holders, investment analysts, banks, suppliers and Board Members, but especially to our leaders, employees, client families and communities that our funeral homes and cemeteries are honored to serve, to ignore and not be distracted by the irrational behavior and noise related to Mr. Market whenever and for whatever reason(s) unrelated to Carriage, including any impact on the "price behavior" of our shares! And to always be laser focused on having the best players on all of our teams prepared to make game winning plays on their respective playing fields when it matters most to those experiencing the profound challenges of losing a loved one on the journey of life and death," concluded Mr. Payne.

FIVE QUARTER TREND REPORT ENDING DECEMBER 31, 2021

Carlos Quezada, President and Chief Operating Officer, stated, "We report our performance results publicly using the same highly transparent Non-GAAP "Trend Reports" that we use internally and which have been explained in previous shareholder letters, including Five Year and Five Quarter Trend Reports that reflect long and short term trends in our core operating, financial and overhead sectors over time as shown on the following pages.

FIVE QUARTER OPERATING AND FINANCIAL TREND REPORT HIGHLIGHTS

(000's except for volume, averages & margins)	4TH QTR 2020	1ST QTR 2021	2ND QTR 2021	3RD QTR 2021	4TH QTR 2021
Funeral Same Store Contracts	10,396	11,303	9,259	10,848	10,716
Average Revenue Per Contract (1)	$5,226	$5,218	$5,294	$5,273	$5,346
Funeral Same Store Burial Contracts	3,914	4,202	3,304	3,705	3,808
Funeral Same Store Burial Rate	37.6%	37.2%	35.7%	34.2%	35.5%
Average Revenue Per Burial Contract	$9,062	$9,053	$9,306	$9,489	$9,429
Funeral Same Store Cremation Contracts	5,776	6,389	5,236	6,203	6,057
Funeral Same Store Cremation Rate	55.6%	56.5%	56.6%	57.2%	56.5%
Average Revenue Per Cremation Contract	$3,281	$3,325	$3,466	$3,482	$3,498
Funeral Same Store Revenue	$52,642	$56,829	$47,397	$55,502	$55,311
Funeral Same Store Field EBITDA	$23,172	$25,829	$18,666	$24,961	$23,569
Funeral Same Store Field EBITDA Margin	44.0%	45.5%	39.4%	45.0%	42.6%
Funeral Acquisition Revenue	$9,348	$10,139	$8,557	$9,354	$9,981
Funeral Acquisition Field EBITDA	$3,684	$4,467	$3,261	$3,974	$4,315
Funeral Acquisition Field EBITDA Margin	39.4%	44.1%	38.1%	42.5%	43.2%
Cemetery Same Store Preneed Property Contracts Sold	1,033	1,161	1,211	1,280	1,120
Cemetery Same Store Preneed Sales Revenue	$9,231	$9,718	$11,445	$11,366	$10,926
Cemetery Same Store Revenue	$14,815	$14,635	$16,906	$16,342	$16,288
Cemetery Same Store Field EBITDA	$6,499	$5,704	$7,907	$6,465	$6,939
Cemetery Same Store Field EBITDA Margin	43.9%	39.0%	46.8%	39.6%	42.6%
Cemetery Acquisition Preneed Property Contracts Sold	345	338	475	294	361
Cemetery Acquisition Preneed Sales Revenue	$5,394	$5,089	$6,839	$5,148	$5,045
Cemetery Acquisition Revenue	$5,509	$6,980	$8,175	$6,362	$6,312
Cemetery Acquisition Field EBITDA	$2,531	$4,102	$4,737	$3,547	$3,140
Cemetery Acquisition Field EBITDA Margin	45.9%	58.8%	57.9%	55.8%	49.7%
Total Financial Revenue	$5,265	$5,706	$5,405	$5,639	$6,167
Total Financial Field EBITDA	$4,926	$5,305	$5,058	$5,225	$5,777
Total Financial Field EBITDA Margin	93.6%	93.0%	93.6%	92.7%	93.7%
Total Revenue	$90,088	$96,637	$88,277	$95,041	$95,931
Total Field EBITDA	$41,318	$45,787	$40,014	$44,651	$44,189
Total Field EBITDA Margin	45.9%	47.4%	45.3%	47.0%	46.1%
Adjusted Consolidated EBITDA	$28,300	$34,657	$28,720	$32,389	$30,395
Adjusted Consolidated EBITDA Margin	31.4%	35.9%	32.5%	34.1%	31.7%
Adjusted Diluted EPS	$0.57	$0.81	$0.64	$0.82	$0.78
Adjusted Free Cash Flow	$11,870	$27,140	$12,313	$25,922	$10,308
Adjusted Free Cash Flow Margin	13.2%	28.1%	13.9%	27.3%	10.7%
GAAP Net Income (Loss)	$8,365	$12,933	$(6,167)	$13,046	$13,347
GAAP Net Income (Loss) Margin	9.3%	13.4%	(7.0)%	13.7%	13.9%
GAAP Diluted Earnings (Loss) Per Share	$0.46	$0.71	$(0.33)	$0.71	$0.77

(1) Excludes Preneed Funeral interest earnings reflected in Total Financial Revenue.
The most comparable GAAP measures to the Non-GAAP measures presented in this table can be found in the Reconciliation of Non-GAAP Financial Measures section of the press release dated February 23, 2022.

As shown on the previous page, we have had consistent **High Performance** in each of the five revenue segments over the last five quarters with a five quarter average of $93.2 million and the last two quarters of 2021 above $95 million. Our all-time quarterly revenue high was the first quarter of 2021 at $96.6 million with January being the main driver for this result due to a COVID-19 spike centered in our large California portfolio. Our second quarter revenue of $88.3 million was the lowest revenue quarter, but we were still able to produce a Field EBITDA Margin of 45.3%, also the lowest of the last five quarters. The consistency in quarterly revenue from every segment also converted into consistency in high Total Field EBITDA Margins ranging from 45.3% to 47.4% over the five quarters. The high level of consistency in Total Field EBITDA Margins is reflective of the cash earning power in our five reporting segments that has emerged since the beginning of our portfolio performance transformation in 2018, as previously, the all-time high Field EBITDA Margin for a full year was 42.1% in 2016.

Our positive outlook is based on what we know is happening at Carriage. While other companies inside and outside our sector are concerned about the post-COVID effect (pull-forward), we cannot predict what the new normalized death rate will be post-COVID, as COVID could become endemic and there is too much noise and unreliable information for us to even try to predict precisely what the impact will be in the future. Instead, we think long-term and focus on what we can control and what we do best, pursuing our **Being The Best Mission and Vision**. Even under a pandemic environment with restriction mandates, social distance, remote work, overworked heroes and any other uncertainty or speculation about the future (no crystal ball at CSV), we will always strive to be the best we can be, a byproduct of which is that we say yes when other competitors say no. We say we can when others say we can't.

The resiliency, creativity, innovation, and passion for service excellence of our amazing Managing Partners and their "best in class" teams of employees have built brand loyalty and top of mind reputation in their respective communities. Most importantly, our customers have responded by making huge deposits in the **Goodwill Value Creation** bank of our most critical asset: the **TRUST** of the families we serve. Moreover, whenever and whatever the normalized death rate percentage turns out to be, our "**Best of the Best**" team of teams stand ready to capture the biggest share of the local death rate across our portfolio of businesses.

SAME STORE FUNERAL REVENUE MONTHLY TRENDS AND DRIVERS SEVEN MONTHS ENDING JANUARY 2022

(000's except for volume, averages)	2021/2020						2022/2021
Same Store Funeral	JUL	AUG	SEP	OCT	NOV	DEC	JAN
Contracts (volume) 2021 (January 2022)	3,081	3,647	3,936	3,662	3,278	3,574	4,128
Contracts (volume) 2020 (January 2021)	3,163	3,210	3,069	3,068	3,072	4,061	4,201
Volume Variance	**(82)**	**437**	**867**	**594**	**206**	**(487)**	**(73)**
Average Revenue Per Contract 2021 (January 2022)(1)	$5,294	$5,101	$5,231	$5,190	$5,312	$5,287	$5,290
Average Revenue Per Contract 2020 (January 2022)(1)	$4,927	$5,148	$5,135	$5,268	$5,157	$5,082	$5,171
Average Revenue Per Contract Variance	**$367**	**($47)**	**$96**	**($78)**	**$155**	**$205**	**$119**
Operating Revenue 2021 (January 2022)(1)	$16,313	$18,603	$20,588	$19,005	$17,413	$18,894	$21,837
Operating Revenue 2020 (January 2021)(1)	$15,585	$16,524	$15,758	$16,162	$15,842	$20,638	$21,722
Operating Revenue Variance	**$728**	**$2,079**	**$4,830**	**$2,843**	**$1,571**	**($1,744)**	**$115**
Net Revenue Volume Variance	($404)	$2,249	$4,452	$3,129	$1,063	($2,475)	($377)
Net Revenue Average Variance	$1,132	($170)	$378	($286)	$508	$731	$492
Net Revenue Variance	**$728**	**$2,079**	**$4,830**	**$2,843**	**$1,571**	**($1,744)**	**$115**

(1) Excludes Preneed Funeral interest earnings reflected in Total Financial Revenue.

We can observe that with the exception of a high comparable in December of 2020 at the spike of COVID-19, (which Steve will cover in more detail later in this release), our Same Store Funeral Trends in the table above, reflect that December of 2021 was the only month with a negative Operating Revenue Variance. The large negative Operating Revenue Variance related to volumes being down in December was partially offset by about 29% by a positive variance from our higher ARPC, netting the $1.7 million negative Net Revenue Variance.

Every month with that exception in this seven-month trend shows a positive Operating Revenue Variance with January of 2021 as our all-time high revenue month with $21.7 million, now the second place to January of 2022 which ended at $21.8 million, and higher by $115 thousand. Even more relevant is that from the beginning of COVID in February 2020 and through January of 2022, the only two additional months with a negative Net Revenue Variance were March and April of 2020 at the beginning of the harsh lockdowns and social gathering mandates, reflective of the ability of our entrepreneurial Managing Partners and their teams of employees to pivot and adapt to a new and unknown (at the time) pandemic environment.

Our Average Revenue Per Contract (ARPC) is consistently ranging between $5,101 and $5,294 with a positive variance of $193 dollars between the highest and lowest over the seven-month trend ending January of 2022, confirming that our Managing Partners and their teams are offering all of the options to all of the families all of the time.

FIVE YEAR SAME-STORE CEMETERY DETAILED TREND REPORT AND SUMMARY CEMETERY ACQUISITION DATA

FIVE YEAR CEMETERY SAME STORE TREND REPORT							
(000's except for volume, averages & margins)	2017	2018	2019	2020	2021	2018/2021 Variance $	2018/2021 Variance %
Preneed Interments Sold	6,159	6,360	7,096	7,104	8,330	1,970	31.0%
Preneed Total Sales Average	$4,237	$4,475	$4,472	$4,619	$5,217	$742	16.6%
Preneed Total Sales Production	$26,095	$28,459	$31,733	$32,815	$43,456	$14,997	52.7%
Preneed Recognized Revenue	$24,548	$26,227	$30,026	$31,376	$39,129	$12,902	49.2%
Preneed Margin ($)	$12,278	$13,483	$16,140	$17,300	$21,778	$8,295	61.5%
Preneed Margin (%)	50.0%	51.4%	53.8%	55.1%	55.7%	N/A	425 bp
Atneed and Preneed Matured Interments	7,294	7,025	6,817	7,613	8,310	1,285	18.3%
Atneed Revenue	$18,373	$18,595	$19,108	$20,360	$24,881	$6,286	33.8%
Atneed Margin ($)	$14,572	$14,598	$14,935	$16,055	$19,374	$4,776	32.7%
Atneed Margin (%)	79.3%	78.5%	78.2%	78.9%	77.9%	N/A	-64 bp
Total Operating Revenue	$42,921	$44,823	$49,134	$51,737	$64,010	$19,187	42.8%
Total Preneed/Atneed Margin ($)	$26,850	$28,081	$31,075	$33,354	$41,152	$13,071	46.5%
Total Preneed/Atneed Margin (%)	62.6%	62.6%	63.2%	64.5%	64.3%	N/A	164 bp
Total Controllable Costs of Revenue	$14,468	$15,365	$15,633	$15,449	$16,688	$1,323	8.6%
Total Controllable Costs of Revenue (%)	33.7%	34.3%	31.8%	29.9%	26.1%	N/A	-820 bp
Total Non-controllable Costs	$1,810	$1,996	$2,126	$1,958	$2,280	$284	14.2%
Total Non-controllable Costs (%)	4.2%	4.5%	4.3%	3.8%	3.6%	N/A	-89 bp
Total Operating Margin ($)	$10,572	$10,719	$13,316	$15,947	$22,184	$11,464	106.9%
Total Operating Margin (%)	24.6%	23.9%	27.1%	30.8%	34.7%	N/A	1,074 bp
Other (Addbacks, rent, and other items).	$2,796	$3,117	$3,712	$3,554	$4,831	$1,711	54.8%
Cemetery Field EBITDA	$13,372	$13,840	$17,028	$19,501	$27,015	$13,175	95.2%
Cemetery Field EBITDA Margin	31.1%	30.8%	34.6%	37.7%	42.1%	N/A	1,130 bp
Total Financial Revenue	$6,954	$6,556	$6,636	$7,782	$9,936	$3,380	51.6%
Total Operating and Financial Revenue	$49,875	$51,379	$55,770	$59,519	$73,946	$22,567	43.9%
Cemetery Field & Financial EBITDA	$20,326	$20,396	$23,664	$27,283	$36,951	$16,555	81.2%
Cemetery Field & Financial EBITDA Margin	40.7%	39.7%	42.4%	45.8%	50.0%	N/A	1,028 bp

Optimization of Cemetery Same Store Portfolio

Our Same-Store Portfolio of both funeral homes and cemeteries have been owned, fully integrated into our **Standards Operating Model**, and operated for at least five full years compared to only one year for other multi-store companies in most industries. Because of the uniqueness of our Standards Operating Model for both funeral homes and cemeteries, it often takes several years after a business joins our portfolio for full integration and optimization of the performance to be achieved and sustained. It is also no coincidence why our **Good To Great** incentive trip is a five-year reward program earned based on consistency in **Standards Achievement** over the five years; Steve will also cover our rewards programs in more detail, including our **Being The Best** one year and **Good To Great** five year profit-sharing incentives.

While our entire company has been through a **High Performance Transformation** since September 2018, as detailed in our 2020 Shareholder Letter, the most profound transformation has been in our cemetery portfolio. In 2017 our cemetery portfolio was only 19.1% of total company revenue. We had not successfully built a **High Performance Sales Organization** that could broadly grow our Same Store preneed property sales over the mostly fixed operating costs throughout our diverse portfolio of 31 cemeteries (in size and geography) to optimize the inherent operating leverage in each business. However, our Total Operating Margin Cemetery Same Store Trend Report (Financial Revenue broken out separately) shows that 2021 is as much as 1,100 basis points higher than the 24.6% in 2017. This post-transformation resulted in our cemetery portfolio delivering 26.7% of total company revenue in 2021.

The even better **Good To Great** news is that since the initiation of our **High Performance Sales Plan**, which began in July of 2020 and continues to be executed in phases across our cemetery portfolio, our opportunity to optimize our Cemetery Same Store Portfolio remains under blue skies.

Preneed Recognized Revenue finished at $39.1 million for the full year of 2021, higher by $12.9 million or 49.2% when compared to 2018 (the beginning of our transformation), while our Atneed Revenue ended at $24.9 million and higher than 2018 by $6.3 million or 33.8%. Our Total Controllable Cost of Revenue decreased to 26.1% in 2021 from 34.3% in 2018, and Total Non-controllable Costs decreased by 90 basis points from 4.5% in 2018 to 3.6% in 2021, reflective of the powerful operating leverage that can be a huge **FLYWHEEL EFFECT ACCELERATOR** of earnings when preneed property sales are growing over time at a CAGR that can be sustained for five to ten years into the future.

Our Cemetery Same Store Field EBITDA Margin of 42.1% in 2021 was an all-time record high and 1,130 basis points higher than the 30.8% in 2018, and now on par with our Funeral Field EBITDA Margins in the low 40% range. The growth of our cemetery trust funds due to our **High Performance** preneed sales, led to an additional $3.4 million or 51.6% when compared to 2018. Our combined 2021 Cemetery Field & Financial EBITDA finished at $36.9 million, higher by $16.6 million or 81.2% than 2018. Our Cemetery Same Store Portfolio of businesses have never looked as attractive as they look today, and the transformation of our Cemetery portfolio to optimum sustainable performance is not complete. In 2022 we will continue to implement other phases of our plan to optimize our Same Store portfolio performance by maximizing every opportunity with every family every time.

CEMETERY ACQUISITION SUMMARY

(000's except for margins)	2019	2020	2021	2021/2020 Variance $	2021/2020 Variance %
Total Operating Net Revenue	$295	$17,721	$27,825	$10,104	57.0%
Operating Margin (Excludes Rent)	$65	$6,343	$13,729	$7,386	116.4%
Operating Margin (%)	22.0%	35.8%	49.6%	NA	1,355 bp
Other (Addbacks and other items)	$9	$787	$1,725	$938	119.2%
Cemetery Field EBITDA	$73	$7,128	$15,526	$8,396	117.8%
Cemetery Field EBITDA Margin	24.7%	40.5%	55.8%	NA	1,530 bp
Total Financial Revenue	$10	$2,358	$2,865	$507	21.5%
Total Operating & Financial Revenue	$305	$20,079	$30,690	$10,611	52.8%
Cemetery Field & Financial EBITDA Margin	27.2%	47.2%	59.9%	NA	1,268 bp

Our three Cemetery Acquisitions continued their integration journey into our **Standards Operating Model** in 2021 with an acceleration of **High Performance**, as Acquisition Cemetery Revenue was $27.8 million, higher than 2020 by $10.2 million or 58.3%. Acquisition Cemetery Field EBITDA grew to $15.5 million, higher than 2020 by $8.4 million or 117.8%, boosted by Acquisition Field EBITDA Margin of 55.8%, higher than 2020 by 1,530 basis points. Our Acquisition Cemetery Portfolio future is very bright at all three businesses, but exceedingly so at Fairfax Memorial Park and Funeral Home since the arrival of Victor Holland as the new Managing Partner. Victor will bring to Fairfax the **Right Who** factor because of his **4E Leadership** characteristics and operational experience in high volume, high potential funeral homes and cemeteries. Welcome to the Carriage Family, Victor.

ORGANIZATION STRUCTURE / TALENT AND CONCEPTUAL VISION UPDATE

Our **Good To Great High Performance Flywheel** shown on the next page is a depection of our **High Performance Culture Framework**, included in our **Value Creation Financial Dynamics**. The **High Performance Flywheel** focuses on our three core **Being The Best** operator, **Being The Best** consolidator, and **Being The Best** value creator vision company that happens to be in the deathcare industry.

The flywheel helps define who we are, what we do, and how we do it. The innovative ideas and sophisticated concepts are the foundation at Carriage and will never change; however, our **Good To Great Journey** that never ends and our **Being The Best Vision** demands that everyone at Carriage put their heart and mind to continuous improvement every day and in everything we do. With that thought in mind, we are very excited to share the following operations update:

CAREdge Forum Sales:
On January 17–19, 2022, we had our first EVER **CAREdge Forum** for our **High Performance** Cemetery Sales Manager-Leaders and their Managing Partners at The Eliza Jane hotel in New Orleans. Our **CAREdge Forum** is a two full-day exposure to high energy, high expectations, and creative and innovative ideas that lead to a journey of discovery of what is possible in the world of preneed sales. It is also an opportunity to meet fantastic talent from our cemetery portfolio across the country and share thoughts and success ideas. Over these two days of the meeting of the minds, the team learned about our recently launched Microsoft Dynamics 365 CRM, which we call **SalesEdge**. We believe that this fantastic tool provides our sales teams with the edge they need to provide a higher level of service excellence and customer experience to the families that we serve while delivering **High Performance Sales** for years to come. The attendees to our **CAREdge Forum** also learned about our high-end personalization and exclusive Private Memorials® offerings, among other tools and sales skills that will enhance how we engage with families moving forward.

Sales and Marketing:
Effective February 12, 2022, Shane Pudenz was promoted to Vice President of Sales and Marketing; Shane, who joined Carriage as Director of Sales Support on October 30, 2020, has collaborated and built relationships of trust with many of our Managing Partners, Sales Managers, Sales Counselors, and Houston Support Center Teams. He has contributed significantly to our sales success, especially in the growth of cemetery preneed sales. His leadership style, strategic approach, and experience have led to **High Performance Sales** levels never experienced before in his portfolio of businesses, including our most prominent business, Fairfax Memorial Park and Funeral Home.

In his new leadership role, Shane will expand the path for our **Carriage High Performance Culture Bus** within our sales organization by bringing more of the right people into the right seats at the right time. Carriage's **Good To Great Journey** has blue skies on the horizon. With a supercharged **High Performance Sales Bus** hitting on all cylinders, Shane will continue the acceleration of our Cemetery Preneed Sales in both our Same Store Cemetery and Acquisition Cemetery Portfolio of businesses at even faster speeds and in complete alignment with our **Being The Best Vision and Mission**. We wish him incredible success in his new leadership role.

Carriage never had a formal marketing team as part of our Houston Support Center, for this reason and to lead our marketing strategy; on January 3rd we recruited a new Director of Marketing, Alfred White, who comes to Carriage with a professional background in digital marketing transformation for decentralized organizations. He will help us reshape and enhance our digital marketing efforts and be the support for all Managing Partners and their businesses as they position their brand, expand market reach, grow our customer loyalty, expand social media platform presence, gain market share and deliver higher operating and financial performance than ever before. We welcome Alfred to the Carriage Services family.

Regional Portfolio of Business Changes:
We have redistributed the funeral and cemetery operations in our East and Central Regions to balance the number and revenue size that each of our three Regional Partners supports. This new distribution will help strengthen the partnership with all our Managing Partners, optimize market share gains and thereby solidify our operating leverage with higher and sustainable revenue growth. Shawn Phillips, Senior Vice President and Regional Partner of our Central Region, will now have one of the two Northeast sub-regions where his vast experience will accelerate success in **Standards Achievement** in his expanded portfolio.

Carriage High Performance Culture and continuous evolution in the pursuit of **Being The Best Vision** could be described as a Darwinian Meritocracy where only the "**Best of Best**" thrive and conquer. Consequently, we are now seeking the **Right Who** Carriage Senior Vice President and Regional Partner of our East Region who will take a leadership seat on the **Carriage High Performance Bus** and bring this portfolio of businesses to reach their full potential.

Digital Transformation Five Year Plan:
The highly traditional so-called deathcare industry remains prime for disruption, especially in innovation through new technology. We recognize that we will either get disrupted or become disruptive ourselves. We choose the latter. With this goal in mind, we are developing a ten year vision, a five-year strategy and a one year plan for the transformation and innovation of "deathcare" technology. Starting with the hire of our new Chief Information Officer, who will begin with Carriage in April of 2022. Our new CIO, whose name will be disclosed in mid-March 2022, will be tasked with the holistic mission of creating a customer-centric technology solution that elevates the service excellence journey for all the families that we serve.

This innovative and digital transformation will include but not be limited to improved digital in situ experience, integration of celebrations of life through technology, a seamless chain of custody, fully integrating and accelerating successful execution of the back and front office systems, and first in class cyber security systems and policies. We are looking forward to accelerating the successful implementation of this five-year complete Digital Transformation plan, whose core mission is to deliver value creation for the families that we serve, our teams of field and Houston Support Center employees, and our shareholders.

Standards Council Update:
On January 27, 2022, we had our first Standards Council meeting since the COVID-19 pandemic hit the world in February 2020. This Standards Council meeting was very special, as Michael Kelly, Managing Partner of Resthaven Funeral Home and Cemetery in Oklahoma City, OK, was voted in for membership on our **Best of the Best** Standards Council. Michael began his career at Carriage Services in 2010 as a Managing Partner at North Brevard Funeral Home and Oaklawn Memorial Park in Titusville, FL. A few years later, he became a Director of Operations Support for the Central Region.

In June 2019, Michael found his perfect seat on our **High Performance Bus** as Managing Partner of Resthaven Funeral Home and Memory Gardens in Oklahoma City, OK. With his time in these various roles, Michael brings a wide array of knowledge and leadership in the funeral home and cemetery operations and will have the opportunity to represent the Central Region on the Standards Council. While Michael has only been at Resthaven for two and one-half years, he has transformed his business into one of Carriage's top-performing businesses over this period. We welcome Michael as the newest member of our Standards Council.

CAREdge Forum Operations:

On March 14 through March 17 of 2022 in Houston, TX, we will have our new version of the Annual Managing Partner Meeting, which will also be called **CAREdge Forum**. For this new first operations edition of the forum, our sole focus will be **Service and Guest Experience Transformation**. All of our Managing Partners, High Potential leaders, Operational and Sales Houston Support Center Teams, and Special Guests will meet to live, breathe, and think enhanced personalized service excellence for the families we serve in ways we never had before.

Not only will this be a fun, amazing, and unique event, but most importantly, it will challenge everyone in attendance in thinking and reimagining ways to completely transform our **Service and Guest Experience** (already one of our Funeral **High Performance** standards weighted at 10%) after our new and increased focus in service and attention to detail, which will lead to increased market share growth throughout our portfolio of businesses even further. Our Standards Council will reconvene after the **CAREdge Forum** to discuss a revamped **Service and Guest Experience Standard** and its relative weighting importance out of 100% Standard Achievement.

Innovation and Creativity Committee:

The highly traditional deathcare industry has a unique opportunity to transform how families say their last goodbyes and experience funeral and cemetery services and products. We have many Managing Partners with teams of highly talented funeral professionals who through creativity and innovation provide a personalized experience that enables the remaining family and friends to remember and honor the life that was lived while celebrating that loved one's life in the most meaningful ways. Many families have expressed their gratitude to our devoted and caring employees through written cards, emails, texts, and many other ways, thanking them for creating these memorable "Life Stories" and honoring their loved ones with care, dignity, and significance. We believe that this noble purpose can be improved by integrating technology and the adaptation of hospitality concepts into our service chain.

For these reasons, we are forming our first-ever **Innovation and Creativity Committee** comprised of our very best and most creative and innovative mastermind Managing Partners, whose mission will be to craft a customer journey and service chain that elevates our **Service and Guest Experience Standard** with every family, every time. We look forward to seeing the amazing innovative ideas and creative concepts that this team will design as tools and make available to all of our Managing Partners and the families they serve, creating value to their communities, their employees and Carriage shareholders.

2022 Carriage Theme:

Every year, Carriage has had a **High Performance** theme that aligns with the innovative ideas and sophisticated concepts of our company. Our **2020 Theme: Transformative High Performance**, was the catalyst to the complete transformation of Carriage that began at the end of 2018. Mel elaborated on his excitement and enthusiasm for the future of Carriage by stating:

> *"Our company is positioned like never before in our history to have a breakout high performance in 2020 that will kick start another* ***Five Year Good To Great II Journey*** *timeframe during 2020-2024."*

Then came the **2021 Theme: "Accelerating High Performance Flywheel Effect!"** which fueled the excitement rocket and inspired everyone to build the momentum and launch into a record **High Performance** year in the 30 years of Carriage history.

As shown on the **Good To Great High Performance Flywheel** on page 21, our **Carriage Flywheel** is now hitting on all cylinders, which has accelerated the **Carriage High Performance Bus** to the equivalent of the deathcare speed of light and into the sustainable **High Performance Universe**.

With this background as context and our "**UNBREAKABLE UNION OF BELIEF**" commitment to our **Being The Best Mission and Vision**, it is a natural transition to our **2022 Theme: High Performance Value Creation Culture**. Everyone at Carriage has the opportunity to be a Value Creator in our **High Performance Culture Bus**, and consistent with Jim Collins' quote from his ***Good To Great*** book:

> *"Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice."*

Our **2022 Theme: High Performance Value Creation Culture** is an open and standing invitation to all Carriage employees, vendors, partners, and contributors to **CHOOSE GREATNESS** and never settle for anything less, and reason why I continue to say; it is a great time to be at Carriage and the best is yet to come", concluded Mr. Quezada.

UPDATE ON STRATEGIC ACQUISITION ACTIVITY GROWTH OUTLOOK

Steve Metzger, Executive Vice President, Chief Administrative Officer and General Counsel stated, "We continue to be encouraged by the number of acquisition opportunities that have been presented by brokers or, more frequently and preferably, by owners themselves based on longstanding relationships. We remain in advanced discussions with a number of top quality business owners and we are also in the early stages of learning more about several other businesses. While we do not currently have any transactions to announce, we remain excited by the level of succession planning activity and about the prospect of growth by acquisition in 2022 beginning no later than the third quarter, if not before.

While we are focused on our growth through acquisition outlook, our approach to acquisitions will remain highly selective. We recognize the importance of avoiding doing "stupid stuff" such as the aggressive growth through high multiple acquisitions that defined the 1990's in our industry, which Mel described earlier. We are disciplined in our review of a business, the market and demographics, growth prospects, and valuation. We will not grow simply for the sake of getting bigger, but will instead remain focused on identifying those candidates that fit our strategic criteria at a valuation that makes sense for both parties.

We have extended the offer to visit us in Houston to many acquisition candidates, and continue to invite those interested in getting to know Carriage better to reach out to not just an Executive Team member or Business Development representative, but former owners, Managing Partners, Support Center leaders, Standards Council Members and even Board members. All of the individual members of these groups are available to share their unique perspective of the Carriage story as we look for new acquisition candidates to join our team and become our partner within the larger family of partners who comprise our portfolio of businesses. It is difficult to predict when the right business or businesses will be ready for a succession planning option, but when they are, we will be ready to share our story and present a customized solution framework to join the Carriage Family.

As the second longest tenured company in the industry with a more than 30-year history, a strong capital structure, ability to self-finance growth from Free Cash Flow, a unique owner/operator business model, best in class incentive plans, and best in industry Support Center Teams, our future for growth has never been brighter. We are confident that an owner in need of a succession plan who takes the time to learn more about the Carriage Story and where we are headed, and most importantly, to meet the people who make up the Carriage Team, will conclude that there is only one succession plan choice for the best remaining funeral home and cemetery owners.

FIVE YEAR SAME STORE FUNERAL PERFORMANCE / INCENTIVE COMPENSATION AND RECOGNITION ALIGNMENT TRENDS

In prior releases, we discussed at great length the transformation taking place within Carriage beginning in September 2018. It can at times be difficult to convey the significance of that transformation to those who are not embedded in the work and contributing to the evolution within the company each day. With that said, we are now far enough along this journey to have accumulated meaningful data to share in support of telling this story to our shareholders.

The Discovery Process – Identifying a Lack of Correlation

One of the underlying drivers for this transformation was the awareness in 2018 that there was a lack of correlation between Funeral Standards Achievement and financial performance. Since approximately 72% of our total revenue is currently generated by our funeral homes, it is helpful to pause and look more closely at the five-year Same Store Funeral performance trends covering the period of 2017-2021. This timeframe captures the two years, 2017 and 2018, prior to the significant realignment efforts that were implemented at the end of 2018, as well as the three years, 2019, 2020 and 2021, during which the impact of these changes became continuously more material and evident. As Carlos described earlier, our Same Store Funeral portfolio includes all funeral homes that have been a part of Carriage for at least five years.

In order to fully appreciate the need for a realignment of “Funeral High Performance Standards” with “high and sustainable funeral operating and financial performance,” and then the impact of this realignment, it is important to first understand the key changes that were identified and implemented beginning January 1, 2019. These Funeral High Performance Standards changes have since been critical in creating the now incredibly strong correlation between our Funeral Portfolio Standards Achievement, Financial Performance and Incentive Compensation.

Carriage’s Funeral Standards Operating Model has always been the unique framework that provides the operational foundation for high performance. It is the vehicle that allows our Managing Partners to lead their respective businesses as owners in a customized manner that makes sense for their specific markets and communities. However, the Funeral Standards Operating Model is only as effective as the talent responsible for applying the model and the specific standards/weightings that make up the model.

On the talent side, we recognized that we simply needed to get better, so our Regional Partners and Talent Acquisition Team went to work and have done a fantastic job of top grading our field leadership since September 2018. As a result, we have recruited and added 34 new Managing Partners to the Carriage Team during that period, which represents just under 30% of all of our Managing Partners. As Carlos mentioned, the Darwinian Meritocracy that drives **High Performance** at Carriage is exciting, energizing and rewarding for top performers and it does not support the subsidization of the performance of those who may not be up to the challenge. In further support of this approach, we have also significantly elevated the quality of leadership talent within our eight Directors of Operational Support for three regions by adding five new leaders to this group since September 2018. We also built our current team of three Directors of Sales Support during this same time period. So, on the talent side, we have been focused and aggressively advancing the high performance culture concept of “**First Who, Then What**” during the past three and a half years.

As it related to the specific performance standards that make up the Funeral Standards Operating Model, we recognized in 2018 that there was no longer a clear correlation between Funeral Standards Achievement (the formula used to measure a Managing Partner’s success) and financial performance. As we have discussed before, a broad group of leaders gathered together in late 2018 to study the lack of correlation and, following the review of considerable data and extensive discussions, our Standards Council revamped the Funeral Standards Operating Model to place a significant focus on Three Year Compounded Net Revenue as a new and heavily weighted Performance Standard (up to 35% of 100% Total) and removed the Funeral Average Revenue Per Contract Standard. We also introduced a new Service and Guest Experience Standard, which has incentivized and stimulated creative thinking and discussions regarding how to best deliver a “Wow” experience to all of our families and guests, and whose evolution in the years ahead under Carlos’ leadership will undoubtedly be as transformative to our funeral portfolio as it has been to our cemetery portfolio.

Significant Changes Lead to Significant Impacts

These changes incentivized our Managing Partners to no longer focus primarily on high average revenue contracts, but to instead work to secure every call and serve as many families as possible, regardless of the revenue amount of the contract, while always providing high value personal services to our families. The contribution of these changes to performance can be seen in the table reflected below, as it outlines a consistent increase in Total Same Store Funeral contracts each year since these changes to the Funeral "**Being The Best**" Standards. We have achieved an incredible increase of 8,579 contracts, or more than 26% additional Same Store Funeral contracts at year end 2021 when compared to year end 2018, the year before these Standards were changed.

The evolution of the Funeral Standards Operating Model continued in February 2020 when we added a Cremation Average Revenue Standard but weighted it at only 5%. The rise in cremations has been around for decades, and while cremation as a form of disposition may cost less than a traditional burial, the opportunity to provide first class service and educate our cremation families on the many options available to celebrate and memorialize their loved ones is just as significant as it is with a burial. By introducing the Cremation Average Revenue Standard and, more importantly, placing greater emphasis on the services and memorialization options available to families who choose cremation, our Managing Partners and their teams are now incentivized to place greater focus on this opportunity with each cremation contract.

The impact of this change is seen in the table below through the increase in the Average Revenue Per Contract from year end 2020 to year end 2021, despite the increase in cremation rate from 56.3% to 57.1% during that same time period. These numbers support a clear improvement in our focus on, and ability to serve, cremation opportunities and it is a focus that we are excited about continuing to build upon moving forward. The "Cremation Mix Trend and Revenue Average" is a "Glass Half Full" and along with market share, one of our greatest organic revenue growth opportunities in the future.

FIVE YEAR SAME STORE FUNERAL TREND REPORT

(in thousands except for contracts and average revenue per contract)

	2017	2018	2019	2020	2021	2019/2021 Variance
Contracts	32,730	32,728	33,468	37,802	41,307	23.4%
Average Revenue Per Contract	$5,727	$5,703	$5,564	$5,258	$5,382	N/A
Net Revenue(1)	$187,436	$186,661	$186,205	$198,779	$222,315	19.4%
Field EBITDA(1)	$77,542	$74,604	$75,106	$86,876	$100,298	33.5%
Field EBITDA Margin(1)	41.4%	40.0%	40.3%	43.7%	45.1%	480 bp
Preneed Maturity Ratio	18.5%	18.2%	17.8%	17.0%	14.9%	N/A
Cremation Rate	51.5%	52.1%	53.7%	56.3%	57.1%	N/A

(1) Includes Preneed Funeral interest earnings reflected in Total Financial Revenue

Solving the High Performance Alignment Equation

In addition to the changes related to our Funeral Standards Operating Model, we also took a fresh look at how our annual and five year incentive plans for our Managing Partners and their teams were impacting alignment with performance. After too many of our Funeral Home Managing Partners during 2019 were "in the money" with Standards Achievement above the 50% Minimum Standard, yet did not achieve their **Being The Best** ("BTB") Field EBITDA Margin Range, Mel wrote his "famous" Tale of Two Companies Theme Letter to all our field and Houston Support Center Leadership on February 18, 2020. In it he made the compelling analogy of our low performing funeral homes (low EBITDA Margin) in Paris being subsidized by our high (revenue and EBITDA Margin) performing funeral homes in London during the 1775-1792 timeframe of ***A Tale of Two Cities***.

At our February 2020 Standards Council Meeting, the ten Standards Council members decided that if a business did not achieve its Field EBITDA Margin Range (funeral homes) or Operating Margin Range (cemeteries), any annual **Being The Best** incentive earned would be reduced by 50%. The table on the next page highlights the impact this change has had on our Funeral and Cemetery Field EBITDA Margins as Field EBITDA Margin has increased from 40.3% in 2019 to 45.1% in 2021, an increase of 480 basis points in only two years during which this much higher level of profitability was being applied to an increase of over $100 million in Total Revenue.

Our five year **Good To Great** ("GTG") performance incentive award program was created in 2012 and focuses on a "**Good To Great Five Year Class**" of Managing Partners who are all eligible during the year in which they join Carriage. Since 2012 was our inaugural class, it includes the Managing Partners who were with Carriage at that time, and as a result, it remains by far our largest class, as can be seen in the table on the next page. This award is paid half in cash and half in appreciated Carriage stock. The equity component of this award is important and consistent with our efforts to drive an ownership mindset throughout our team, but particularly among our Managing Partners who serve as owner/operators of their respective businesses. With regard to this critical long term performance incentive, we recognized that growing revenues at any five year compounded level above zero should lead to higher rates of compounded growth in Field EBITDA because of a gradual expansion of Field EBITDA Margins due to the inherent nature of operating leverage.

So the initial level of eligibility for this incentive was changed from a minimum annual growth rate of 2% to an annual growth rate of at least 1%. This change was aimed at establishing an attainable and motivating long term revenue growth standard for the large majority of our Managing Partners to build and sustain consistent revenue growth within a Standards Range of Field EBITDA Margins (four point ranges).

Explaining the evolution of the Funeral Standards Operating Model and revisiting our annual and five year performance incentives tells a large part of our realignment and **Transformative High Performance** story. However, the actual Funeral Standards Achievement and corresponding incentive payments to our Managing Partners and their High Performance Teams tells "the rest of the story."

What stands out in the table on the next page is the significantly improved Standards Achievement in 2020 and 2021 (the first two full years to include the new Compounded Net Revenue Standard as well as the updated **Being The Best** and **Good To Great** incentives) aligning with outstanding performance growth in Total Contracts, Net Revenue, Field EBITDA, and Field EBITDA Margin percentage. As a result, we rewarded our field leaders with twice as much in annual incentives for their 2021 performance versus 2019 performance, and Standards Achievement reached an all-time high with nearly 80% Funeral Standards Achievement by our same store businesses in 2021 versus just under 63% Funeral Standards Achievement by this group of businesses in 2019.

PERFORMANCE ALIGNMENT

Five Year Same Store Funeral, Standards Achievement and Incentive Compensation Trends (dollars in thousands)	2017	2018	2019	2020	2021
Net Revenue(1)	$187,436	$186,661	$186,205	$198,779	$222,315
Field EBITDA(1)	$77,542	$74,604	$75,106	$86,876	$100,298
Field EBITDA Margin(1)	41.4%	40.0%	40.3%	43.7%	45.1%
Standards Achievement	61.9%	62.7%	63.0%	74.0%	79.8%
Potential Pinnacle Winners	106	106	106	106	106
Pinnacle Winners	33	34	35	32	53
% of Pinnacle Winners	31.1%	32.1%	33.0%	30.2%	50.0%
BTB Bonuses	$2,744	$3,251	$3,350	$4,977	$6,746
BTB Bonuses as a % of Field EBITDA(1)	3.5%	4.4%	4.5%	5.7%	6.7%
GTG Class - number of MP's	5	5	9	-	44
GTG Winners - number of MP's	3	5	6	N/A	34
% of GTG Winners	60.0%	100%	66.7%	N/A	77.3%
GTG Bonuses	$418	$918	$1,373	$ -	$4,001
GTG Bonuses as a % of Field EBITDA(1)	0.5%	1.2%	1.8%	N/A	4.0%
Total Field Incentives	$3,162	$4,169	$4,723	$4,977	$10,747
Total Field Incentives as a % of Field EBITDA(1)	4.1%	5.6%	6.3%	5.7%	10.7%

(1) Includes Preneed Funeral interest earnings reflected in Total Financial Revenue

When combined with our five year **Good To Great** incentive, we more than doubled our total field incentive payments in 2021 from just over $4.7 million paid for 2019 performance to more than $10.7 million paid to our Funeral Home Managing Partners for their incredible 2021 performance. These Managing Partners helped deliver more than $75 million in Adjusted EBITDA for 2019, but added $25 million to that number in 2021, resulting in more than $100 million in Same Store Funeral Field EBITDA in 2021.

As further confirmation of this performance alignment, we were thrilled to see a greater than 50% increase in the number of "Pinnacle" winners in 2021. Pinnacle is our exclusive group of High Performance Managing Partners who have achieved an average of at least 70% of Standards for the prior three years or achieved 100% of Standards for the current year. We gather together each year to celebrate this group of winners with a first class trip for them and their significant others and we could not be more excited to watch this elite club continue to increase its membership.

While our wonderful Managing Partners and their first class teams were generously rewarded for their outstanding efforts, our Shareholders were also big winners in this High Performance Alignment Equation as these revised Standards and an updated approach to our annual and five year incentive awards helped drive an additional $25 million in Adjusted Consolidated EBITDA, just from our Same Store Funeral performers, when we look at last year's performance versus 2019, the year before all of these collective changes and updates were implemented. This is exactly how a "pay for performance" approach should work as the employees, shareholders, and the company all benefit.

The driver for all of these reviews and changes can be summed up in one word – alignment. There must always be a clear alignment between our performance and incentives. Now that we have the benefit of several years of data since the changes discussed above were introduced, we are able to see the development of the necessary connections. However, simply getting to this point of alignment is not enough. What we have learned along the way is that all leaders within Carriage must constantly focus on the numbers to ensure the correlation between performance and incentives remains strong, and if the numbers begin to tell a different story, we will be quick to diagnose the changing circumstances and identify updates to ensure continued alignment and evolution of our models and approach to optimize future performance within the dynamically changing markets in which we operate. As Jack Welch once said, always be prepared to "change, before you have to."

The Carriage Market Share Growth Story

Some may look at the above data and information and speculate that the COVID-19 Pandemic beginning in 2020 is as important a driver for this performance / incentive alignment as are the changes to the Funeral Standards Operating Model and annual and five year incentive awards. Until recently, we simply did not have enough meaningful pandemic related data to help address that question. What we do know is that during the first year of the pandemic, nobody knew exactly how it would evolve or affect the world, let alone how it would impact different industries and specific businesses. As we approach two years of living with the various impacts caused by this pandemic, we now have the benefit of better data which allows us to identify certain trends.

While much of the COVID-19 related data involves some uncertainties, particularly as we learn more about its impact as time goes on, there is now enough data to give us a roughly right idea of some of its impact on our businesses. For example, in December 2020 our businesses began to formally indicate whether a death was related to COVID-19 when they entered contracts into our contract management system. These indications have been supported by death certificates listing the cause of death as being COVID-19 related. With that said, we also know that when a death certificate indicates COVID-19 as the cause of death, there may have actually been other non-COVID related circumstances that ultimately caused the death.

When we look at total calls from 2019 (the last full year prior to the pandemic) to 2021 (the first full year when reported COVID-19 related deaths were captured on our contracts) among our same store funeral home portfolio, the data tells a clear story of market share growth. Among all of our funeral homes in the same store portfolio, we have seen growth in total number of calls of 20.9% from 2019 to 2021. Of that 20.9%, approximately 13.2% is related to reported COVID-19 related deaths, meaning 7.7% of the total growth is not related to COVID-19. Among our same store funeral portfolio of businesses, approximately 75% of those businesses show growth beyond COVID-19 of more than 10% when looking at 2019 calls versus 2021 calls. This strong growth beyond COVID-19 supports a market share growth story in line with the performance and incentive alignment discussed above. Moreover, when reviewing the Center for Disease Control and Prevention's data of COVID-19 related deaths, we note there were just over 37,000, or 25%, fewer COVID-19 related deaths in the United States in the fourth quarter of 2021 as compared to the fourth quarter of 2020. Despite that significant year over year decrease in COVID-19 related deaths in the United States, our Same Store Funeral businesses saw an increase of more than 300 contracts during that same time period. As Mel often says, "the data don't lie!"

As we continued to analyze the data, we identified another strong trend which further supports Carriage's market share growth story. "Preneed Maturity" describes the process of when a preneed contract goes atneed and is served. When the preneed maturity rate goes down, that means we are serving more pure walk in atneed families than we are serving preneed families whose contracts go atneed. If the preneed maturity rate goes down and our total contract growth rate goes up, it is highly likely we are gaining market share. The table on page 24 shows the preneed maturity rate for our same store funeral group slowly declining for several years, including a significant decline of more than 2% in 2021 when compared to 2020, despite the total number of calls increasing by more than 3,500 during that same one year period. The combination of these trends strongly supports the growth in market share story that our Managing Partners and Directors of Support have been sharing with us for the past two years.

While we acknowledge COVID-19 related data is far from perfect, we do now have enough insight into reported deaths attributable to COVID-19 to make some roughly right inferences, particularly when that data is supported by other trends within our same store funeral portfolio. When we take a comprehensive look at the new addition of talent to field leadership, the revamped approach to incentive compensation placing an emphasis on margins, and the key updates to our Funeral Standards Operating Model focusing on Compounded Net Revenue, we believe the story over the past three years of Transformative Change can now also be told as a Carriage Market Share Growth Story.

SUPPORT CENTER ORGANIZATION STRUCTURE / TALENT AND CONCEPTUAL VISION UPDATE

Much like the rest of Carriage, our Houston Support Center Teams have seen significant changes over the past three years aimed at strengthening leadership and building a positive high performance culture environment of collaboration. As a self-proclaimed "People First" company, we have looked for ways to make sure we are true to that focus.

First Who, Then What:

Those who have followed Carriage over the past few years know that we have been aggressive in identifying and recruiting top talent. While we are excited about the leadership we have in place, we continue to work to identify areas where we can get even better. For example, Carlos mentioned our focus on leveraging technology and recruiting a Chief Information Officer to lead this effort. This is an area, much like sales when Carlos joined, that presents incredible opportunity and upside for our team that has yet to be realized.

Carlos also referenced Shane Pudenz leading our Sales and Marketing team moving forward. It is important to note that our focus on marketing, with Shane and Alfred's leadership, is new for Carriage. Again, as with sales and technology, a dedicated focus on marketing offers us a new and exciting opportunity for accelerated growth.

Within the teams that I have the privilege of leading, Human Resources, Legal, Risk Management and Business Development, we have incredible internal talent who are **Energized**, motivated, and doing much more than just offering top notch support to our businesses. These leaders are also identifying new opportunities to help drive our results forward and they broadly perform with a “owner’s mindset” similar to what we see from our Managing Partners. It is an honor to work with this type of talent and it is fun to see the level of pride and excitement they have for Carriage and their fellow teammates.

Right Who’s in the Right Seats:
In addition to bringing in new talent to lead critical areas of our growth strategy, we have also focused on involving more talented individuals in key projects and brainstorming sessions, intended to build collaboration and provide a platform for new and innovative ideas to gain traction. This process has also led to asking several leaders to take on new responsibilities, sometimes outside of their background or comfort zone, in an effort to stretch development and drive new thinking. Within some teams, we have created unconventional leadership structures, and more broadly, we have worked to involve leaders from different teams in strategic areas with which they may not have previously been involved. The goal has been, and continues to be, to identify talent and position those individuals to contribute beyond their current responsibilities.

Two of the 4E’s of Leadership – Energy & Energize!:
As part of an effort to build a first class environment that will help us retain and attract the best talent in, and outside of, the industry to help support our colleagues in the field, we knew that getting the people part of the equation right was not enough. We also needed to make sure that these leaders had a work environment that matched their level of **Energy**. To that end, last year we were excited to welcome our Support Center Teams back to an office environment that is lighter, brighter, and filled with the leadership branding and Carriage history that we talk about so frequently.

Our **High Performance Culture** is on full display as you walk through the halls of our Houston Support Center. On our walls, you will see everything from quotes from Jim Collins to the “Investor’s Business Daily 10 Secrets to Success,” to the 4E’s of Leadership, to our Five Guiding Principles, just to name a few. This personalization of our leadership focus and investment in the people who support our colleagues in the field every day has led to a noticeable difference in energy and daily “buzz” as we go about our business. In fact, a recent visitor said to me, “If I didn’t know I was at Carriage, I would think this was an office for Google or Apple.” We definitely took that comment as a compliment. But don’t take our word for it, we invite anyone interested in learning more about Carriage to come visit our **Energized** Houston Support Center and meet the talented people who make up the teams that provide Carriage with a competitive **Edge** in the area of comprehensive support.

As Carlos described earlier, our **Good To Great High Performance Flywheel** was put in place to serve as an overview of our unique **High Performance Culture**. It was also intended to be a catalyst for discussion by leaders with leaders as to how they can work together to drive higher performance through the various eight components of the flywheel, ultimately leading to greater and sustained performance. We are confident that our Support Center Team of Teams is comprised of some of the best talent in the industry and our focus now is to make sure we continue to surround them with other top talent and provide them with an equally impressive environment for growth and achievement in which they can contribute to the continued acceleration of our **Good To Great High Performance Flywheel** moving forward,” concluded Mr. Metzger.

ADJUSTED FREE CASH FLOW AND LEVERAGE RATIO

	Years Ended December 31, 2020	2021
Net Cash Provided by Operating Activities	$82,915	$84,246
Cash used for Maintenance Capital Expenditures	(8,762)	(13,315)
Free Cash Flow	$74,153	$70,931
Plus: Incremental Special Items:		
Federal Tax Refund	(7,012)	—
Severance and Separation Costs	563	1,575
Litigation Reserve	270	—
Disaster Recovery and Pandemic Costs	1,627	2,157
Other Special Items	362	1,020
Adjusted Free Cash Flow	$69,963	$75,683
Proforma for Full Year Impact of Bond Refinancing	—	4,000
Proforma Adjusted Free Cash Flow	$69,963	$79,683
Revenue	$329,448	$375,886
Adjusted Free Cash Flow Margin	21.2%	20.1%
Proforma Adjusted Free Cash Flow Margin	21.2%	21.2%

Ben Brink, Executive Vice President and Chief Financial Officer, stated, "For the full year 2021, our Adjusted Free Cash Flow totaled $75.7 million and Adjusted Free Cash Flow Margin was 20.1% compared to $70.0 million and 21.2% respectively in 2020. However, adjusting for the full-year pre-tax impact of the refinancing of our $400 million 4.25% senior note issue on May 13, 2021 would produce an additional $4 million of Adjusted Free Cash Flow. Therefore, our Proforma Adjusted Free Cash Flow was $79.7 million and Proforma Adjusted Free Cash Flow Margin was 21.2%.

Net Cash Provided by Operating Activities increased $1.3 million and Total Adjusted Free Cash Flow increased $5.7 million year over year due to improved operating results while Adjusted Free Cash Flow Margin decreased 110 basis points due to an increase in maintenance capital expenditures of $4.6 million and higher cash taxes paid in 2021 of $13.6 million. Proforma Adjusted Free Cash Flow increased $9.7 million and Proforma Adjusted Free Cash Flow Margin was flat compared to 2020. We continue to view the Adjusted Free Cash Flow Margin as an important metric for investors to track as it shows the amount of every dollar of revenue that is available for Capital Allocation to optimize the long-term growth of Intrinsic Value Per Share.

For 2022 our Roughly Right Range for Adjusted Free Cash Flow is $82 - $86 million and 21% - 22% for our Adjusted Free Cash Flow Margin. We expect Adjusted Free Cash Flow and Adjusted Free Cash Flow Margin to increase this year due to the continued high margin revenue momentum in our businesses and a full year impact from lower interest costs from our senior note refinancing completed in May 2021.

Our Total Debt to Adjusted Consolidated EBITDA Leverage Ratio at year end was 4.5 times at December 31, 2021 compared to 4.0 times at the end of the third quarter and 4.4 times at the end of 2020. The increase of 0.5 times of leverage compared to the third quarter is entirely attributable to the increase in our share repurchase program in the fourth quarter, as we opportunistically repurchased our shares at a significant discount of 34.7% compared to the $75 per share mid-point of our increased opinion of the Roughly Right Range of Intrinsic Value Per Share.

What is remarkable about our operating performance and capital allocation in 2021 is that we were able to refinance our capital structure that included a $19.9 million prepayment penalty on $400 million of eight year 6.625% senior notes to reduce interest costs by $9.5 million annually, invest $11.6 million in high return internal growth projects and repurchase 16.0% of our shares outstanding for approximately $142.5 million ($49.01 per share), while maintaining our leverage ratio approximately flat compared to year end 2020. The transformation that has occurred in 2021 demonstrates the amount of financial flexibility Carriage has with our improved, low-cost capital structure and our high amount of recurring and growing Adjusted Free Cash Flow…aka **A Free Cash Flow Machine!** We intend to allocate capital with return on invested capital discipline and savviness as outlined below while being able to maintain a Total Debt to Adjusted Consolidated EBITDA Leverage Ratio within a range of 3.6 to 4.4 times (up to 4.5 times briefly if value creation opportunity justifies) with a sustainable policy of 4.0 times over the long-term.

CAPITAL ALLOCATION PRIORITY

With our record 2021 operating and financial performance combined with the successful senior note refinancing transaction in May 2021, we believe that Carriage has entered into a long-term sweet spot for capital allocation and growth of Intrinsic Value Per Share as our recurring and growing Free Cash Flow allows us to self-finance the majority of our capital allocation opportunities. During the fourth quarter we continued to strategically allocate capital, primarily towards the execution of our share repurchase program. We believe that it remains important to update investors quarterly on our current capital allocation priorities as detailed below:

- **Strategic Acquisitions:** We will have more opportunities to selectively allocate capital in 2022 and beyond to high quality acquisition candidates in large strategic growth markets where our conservatively expected return on invested capital can be approximately 15% in the early years post integration, then growing higher once fully optimized as part of our operating and support framework. The acquisition landscape continues to look highly favorable for Carriage, as owners of the best remaining independent funeral homes and cemeteries in America look for a succession planning solution, such as Carriage, that has the long-term track record and reputation as the consolidator of choice in the industry. We believe the industry is entering into a phase of increased consolidation as the COVID Pandemic has caused many high quality business owners to accelerate their timeline for succession planning decisions.
- **Share Repurchases:** We will continue to prioritize open market share repurchases when our stock trades at a discount of 10% or more compared to the lower end of the $10 per share Roughly Right Range of Intrinsic Value Per Share, which in our opinion is currently $70 to $80 per share. Therefore more capital will be allocated to our share repurchase program when our shares trade below $63 per share.

  During the fourth quarter we repurchased 1,462,786 shares for $80.7 million with an average purchase price of $55.19. With the share repurchases completed in the fourth quarter, our total shares repurchased for 2021 were 2,906,983 for a total cost of approximately $142.5 million that equaled an average purchase price of $49.01. This significant investment in our own shares over the second half of 2021 is indicative of our confidence in the future of Carriage and the view that our shares remain significantly undervalued compared to the low end of the previous Roughly Right Range of Intrinsic Value of $65 - $75 per share and even more so when compared to the current Roughly Right Range of $70 - $80 per share. The average purchase price for the shares repurchased in 2021 of $49.01 is a 34.7% discount to the mid-point of our updated Roughly Right Range of Intrinsic Value.

  The 2,906,983 shares repurchased in 2021 represents 16.0% of the shares outstanding prior to the start of our repurchase program which was primarily executed over the second half of the year. The impact to our reduced fully diluted GAAP share count will be apparent as we report the first quarter results of 2022, as we expect Basic Shares Outstanding to be approximately 15.3 million and Diluted Shares Outstanding to be approximately 16.5 million after accounting for dilution from 475,235 of "in the money" vested options and 730,480 shares related to the vesting of the third tier of our **Good To Great II Shareholder Value Creation Plan**. The 730,480 shares related to the vesting of **Good To Great II** are only payable to participants in the first part of 2025 and are conditional on employment at the end of 2024.

Since the **Good To Great II Shareholder Value Creation Plan** was approved on May 16, 2020, seven senior participants have left the company and received no value in vested shares upon their departure. These seven participants would have been eligible for 234,128 shares at the current vesting of tier three that would have been equal to approximately 33% of the current total of 730,480 shares for the remaining forty-eight participants.

We are pleased to announce the authorization by our Board of an additional $75 million to our share repurchase program, which along with previously approved and available amounts, brings our total availability to approximately $83.1 million, equal to approximately 10.0% of our current equity market capitalization. We will continue to balance our share repurchase program versus any near-term acquisition activity and our intention to maintain a moderate Total Debt to Adjusted Consolidated EBITDA ratio.

- **Internal Growth Projects:** The first priority for our internal growth capital expenditures in 2022 will be to accelerate the development of high-quality cemetery inventory that will deliver high rates of return on invested capital quickly after completion. Secondarily, we will prioritize our internal growth capital on targeted funeral home remodels and expansions to help enhance our service and guest experience to accelerate growth in local market share.

  We allocated $24.9 million towards capital expenditures in 2021 split between $13.3 million of maintenance capital expenditures and $11.6 million of growth capital expenditures. The primary drivers of increased capital expenditures in 2021 compared to 2020 were cemetery property development, funeral home refresh and remodels, vehicle fleet upgrades and information technology investments. We currently expect capital expenditures in 2022 to be approximately $23 - $24 million allocated evenly between maintenance and growth capital expenditures.

- **Debt Repayment:** The execution of our share repurchase program in the fourth quarter caused our total debt position to increase $67.8 million and our Total Debt to Adjusted Consolidated EBITDA leverage ratio to increase 0.5 times to 4.5 times at year end compared to the third quarter. While the 4.5 times is at the upper end of our previously announced leverage ratio target range, we believe the recurring and growing amount of Adjusted Free Cash Flow is highly resilient to sudden economic shocks (high free cash flow characteristics of this industry, but especially Carriage), and provides the necessary financial flexibility to opportunistically allocate capital in any environment while maintaining Total Debt to Adjusted Consolidated EBITDA Leverage Ratio in a range of 3.6 to 4.4 times. Our current Total Debt to Adjusted Consolidated EBITDA Leverage Ratio is 4.38 times as of February 23rd.

- **Dividends:** Our current annual dividend is equal to $.45 per share (dividend yield of about 0.85%), totaling approximately $7.4 million annually equal to almost 9% of the $84 million mid-point of the Roughly Right Range of Adjusted Free Cash Flow for 2022. We will reevaluate our dividend policy annually and at other relevant points in time while maintaining a dividend policy that will approximate 10% of our Adjusted Free Cash Flow and a 1% dividend equity yield.

TRUST FUND INVESTMENT PERFORMANCE

	2021	Annualized 2009 - 2021
CSV Discretionary Portfolio	19.3%	14.3%
S&P 500	28.7%	16.0%
DJIA	20.9%	14.4%
NASDAQ	22.2%	20.7%
HY Bond Index	5.3%	10.6%
70/30 HY/S&P Bond	12.3%	12.6%

Our discretionary preneed trust fund portfolio had another extraordinary year in 2021 with a total return of 19.3% versus 28.7% for the S&P 500 and 12.3% for our 70/30 HY Bond / S&P 500 benchmark. The total return of our discretionary trust portfolio for 2021 continued our long-term track record of highly successful investment management since we took over management of the preneed trust assets in October 2008 at the beginning of the Credit Crisis and Great Recession. Over the past thirteen years, since the beginning of 2009, our total return for our discretionary preneed trust portfolio has been 14.3% compared to 16.0% for the S&P 500 and 12.6% for our 70/30 HY Bond / S&P 500 benchmark. We use a 70/30 HY Bond / S&P 500 Benchmark for consistency even though our allocation to fixed income, primarily High Yield (no junk!), has varied between 50% to 80% over the last thirteen years.

I began my tenure at Carriage on January 22, 2009 in the middle of the Credit Crisis and Great Recession brought on by the housing market collapse and an overleveraged global banking system. What I didn't know then was that I was about to embark on a thirteen year learning journey that never ends regarding investment management. In working closely with Mel and studying other great investors, particularly Warren Buffet and Charlie Munger, I have learned a number of important lessons in regard to what makes a great long-term investor. I believe the most important as it relates to our success and ongoing management of our discretionary trust funds are the following: the ability to remain patient and disciplined in your preparation, so that when major market dislocations do arise, you have the fortitude and ability to evaluate and make investment decisions that are within your own defined circle of competence, which enables you to make significant rotations when market fear and volatility are at their highest.

Patience

> ***"Experience tends to confirm a long-held notion that being prepared, on a few occasions in a lifetime, to act promptly in scale, in doing some simple and logical thing, will often dramatically improve the financial results of that lifetime. A few major opportunities, clearly recognizable as such, will usually come to one who continuously searches and waits, with a curious mind that loves diagnosis involving multiple variables. And then all that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience in the past."***

-Charlie Munger, Wesco Financial Annual Meeting 1996

I believe a significant part of our long-term success in managing our discretionary preneed trust portfolio has come from our ability to remain patient and wait to make major rotations within our portfolio during times of severe volatility and fear in the market. When I started at Carriage in the middle of our first major asset rotation during the height of the Credit Crisis and Great Recession, I certainly didn't know much, but I knew enough to understand what Mel was doing and that the execution of his clearly defined written repositioning strategy was different and absolutely ran counter to every headline or talking head out there in the financial media. That is when I began to learn what Mel has taught us at Carriage:

> ***"Great investment returns are produced by those fearless yet analytical souls who go where everyone else has fled and find a fundamental reason to stay."***

During late 2008 and early 2009, a significant concern in the market was the health of the world financial system and the long term viability of individual financial institutions brought on by the subprime mortgage crisis and exacerbated by the myriad of failing collateralized debt obligations held by banks and investors. The Troubled Asset Relief Program (TARP) was created to stabilize the U.S. financial system through purchases of distressed assets from financial institutions, which eventually morphed into direct capital injections by the government in the form of preferred stock with 10 year detachable equity warrants.

Once we studied the terms of the TARP Program (Mel's credit background was at Prudential and Texas Commerce Bank, now part of JPMorgan Chase), we determined that the risk of 'nationalization' of the banking system was essentially zero and hysterically overblown in the financial media, as the clear goal of the program was "To Restore Trust and Confidence in the Financial System!" We quickly recognized that the newly issued preferred stock by the 19 "Too Big To Fail" large banks and insurance companies to the government would be ranked pari passu (equal) with the perpetual preferred stocks of these banks that were already outstanding. Based on this analysis we began to rapidly increase our positions in the perpetual preferred stocks of large financial institutions (Bank of America, Wells Fargo, Citigroup, PNC, Goldman Sachs, SunTrust, Liberty Mutual, etc.) at prices significantly below par (lowest was 15¢ on the dollar!) with the belief that these financial institutions would recover sufficiently over time in order to pay the full principal amount when due, with the ability to earn a high amount of recurring interest income at double digit yields (large double digit yields in numerous cases, e.g. Bank of America 8%'s at 33¢ on the dollar) on cost while we waited.

Our investments in "Too Big To Fail" perpetual preferred securities during the depths of the 2008/2009 Credit Crisis and as late as May 5, 2010 (date of first "Stress Test" by Fed on 19 'Too Big To Fail' financial institutions, after which we acquired several million of Wells Fargo 7.98% perpetual preferred at 60¢ on the dollar after it passed the Stress Test?!?) is an example of our 'willingness to bet heavily when the odds are extremely favorable'.

A particular example of this philosophy in action during this period (one of Mel's favorites) was the purchase of $3.0 million 8.4% Citigroup perpetual preferred at an average cost of $50 ($1.5 million investment) in late 2008/ early 2009. Citigroup was the only "Too Big To Fail" bank that subsequently had to be 'bailed out' twice, so as part of its second bail-out the Federal Reserve mandated a 'punitive cram-down' or forced exchange of our series of perpetual preferred securities. Our $3.0 million par amount of preferred securities were discounted only 5% from the face amount ($150,000) with the balance of $2,850,000 converted into common shares at the market price of $3.25 per share, providing us 877,000 new common shares of Citigroup with an average cost of $1.71. Based on our fundamental analysis of the 3 to 5 year earnings and valuation outlook for Citigroup, we sold our entire position in the fourth quarter of 2009 at an average price of $4.65 per share after the exchange for a total gain of $2.6 million or approximately 180% in approximately 10 months.

After the "Punitive Citigroup Cramdown" that resulted in a huge windfall gain for our trust portfolio, Mel wrote one of his witty "Metaphor Memo's," relating the government action to the famous fable about Brer Rabbit, Brer Fox and the Briar Patch: "Please Mr. Fox, you can eat me (and do all those other terrible things to me), but please don't throw me back into that briar patch!" The point of the fable was how to get recalcitrant idiots to do what you want them to do! So Mel's mantra became, "Please Mr. Fed., I'm fine with whatever you want to do with me, except please don't punish our innocent trust funds by cramming down our perpetual preferred stocks in Too Big To Fail financial institutions! Please don't do that because they wouldn't be perpetual anymore, and no one would ever trust them again!!"

During each of the major "market meltdowns" over the last thirteen years, we always pick a humorous theme or two that fits the craziness and/or panic in various sections of the market at that time. These "market meltdowns" over the past thirteen years where we have taken advantage of extreme uncertainty and fear in markets to execute significant relative value rotations involving substantial capital deployments include; the downgrade of the U.S. credit rating by S&P in August 2011, when oil prices collapsed in late 2015/early 2016, and most recently during the depths of the Coronavirus Market Crisis in March 2020 and thereafter (lots of favorite purchases). In each of these instances we have positioned the discretionary preneed trust portfolio for higher amounts of recurring income and long term realized capital gains, which has led to sustainably higher recognized Financial Revenue and EBITDA for Carriage.

Circle of Competence

> ***"What an investor needs is the ability to correctly evaluate selected businesses. Note that word "selected": You don't have to be an expert on every company, or even many. You only have to be able to evaluate companies within your circle of competence. The size of that circle is not very important; knowing its boundaries, however, is vital."***
>
> ***-Warren Buffett, Berkshire Hathaway Annual Letter to Shareholders, 1996***

Since we began to direct the investment decisions within our discretionary preneed funeral and cemetery trust funds on October 14, 2008, our investment strategy has been to run a balanced portfolio that prioritizes recurring income through high yield fixed income and high dividend equity securities, combined with a smaller concentration of equity positions that we believe will appreciate substantially over the next 3 to 5 years and produce large capital gains. We eschew companies that have unsustainable high equity valuations, while focusing our equity investments in companies that have sustainable and growing Free Cash Flow, have opportunities to invest that Free Cash Flow at higher rates of return on invested capital, and therefore have the ability to grow their dividend over time. Our fixed income investments must pass our own internal credit rating based on our analysis (zero reliance on credit rating agency reports) of the underlying company's ability to pay their interest and principal when due. Importantly, we invest in the equity of companies where we can understand their business, industry and future growth potential and are comfortable owning their shares forever.

The results of our discretionary trust fund portfolio over the long-term are a result of our ability to remain within our well-defined circle of competence, while remaining patient to make significant rotations in the trust fund portfolio when market fear and volatility are at their highest. One of the most remarkable aspects of our long-term investment management track record is our ability to trail the S&P 500 index on average by only 170 basis points annually while maintaining no less than a 50% weighting toward fixed income securities. Our investment strategy has been time tested through a series of periods with severe market turmoil and the consistency of our approach will continue to add value through recurring and growing Financial Revenue and EBITDA over the timeframe of our increased Three Year Roughly Right Ranges Performance Scenario 2022 -2024.

Portfolio Update / 2021 Results

Execution of our strategy at the depths of the Coronavirus Market Crash has led to an increase in the recurring annual income in the portfolio by approximately $8.2 million to $17.6 million, the majority of which is realized and recognized monthly through our cemetery perpetual care earnings. Additionally, since our major capital deployment during the peak of the Coronavirus Market Crisis and thereafter, we have recognized approximately $31.1 million of realized long-term capital gains in the portfolio that have been allocated to the underlying preneed funeral and cemetery contracts which have an average maturity of 12 to 15 years.

As a result of our successful repositioning strategy, we have constructed the discretionary preneed trust fund portfolio for a higher interest rate and inflation environment that is largely resilient to bouts of market volatility such as that experienced so far in 2022. Our discretionary trust fund portfolio year to date in 2022 has a return of approximately negative 1.8% compared to a negative return of 8.6% for the S&P 500 and negative return of 5.6% for our 70/30 HY Bond / S&P 500 benchmark.

A primary reason for our outperformance was an early shift in our portfolio at the end of 2019 (to raise cash for redeployment) away from a small concentration of high growth, big tech stocks toward higher dividend stocks during the COVID market crash, especially materials and economically sensitive stocks with pricing power to offset inflationary trends. The same shift by many professional money managers seemingly all at the same time has resulted in a YTD decline in NASDAQ of over 14%. The total yield on market value of our invested discretionary trust assets of $242 million (excluding cash) as of February 18, 2022 was 6.7% (combined equity and fixed income portfolio) thereby providing a large and resilient income cushion to sector rotation shifts and volatility in the market. We also have 7% of total assets in cash waiting for another meaningful opportunity to deploy capital at high rates of return.

The successful long-term management of our discretionary preneed trust funds has led to a significant increase and sustainability of Carriage's reported Financial Revenue and Financial EBITDA. In 2021, Financial Revenue increased $3.0 million or 15.2% to $22.9 million and Financial EBITDA increased $2.8 million or 15.1% to $21.4 million compared to 2020. The primary driver for increased Financial Revenue and EBITDA was increased cemetery perpetual care income from a full year of recognizing increased annual income from our trust fund portfolio repositioning strategy. We expect Financial Revenue and EBITDA to have incremental growth in future years due to the recurring nature of interest and dividend income earned in the trust funds along with higher recognized matured preneed contract values from capital gains realized in the trusts and allocated to the underlying preneed contracts. For 2022 our Roughly Right Range for Financial Revenue is $23.5 - $24.0 million with a Financial EBITDA Margin Range of 93.5% - 94.0%.

We view the long-term nature of the underlying preneed funeral and cemetery contracts and the cemetery perpetual care assets as a competitive advantage in managing our preneed trust assets. We do not have to be concerned about funds flow risk from cash redemptions when markets are crashing and liquidity and price discovery have essentially disappeared. Nor do we have to mark to market securities that we own or purchase during severe market downturns, having confidence that unrealized losses even of a large magnitude (March 23, 2020) would turn into large unrealized gains upon an eventual market recovery, which has been the case in each major market correction over the last thirteen years.

The long-term nature of these liabilities allows us to manage the preneed trust fund portfolio with a long-term mindset versus having the pressure of short-term scoreboard watching with quarterly and annual return expectations. We will remain consistent in our approach to managing our preneed trust assets by staying within our circle of competence and being prudent and patient to wait for those rare opportunities to allocate capital at scale to position the trust fund portfolio for continued long-term outperformance.

FINANCE ORGANIZATION STRUCTURE / TALENT AND CONCEPTUAL VISION UPDATE

At the beginning of 2021 we reorganized our Finance functions into one team under my leadership. Our goal as a Finance Leadership Team was to improve alignment across our teams (Accounting, Financial Reporting, Treasury, Trust Investments, Preneed, Audit and Tax) with our goals of a company to Be The Best Operator, Consolidator and Value Creator that just happens to be in the funeral and cemetery industry. Two great examples of how our Finance Teams contributed to our success in 2021 were the continued evolution of our Operating and Financial Trend Reports and the significant improvement in our GAAP effective tax rate throughout the year.

Trend Reports

Our Financial Reporting and Accounting Teams, under the leadership of Adeola Olaniyan, are responsible for compilation and accuracy of our innovative Operational and Financial Trend Reports that are intended to provide investors with a more transparent view of our results and what we view as the sustainable earnings power of Carriage. Over the years the evolutionary change that has occurred here at Carriage has led to expenses related to severance, goodwill write-downs, gain or loss on divestitures, large legal settlements and financing costs that we have added back to GAAP earnings as Special Items since we do not view these expenses as core to our operations. More recently in 2020 and 2021, costs related to the COVID-19 Pandemic have also been included as Special Items since we don't view them as recurring expenses in the future. Our reported Non-GAAP Adjusted Diluted Earnings Per Share and Adjusted Consolidated EBITDA without the Special Items as presented in our Trend Reports represent the true earnings power of Carriage.

I remember fondly one of my first investor relations trip with Mel back in August 2015 when an astute investor commented that Warren Buffett would not look favorably on the number and the type of Non-GAAP Special Items we were adding back at that time. Mel took his criticism as an arrow to his heart vowing that someday we would emerge from his "Chief Mistake Maker" phase as a high performing GAAP Company. That was a message well received and a great lesson for yours truly! Since then, we have worked to better define one-time, non-recurring expenses with the goal over time for GAAP and Non-GAAP to more closely align. Over this six-year time period the largest dollar amount of Non-GAAP Special Items have been related to the debt extinguishment and refinancing, gain or losses on divestitures and write downs of Goodwill. With the complete transformation that has occurred within our operating businesses, the completion of the senior note refinancing transaction in May 2021 and the conclusion of our divestiture program early this year we believe we will have less one-time, non-recurring expenses and that GAAP EPS and Non-GAAP Adjusted EPS will be more closely aligned in the future.

Tax Rate

In the first quarter of 2021 our GAAP effective tax rate was an estimated 31%, a percentage that we deemed too high based on are anticipated pre-tax book income for 2021, the states and jurisdictions in which we operate in and other comparable publicly traded companies. Our Tax Team under the leadership of Katrina Blume went to work to identify structural opportunities to lower our GAAP effective tax rate. In collaboration with our Legal, Accounting and Information Technology Teams, our Tax Team led the effort to simplify our state legal entity structure and improve state tax provision planning that resulted in improved expense apportionment, particularly in high tax jurisdictions.

As a result of these efforts our full year 2021 GAAP effective tax rate, excluding discrete tax benefits, was 27.8%, a full 320 basis points lower than where we started in the first quarter of the year. This significant decrease in our GAAP effective tax rate from continuing operations over the course of 2021 contributed an estimated $.08 of earnings per share. Importantly, the improvements implemented will continue to have benefit to both our GAAP effective tax rate and cash taxes paid going forward. We believe we have additional opportunities to incrementally lower the GAAP effective tax rate in 2022 and are hard at work to implement these changes in the first half of the year. While we don't expect us to reduce our GAAP effective tax rate another 320 basis points in 2022, we do believe that we can have a sustainable GAAP effective tax rate over the long term of approximately 27.0% absent any significant changes to federal corporate tax policy, which we believe is unlikely anytime soon.

INCREASED ROUGHLY RIGHT RANGE OF INTRINSIC VALUE PER SHARE

Based on the continued strong operating and financial performance across Carriage and the execution of our share repurchase program in the fourth quarter, we are excited to again announce an increase in our opinion of the Roughly Right Range of Intrinsic Value Per Share to $70 - $80 per share based on the methodology outlined on the next page. We believe it is important to provide an updated Roughly Right Range of Intrinsic Value Per Share as it allows investors to have insight into how we intend to make capital allocation decisions in both the short and long-term. The mid-point of our Roughly Right Range of Intrinsic Value Per Share of $75 is $5 per share or 7.1% higher than when we reported at the end of the third quarter, and $20 per share or 36.4% from our original Roughly Right Range of $50 to $60 per share that we announced on May 13th in conjunction with closing of our senior note refinancing.

We believe that a Free Cash Flow Equity Yield is the preferred valuation methodology when we calculate our opinion of our Roughly Right Range of Intrinsic Value Per Share given our demonstrated ability to generate a high amount of sustainable and growing Free Cash Flow. We also view a Free Cash Flow Equity Yield Range of 6.4% - 7.4% as a reasonable range of Free Cash Flow discount factors based on our current weighted average cost of capital of 6.4%, which is a 100 basis point decrease from prior to our senior note refinancing transaction, especially given our Free Cash Flow generation capabilities and our ability to allocate that cash capital into higher rates of return investments in the future.

We calculate the Roughly Right Range of Intrinsic Value Per Share using the mid-point of our 2022 Roughly Right Range Performance Outlook for Adjusted Free Cash Flow of $84.0 million. Dividing the $84.0 million of Adjusted Free Cash Flow by the current Free Cash Flow Equity Yield Range of 6.4% - 7.4% equals an equity market capitalization range of $1,135.1 million to $1,312.5 million.

We divide the equity market capitalization range of $1,135.1 million to $1,312.5 million by our fully Diluted Shares of 16.5 million, which equals an Intrinsic Value Per Share Range of $68.79 - $79.55. When rounded up equals our increased Roughly Right Range of Intrinsic Value Per Share of $70 to $80 per share.

FINAL THOUGHTS ABOUT "GETTING TO THE OTHER SIDE"

When I reflect on the past two years, I continue to return to our themes for each year and the action words we used: **Transformative** and **Accelerating**.

Carriage Services 2020: Transformative High Performance.

Carriage Services 2021: Accelerating High Performance Flywheel Effect.

What I have experienced up close and personal, and what should be taken away by the reader of this Shareholder Letter, is that there has been a complete **High Performance Transformation** at Carriage and it is only **Accelerating**. This broad transformation has manifested itself in higher organic market share growth; significantly improved cemetery sales, operations and profitability; sustainably higher preneed trust fund income and Financial Revenue; improved Operating Leverage at our local funeral homes and cemeteries leading to higher Field EBITDA Margins; improved Overhead Platform Leverage with greater size and scale; greater Consolidated Platform Leverage with more opportunities for capital allocation at higher rates of return on invested capital; improved Capital Structure Leverage with a low-cost long-term balance sheet that provides greater financial flexibility at a lower cost of capital; and a significantly lower share count.

For any investor who has made it this far in this Shareholder Letter, and whose curiosity is piqued by our unique and differentiated **High Performance Culture** that we have described in this Shareholder Letter, I would encourage you to begin your journey of "**Getting To The Other Side**" by first studying our available materials on our investor relations website (Shareholder Letters and Quarterly Earnings Press Releases), then come visit us in Houston for a look underneath the Carriage covers to truly understand the long-term **Value Creation Dynamics** that are at work at Carriage. What you will find is a company that has undergone a radical **Transformation** which is producing **Accelerating High Performance** led by an amazing group of talented entrepreneurial leaders across Carriage who have formed **AN UNBREAKABLE UNION OF BELIEF** in our **Vision** of **Being The Best** on a **Good To Great Journey** that never ends. It is because of this **Accelerating High Performance Transformation** that all the leaders here at Carriage have the confidence to say that **The Best Is Yet To Come!**", concluded Mr. Brink.

FINAL OBSERVATIONS ABOUT THE PAST AND PRESENT

To conclude this Shareholder Letter, I will share a couple of emails from two of our eleven Managing Partners who comprise our Standards Council and therefore represent the **Best of the Best** Managing Partners across our portfolio of funeral homes and cemeteries. While Carlos, Steve, Ben, and I have tried our best to describe "how Carriage actually works beneath the covers of a New York Stock Exchange Listed Company," we can't come close to the compelling personal words of Tim Hauck and Kristi Ah You:

Email from Tim Hauck, Managing Partner, Cape Coral Group, Ft. Myers, FL

From: Tim Hauck
Sent: Monday, March 14, 2022 4:04 PM
To: Mel Payne
Subject: A personal note of Gratitude

Last Friday I received my **Good To Great** Award. As Rachel and I celebrated "our" achievement, I could not help but wonder what my life may have been like if Carriage would not have purchased our operations in November 1995. (I think that's the date, but I know you probably know the exact day). At that time in 1995, I was a young 29 year old staff funeral director who was single, no gray hair, had no children, working for another company that was being divested to Carriage. I remember thinking to myself: What is Carriage and who is this Mel Guy? I thought maybe I would be better off staying on the "Other Side"? In fact, I must confess, I actually prayed and solicited to stay on the "Other Side", but they would not have me, apparently, I was part of the sale so they could not hire me. To my dismay, at that time, I became a Carriage'er.

Fast forward 27 years to 2022- Lord Jesus, thank God I became a Carriage'er!

My abridged version of your "The Tale of Two Companies" as it pertains to me:

CARRIAGE	THE OTHER SIDE
2 **Good To Great** Awards	NOPE
Multiple **Being The Best** Awards	NOPE
Standards Team Member	NOPE
Belief in Power of People	NOPE
Shared Success	NOPE
Best of Times	NOPE
Home Office Supporting rather than Dictating	NOPE
Bottom to Top Management	NOPE
Teamwork	NOPE

Many times I find myself thinking of the Garth Brooks song: "Sometimes I thank God for unanswered Prayers." Thank God my prayer was not answered in 1995. Hard to imagine what life may have been like on the other side and thankfully, I don't wonder about that often. By some stroke of luck back in 1995, I became a Carriage'er, and it has been a tremendous journey. I am fully aware that there are no other deathcare companies like Carriage where I could ever achieve the same financial rewards as I have with you and Carriage.

I am grateful for your vision, your beliefs, and the culture you have developed. And I thank you for the past 27 year journey. I look forward to another 5, 10, or 15 more years (**Good To Great** increments).

27 years ago I became a Carriage'er and left the other side. That single event makes me think of the legendary Lou Gehrig speech where he says: "Today I consider myself the luckiest man on the face of the earth"

Appreciative and Grateful,

Tim

Email from Kristi Ah You, Managing Partner, Franklin & Downs Funeral Homes, Modesto, CA

From: Kristi AhYou
Sent: Tuesday, February 22, 2022 7:06 PM
To: Mel Payne
Subject: Just a big thank you!

Dear Mel Payne,

As you know, a long time long ago I had developed a career as a Deputy Coroner and had been promoted to Chief Deputy Coroner. I absolutely loved the investigative process, identifying hard cases, responding to difficult calls and investigations. I had most recently identified a cold case homicide victim from 1971 and had accomplished many amazing things at that point. I was at the end of finishing a Masters in Forensics when a series of thoughts began to occur to me on a regular basis. "I am topped out, there is no challenge, I actually want to work harder, but no one around me has these same goals, or expectations." This is when I began to realize that I needed something more, but I was not exactly sure what the "more" was. I just knew that I had a drive to do "more" of something. I knew I needed to be challenged beyond what I thought I was capable of doing.

I had heard of this quote then, and have many times since, mostly from you, after reading the book ***Good To Great*** by Jim Collins a few times. "Greatness is not a matter of circumstance. Greatness, it turns out, is a matter of conscious choice!" It is truly a matter of choosing to be more, and then being willing to go to the edge and jump off. I made that choice when I decided to accept a position as a Managing Partner of a brand new acquisition with Carriage Services. (That I just happened to have worked at while attending Mortuary College.)

You stated in your 2020 Shareholder Letter, "We have learned at Carriage that if you don't focus intensely 100% of the time **on getting your people right who interact with families who have just lost a loved one, your client families will never come first.**"

There is no truer statement.

"That's because you won't have the right people engaging your client families and learning about the life of their deceased loved one, in order to recommend high value emotional ideas and options about how <u>best to honor and memorialize the life of their loved one.</u>"

As you know, I had my own unique experience serving as the Managing Partner and as a client family simultaneously. My adult son passed away, and I needed to make funeral arrangements. This is when I knew that my focus of 100% getting the **Right Who** on board mattered. I trusted everyone on our team at Franklin & Downs to care for my son, our family and me. They all jumped into action by putting their own lives aside to ensure that my family, "the client family," received every detail of what I needed to pay tribute to my combat veteran son. This is because of you, Mel, as you have set a path for all to follow and let me tell you it matters and made a difference.

I am continually amazed of the truth in all of this:

Honesty, integrity, and quality in all that we do **is a real thing that matters**. Hard work and shared success through employee ownership **is actually a fact, and proven through actions**; <u>for example, compensation, being recognized, and treated with respect by leadership</u>. Outstanding service and profitability go hand-in-hand, <u>proven by numbers, they do not lie</u>. Growth of the company is driven by decentralization and partnership, <u>the realization and understanding of this concept inspires and creates a drive to succeed, and it is proven</u>.

As a Good To Great II recipient, I must say thank you, loudly.

Where is there in the funeral industry that this would even be a possibility? Then you and your leadership team created a five-year “pay for sustained high performance incentive plan.” I had no idea when looking for a challenge that I would find an opportunity so amazing, fulfilling and beyond my expectations.

Being a part of the achievement of a company whose Mission is: **“Being The Best,” is truly inspirational, and a driver to actually Be The Best!” –Kristi Ah You**

Energy: The passion and drive to get the job done.
Energize: How a leader motivates and gets others excited.
Edge: The determination to make difficult decisions.
Execute: The ability to carry out the plan and deliver results.

The 4E’s are simple to follow and carry out, given the support of Houston & Leadership. Please share with them that they matter, as I certainly appreciate all that they do to help us carry out the simple goal of caring for families. Working for and with Carriage Services has been an amazing journey, and I am blessed to be a part of this outstanding company.

Here’s to at least 20 more years,

Kristi Ah You

Acknowledgments

Prior to starting Carriage in 1991 at age 48, I had already lived through many uniquely interesting and educational chapters in my life and had been exposed to a number of iconic business leaders and entrepreneurs. These included J. Howard Marshall II (deceased), Albert Albek (deceased) and Issam Fares, all of whom I worked for, none of which I have mentioned before but each of which had a decisive impact on my wealth of experience turning around and financially restructuring companies for someone else, and therefore my subsequent career choices including to start and build Carriage from scratch. Last year in my 2020 Shareholder Letter I acknowledged Ben Love (deceased), Peter de Savary, Richard Rainwater (deceased) and Dr. Chihiro Kanagawa, all of whom had hugely positive impacts on my leadership style and thinking prior to starting Carriage.

So this year I will acknowledge only those who have had a major positive impact on my thinking and (therefore my) behavior as an entrepreneurial leader and investor since starting Carriage over thirty years ago.

- **Bob Waltrip**, Founder, Pioneering Visionary and Chairman Emeritus of SCI. Bob and I developed a special and deep personal relationship over the years, especially after our sector crashed in 1999 from self-inflicted injuries (survivor bonding!). I haven't been able to visit my dear friend (age 91) for early morning coffee and lively conversation since the COVID Pandemic began, so I will simply wish him good health and high spirits until that day when we can again get together to share our "unbelievable stories!"

- **Alan Weber, Tom Tryforos** and **Will Thorndike**, who each have contributed immensely to my education and knowledge about the critical importance of capital allocation to superior long-term shareholder investment returns. Alan amazingly first found Carriage in the early to mid-2000's when we were emerging from years of restructuring and turnaround work from the 1990's consolidation mania and market crash in 1999. Alan first bought our shares when they were "deep cheap" because we hardly had any Free Cash Flow to allocate!

  Alan called me around 2013 and asked whether I had read the book ***The Outsiders*** by Will Thorndike, saying, "You remind me of some of those CEO's covered in the book." When I said no, he said, "I'll send you the book as a gift." Needless to say, I went speechless with surprise that Alan Weber would ever think of me in the universe of the eight CEO's covered by Will as iconic shareholder value creators over decades through superior and highly disciplined capital allocation, which included my investment hero Warren Buffett!

  I later met Tom at a 2016 dinner in New York arranged by Alan, who had informed me of Tom's incredible success as an investor and Board Member of Credit Acceptance (CACC). Before the dinner, Alan printed the three most recent Shareholder Letters of Brett Roberts, CEO, for me to study in his office. Tom joined the Board of Credit Acceptance in 1999 after his sizeable investment at $11 per share had fallen to $3 per share (CACC now $527 per share after reaching an all time high of $703 on November 5, 2021). Alan had also informed me that Will sent Tom the draft of ***The Outsiders*** for review before sending it to his publishers for printing, and according to Tom the acknowledgment he received in the book "was the most credit I ever received for doing the least amount of work!"

  My next stop in 2016 was in Boston to have lunch with Will Thorndike and to find out why and how he came to research and write one of the great investment books of our time on eight iconic CEO's and their investing mastery of capital allocation. I acknowledged both Alan and Will in my 2016 Shareholder Letter, but not Tom, with whom I have briefly met a few times since 2016. I always come away from these brief visits with much more wisdom than I possessed before the precious amount of time Tom allocated to me, as I have realized (much like Charlie Munger) that my remaining time on this amazing planet and in this country, and especially in Carriage, is my most priceless asset.

Thank you, Alan, Tom and Will, as your work and remarkable investment returns on the wisdom and value of capital allocation, together with your generous friendship when needed most, have made and will continue to make for many years a huge difference in the Capital Allocation Strategy and Shareholder Value Creation Execution at Carriage.

- **Dick Strong** and **Tony La Russa**, who have become my dear friends after I was first invited to attend Dick's 70th Birthday Party in Las Vegas in May 2012 and then later invited by him to attend the Tony La Russa Leaders and Legends Conference in Las Vegas in November 2014. I acknowledged Dick in my 2016 Shareholder Letter for his personal encouragement to me beginning about twenty years ago after Carriage's shares along with those of all the other public deathcare consolidators had crashed from the leveraged acquisition mania of the 1990's.

  Dick Strong was the **ONLY** major institutional investor who came personally to visit me with words of encouragement and wisdom after our shares had bottomed at $1 per share in August 2000 and then moved into the "broken companies" share price neighborhood of $1 to $5 per share for the next ten years except for brief periods of time. On each visit Dick would always ask, "How many A Players do you have now?"

  What's fascinating about Dick's question then and now was that after I ditched the classic performance management system of a centralized Budget and Control Model in August 2003, and then innovated our Funeral Standards Operating Model effective January 2004, I didn't really know what the characteristics of an A Player were that could achieve a high level of Standards Achievement under this radically decentralized business model. So I was simply guessing at the number of A Player Leaders I had both in our portfolio of businesses and in our corporate leadership teams.

  It took years of performance data and analysis along with updating and evolution of the Funeral High Performance Standards (Cemetery Sales only recently under Carlos' leadership), then adoption in 2006 of our 4E Leadership Model, to determine that our new business model was best executed by entrepreneurial leaders committed to growing their market share and compounding long-term revenue growth with sustainably high Field EBITDA Margins through high performance teams of employees. We just finished a three-day Managing Partners Meeting (CAREdge Forum) in Houston last week (first in almost 3 years) and I can now tell Dick that we have a company full of A Players in all the critical leadership roles across Carriage and in our Houston Support Center. In fact, Carriage is receiving a lot of buzz in the industry as the company where A Player talent can make a difference with their contribution to our already high performance and get generously rewarded and recognized like nowhere else in the history of our industry.

  Tony La Russa and I became friends at his conference in November 2014. I had participated the prior day on a panel of four public company CEO's whose moderator was Dick Strong, who had been a big historical supporter of Tony and his Leaders and Legends Conference that raised money for the Animal Rescue Foundation (ARF), founded by Tony and his wife when he was Manager of the Oakland A's in the late 1980's. In response to a question by Dick about the (first) time our shares hit $1 per share in August 2000, I made an analogy of building a new performance foundation for Carriage by creating a handful of high performance standards for our funeral homes in 2003 that were equivalent to a language of high performance customized to attract the most entrepreneurial leadership talent for each business, which I compared to the handful of "disciplined practices along with a mindset" that Ricky Henderson had articulated as critical to his hitting success the day before in a panel discussion by three Hall of Fame 3,000 hit players.

Over the next seven years Tony's conference in Las Vegas began to shift from mostly business "Leaders" and sports "Legends" to a balanced mix with Military Leaders and "Heroes" (Medal of Honor Winners, terribly wounded and inspirational Warrior Veterans, etc.), astronauts, mountain climbers, and many others whose extraordinary life achievements set them apart as inspiring role models on how to live life to the fullest while giving back to others much more than the blessings their life and country had given them. As a Vietnam war veteran, I was particularly impacted by and supportive of Tony's "Pets and Vets" program that was launched in 2011 as part of ARF, a program designed to match primarily rescued dogs which had been abused and abandoned to physically and/or emotionally damaged veterans from the Iraq and Afghanistan wars so that they could bond and heal together, whose mission is perfectly captured by, "Saving lives at both ends of the leash."

Tony had the brilliant idea of combining the mission of his Animal Rescue Foundation with the mission of rescuing our war veterans suffering physically and emotionally from war injuries (PTSD, TBI, etc.) and a loss of so many soldiers with whom they bonded in Iraq and Afghanistan, leading to an epidemic of suicides by those returning home and feeling lost without a purpose in life. By marrying these two noble missions, Tony figured out how to not only get to first base, but to win the game, the season, and the World Series, year after year after year while building a legacy serving and saving our Military Veterans that was bigger than himself as a Hall of Fame Baseball Manager.

Thank you Dick for introducing me to and Tony for creating and providing the wonderful platform of Tony La Russa's Leaders and Legends Conference for me to share each year with Carriage's many "Leaders and Legends."

CARRIAGE 2021 PINNACLE OF SERVICE AWARD WINNERS – HIGH PERFORMANCE HEROES

In alignment with our 2021 theme of **Accelerating High Performance Flywheel Effect**, I am honored to recognize 66 businesses (54 funeral homes and 12 cemeteries) that earned Pinnacle Awards and **Being The Best** Standards Achievement Bonuses for the Managing Partners and employees for each business. This group of **High Performance** servant leaders and their teams of employees embody the innovative concepts and sophisticated ideas of our Carriage **High Performance Culture** and our Mission and Vision of **Being The Best** in everything they do for this noble purpose of helping families in need.

The 66 Pinnacle Award winners included 52 businesses (47 funeral homes and 5 cemeteries) which averaged 70% Standards Achievement over the 3 years 2019-2021 (20 of these businesses also achieved 100% in 2021 under the updated/rebooted Performance Standards) and 14 businesses (7 funeral homes and 7 cemeteries) which had 100% Standards Achievement in 2021.

As an essential part of **High Performance Culture** tradition and language, and our passionate conviction that **RECOGNITION** is the highest form of motivation, listed below are Carriage's **Being The Best Pinnacle of Service Award Winners** for 2021:

2021 "Being The Best" Pinnacle Of Service Award Winners

Tim Hauck * #	Lee County Cremation Services
	Harvey-Engelhardt/Fuller Metz
Benjamin Friberg #	Heritage Funeral Home and Crematory
Ken Summers	P.L. Fry & Sons
Alan Kerrick	Dakan Funeral Chapel
Loren Forastiere	Forastiere Group
Cyndi Hoots	Schmidt Funeral Homes
Mike Conner	Conner-Westbury Funeral Home
John Appel	Garden of Memories Funeral Home
Jenny Chen	Grant Miller Chapel
Ashley Vella	Deegan Funeral Chapels
Kevin Latham	Maddux-Fuqua-Hinton Funeral Homes
Brent Harrison	Crespo & Jirrels
Adam Mills	Glacier Memorial Gardens
Larry Davis *	Bunkers and Woodlawn Cemeteries
	Bunkers Mortuaries
David Salove	Cloverdale Cemeteries
Kim Mulkey	Sterling Funeral Homes
Anthony Rodriguez	Higgins Mortuary
Dorn Rademacher	Relyea Funeral Chapel
Jeff Seaman	Dwayne R. Spence Funeral Homes
Linda Newsom	Lawton-Ritter-Gray Funeral Homes
Johnny Garcia	Ceballos-Diaz Funeral Home
John Bresnahan	Devanny-Condron Funeral Home
Joseph Waterwash	Baird-Case Jordan-Fannin Funeral Home & Cremation Center
Andrew Cumby	Cumby Family Funeral Homes
Troy Knutson	Austin Funeral Home & Columbia Mortuary
David DeRubeis	Cody-White Funeral Home
Michael Relyea	Conrad & Thompson Funeral Home
Bob Thomas	Malone Funeral Home
David Feeney	Feeney Funeral Home
Cesar Gutierrez	Heritage-Dilday Memorial Services

* Qualified for 2 Businesses # Standards Council Members

“Being The Best” Pinnacle Of Service Award & 100% of Standards Award

Jason Higginbotham	Lakeland Funeral Home
James Terry #	James J. Terry Funeral Home
Steven Mora #	Conejo Mountain Funeral Home
James Bass * #	Emerald Coast/McLaughlin Mortuary
	McLaughlin Twin Cities Funeral Home and Crematory
Robert Maclary	Kent-Forest Lawn Funeral Home
Justin Luyben #	Evans-Brown Mortuaries & Crematory
Courtney Charvet	North Brevard Funeral Home
Brian Binion	Steen Funeral Homes
Jason Cox #	Lane Funeral Home-South Crest Chapel
Trent Nielsen	Hennessey Valley Funeral Home & Crematory
Nicholas Welzenbach #	Los Gatos Memorial Park
Kristi Ah You #	Franklin & Downs Funeral Homes
Matthew Simpson	Fry Memorial Chapel
Kim Borselli	Fuller Funeral Home-Cremation Service
Christine Amittone	Greer Mortuary
Andy Shemwell	Neal Tarpley-Parchman Funeral Home
Betty Cundiff	Lotz Funeral Home
Curtis Ottinger	Heritage Funeral Home
Chad Woody	Richmond County Memorial Park

* Qualified for 2 Businesses # Standards Council Members

“Being The Best” Pinnacle 100% of Standards Award

Buddy Ewing *	Seaside Funeral Homes
	Rose Hill Memorial Park
	Seaside Cemeteries
Michael Kelly * #	Resthaven Funeral Home
	Resthaven Memory Gardens
Tripp Carter	Bradshaw-Carter Memorial & Funeral Services
Geneva Gullion-Chitty	Darling-Fischer Garden Chapel
Rick Garofola	Bagnasco & Calcaterra Funeral Homes
Steven Mora	Conejo Mountain Memorial Park
David Salove *	Cloverdale Funeral Home
	Hillcrest Memorial Gardens
Brad Shemwell	Latham Funeral Home
Courtney Charvet	Oaklawn Memorial Gardens & Mausoleum
Robert Coleman	Sullivan Cemeteries

* Qualified for 2 Businesses # Standards Council Members

CARRIAGE 2021 GOOD TO GREAT AWARD WINNERS

Our five-year incentive award, called the **Good To Great Award**, is directly linked to our annual **Being The Best Pinnacle Award** which itself is linked to High Funeral Standards Achievement over a full year, i.e. our **Good To Great Awards** require high and sustained **Being The Best Standards Achievement** over a full five years. We have had many wonderful performances since the start of our **Good To Great Journey** in 2017 by High Performance Hero Funeral and Cemetery Managing Partners and Sales Managers and their teams of winning employees, so I am more than honored to announce our fifth group of **Good To Great Award Winners** that sustained a high level of Standards Achievement and Financial Performance while compounding revenue at 6.5% for the five year timeframe that began in 2017 and ended at year end 2021, as listed below:

Tim Hauck * #	Lee County Cremation Services Harvey-Engelhardt/Fuller Metz
Dorn Rademacher	Relyea Funeral Chapel
Kristi Ah You #	Franklin & Downs Funeral Homes
Jim Pitts	Buck Ashcraft San Benito Funeral Home
Justin Luyben #	Evans-Brown Mortuaries & Crematory
Steven Mora #	Conejo Mountain Funeral Home
Courtney Charvet	North Brevard Funeral Home
Ken Summers	P.L. Fry & Sons
John Bresnahan	Devanny-Condron Funeral Home
Ashley Vella	Deegan Funeral Chapels
Kim Mulkey	Sterling Funeral Homes
Jason Higginbotham	Lakeland Funeral Home
Jason Cox #	Lane Funeral Home-South Crest Chapel
Betty Cundiff	Lotz Funeral Home
Robert Maclary	Kent-Forest Lawn Funeral Home
Brad Shemwell	Latham Funeral Home
Chuck Williamson	Williamson & Sons Funeral Home
Michael Relyea	Conrad & Thompson Funeral Home
James Bass * #	Emerald Coast/McLaughlin Mortuary
Michael Bell	Cremation Society of Idaho
David Williams	Rader Funeral Home
Joseph Waterwash	Baird-Case Jordan-Fannin Funeral Home & Cremation Center
Jeff Seaman	Dwayne R. Spence Funeral Homes
Linda Newsom	Lawton-Ritter-Gray Funeral Homes
Chad Woody	Watson-King Funeral Homes
Bob Thomas	Malone Funeral Home
Cesar Gutierrez	Heritage-Dilday Memorial Services
Wayne Lovelace	Lotz Funeral Home - Vinton, VA
David Feeney	Feeney Funeral Home
David DeRubeis	Cody-White Funeral Home
Brian Binion	Steen Funeral Homes
Joseph Newkirk	Civic Center Chapel
Michele Wegner	Buckler-Johnston/Avery Funeral Homes

* Qualified for 2 Businesses # Standards Council Members

CARRIAGE
SERVICES

An Unbreakable Union of Belief

2021
Form 10-K

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

FORM 10-K

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

For the fiscal year ended, December 31, 2021

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____________ to ____________

Commission file number: 1-11961

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

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

3040 Post Oak Boulevard, Suite 300
Houston, Texas, 77056
(Address of principal executive offices)
(713) 332-8400

(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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CAUTIONARY NOTE

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

- our ability to find and retain skilled personnel;
- the effects of our incentive and compensation plans and programs, including such effects on our Standards Operating Model and our operational and financial performance;
- our ability to execute our growth strategy;
- the execution of our Standards Operating, 4E Leadership and Strategic Acquisition Models;
- the effects of competition;
- changes in the number of deaths in our markets;
- changes in consumer preferences and our ability to adapt to or meet those changes;
- our ability to generate preneed sales, including implementing our cemetery portfolio sales strategy;
- our ability to implement our technology innovation strategy;
- the investment performance of our funeral and cemetery trust funds;
- fluctuations in interest rates;
- our ability to obtain debt or equity financing on satisfactory terms to fund additional acquisitions, expansion projects, working capital requirements and the repayment or refinancing of indebtedness;
- our ability to meet the timing, objectives and expectations related to our capital allocation framework, including our forecasted rates of return, planned uses of free cash flow and future capital allocation, including share repurchases, internal growth projects, potential strategic acquisitions, dividend increases, or debt repayment plans;
- the timely and full payment of death benefits related to preneed funeral contracts funded through life insurance contracts;
- the timely and full payment of death benefits related to preneed funeral contracts funded through life insurance contracts;
- the financial condition of third-party insurance companies that fund our preneed funeral contracts;
- increased or unanticipated costs, such as insurance or taxes;
- our level of indebtedness and the cash required to service our indebtedness;
- changes in federal income tax laws and regulations and the implementation and interpretation of these laws and regulations by the Internal Revenue Service;
- effects of the application of other applicable laws and regulations, including changes in such regulations or the interpretation thereof;
- the potential impact of epidemics and pandemics, including the COVID-19 coronavirus, including new variants of COVID-19, such as the Delta and Omicron variants, on customer preferences and on our business;
- government, social, business and other actions that have been and will be taken in response to pandemics, including potential responses to new variants of COVID-19, such as the Delta and Omicron variants;
- effects and expense of litigation;
- consolidation of the funeral and cemetery industry;

- our ability to consummate the divestiture of low performing businesses as currently expected, if at all, including expected use of proceeds related thereto;
- our ability to integrate acquired businesses with our existing businesses, including expected performance and financial improvements related thereto;
- economic, financial and stock market fluctuations;
- interruptions or security lapses of our information technology, including any cybersecurity or ransomware incidents;
- our failure to maintain effective control over financial reporting; and
- other factors and uncertainties inherent in the funeral and cemetery industry.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see Part I, Item 1A, Risk Factors.

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

PART I

ITEM 1. BUSINESS.

GENERAL

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

At December 31, 2021, we operated 170 funeral homes in 26 states and 31 cemeteries in 11 states. We compete with other publicly held and independent operators of funeral and cemetery companies. We believe we are a market leader in most of our markets.

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

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

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

CURRENT YEAR DEVELOPMENTS

Executive Team

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

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

Share Repurchase Program

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

Dividends

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

Senior Notes and Credit Facility

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

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

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

Divestitures

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

Litigation

Chinchilla v. Carriage Services, Inc., et al., Superior Court of California, San Joaquin County, Case No. STK-CV-UOE-2021-0004661. On May 19, 2021, a putative class action against the Company and several of our subsidiaries was filed. Plaintiff, a former employee, seeks monetary damages on behalf of himself and other similarly situated current and former non-exempt employees. Plaintiff claims that the Company failed to, among other things, pay minimum wages, provide meal and rest breaks, pay overtime, provide accurately itemized wage statements, reimburse employees for business expenses, and provide wages when due. On January 5, 2022, the parties mediated the matter and executed a Memorandum of Understanding for class settlement in the amount of $1.0 million. The parties will seek preliminary approval of the class settlement after executing a long-form class settlement agreement. At December 31, 2021, we accrued $1.1 million for the expected settlement amount and associated legal fees.

Business Impact under the Macroeconomic Environment of COVID-19

On March 11, 2020, COVID-19 was deemed a global pandemic and since then, the Company has continued to proactively monitor and assess the pandemic's current and potential impact to the Company's operations. Throughout the pandemic, the Company's senior leadership team has taken steps to assist our businesses in appropriately adjusting and adapting to the conditions resulting from the COVID-19 pandemic.

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

The overall impact of the macroeconomic environment to the deathcare industry from the pandemic may provide varying results as compared to other industries. Our industry's revenues are impacted by various factors, including the number of funeral services performed, the average price for a service and the mix of traditional burial versus cremation contracts. During 2021, changes in the macroeconomic environment as a result of the pandemic have, to this point, led to an increase in funeral volumes and the services we provide. Our businesses have remained focused on being innovative and resourceful, providing families immediate service as part of the grieving process.

Within our financial reporting environment, we have considered various areas that could affect the results of our operations, though the scope, severity and duration of these impacts remain uncertain at this time because the ultimate impact of COVID-19 remains uncertain, including the potential impacts of new variants of COVID-19, such as the Delta and Omicron variants, and any resulting government responses to such variants. We do not believe we are particularly vulnerable to concentrations, with respect to geographic area, revenue for specific products or our relationships with our vendors. Our relationships with our vendors and suppliers have remained consistent and we continue to receive reliable service. To date, we have not experienced any material supply chain impacts or disruptions from our vendors. Remote working arrangements, when utilized, have not materially affected our ability to maintain and support operations, including financial reporting systems, internal controls over financial reporting, and disclosure controls and procedures.

We believe our access to capital, the cost of our capital, or the sources and uses of our cash should be relatively consistent in the near term. While the expected duration of the pandemic is unknown, we have not currently experienced any material negative impacts to our liquidity position, access to capital, or cash flows as a result of COVID-19. See Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources for additional information related to our liquidity position.

During the latter half of 2021, we experienced a high growth rate in funeral home revenue due to elevated funeral volumes from broad market share gains and higher COVID-19 related deaths combined with incremental growth in the average revenue per funeral contract. We will continue to assess these impacts, including the potential impacts of new variants of COVID-19, such as the Delta and Omicron variants, and implement appropriate procedures, plans, strategy, and issue any disclosures that may be required, as the situation surrounding the pandemic and related regulatory mandates and restrictions, if any, evolves.

OUR OPERATIONS

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

Funeral Home and Cemetery Operations

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

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

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

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

- size and success of our sales organization;
- local perceptions and heritage of our cemeteries;
- our ability to adapt to changes in the economy and consumer confidence; and
- our response to fluctuations in capital markets and interest rates, which affect investment earnings on trust funds, finance charges on installment contracts and our securities portfolio within the trust funds.

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

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

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

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

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

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

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

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

Preneed Programs

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

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

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

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

Approximately 50% of our cemetery operating revenue is derived from preneed property sales. Our preneed cemetery strategy is to build family heritage in our cemeteries by selling property and interment rights prior to death through full time, highly motivated and entrepreneurial local sales teams. Our goal is to build broader and deeper teams of sales leaders and counselors in our larger and more strategically located cemeteries, including the development of standardized sales systems across our portfolio of cemeteries, in order to focus on growth of our preneed property sales. For example, during 2021, we continued to grow our cemetery sales and marketing team to develop and implement our standardized sales system. Cemetery merchandise and services are often purchased in addition to cemetery property at the time of sale. The performance of these preneed cemetery contracts is secured by placing the funds collected in trust for the benefit of the customer, the proceeds of which will pay for such services at the time of need. General consumer confidence and discretionary income may have a significant impact on our preneed sales success rate. Cemetery revenue that originated from preneed contracts represented approximately 67% of our total cemetery revenue for both 2020 and 2021. At December 31, 2021, we had a backlog of 65,694 preneed cemetery contracts to be delivered in the future.

Trust Funds and Insurance Contracts

We have established a variety of trusts in connection with funeral home and cemetery operations as required under applicable state laws. Such trusts include (i) preneed funeral trusts; (ii) preneed cemetery merchandise and service trusts; and (iii) cemetery perpetual care trusts. These trusts are typically administered by independent financial institutions that we select. Investment management and advisory services are provided either by our wholly-owned registered investment advisory firm ("CSV RIA") or by independent financial advisors. As of December 31, 2021, CSV RIA provided these services to approximately 80% of our trust assets, for a fee based on the market value of trust assets. Under state trust laws, we are allowed to charge the trust a fee for advising on the investment of the trust assets and these fees are recognized as income in the period in which services are provided. The investment advisors establish an investment policy that provides guidance on asset allocation, investment requirements, investment manager selection and performance monitoring. The investment objectives are tailored to generate long-term investment returns without assuming undue risk, while ensuring the management of assets complies with applicable laws.

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

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

BUSINESS STRATEGY

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

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

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

Our five **Guiding Principles** collectively embody our **Being The Best** high-performance culture and operating framework.

Our operations and business strategy are built upon the execution of the following three models:

- Standards Operating Model;

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

Standards Operating Model

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

Important elements of our Standards Operating Model include:

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

4E Leadership Model

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

Strategic Acquisition Model

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

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

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

COMPETITION

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

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

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

SEASONALITY

Our business can be affected by seasonal fluctuations in the death rate and may be further affected by epidemics and pandemics, like COVID-19. Generally, the number of deaths is higher during the winter months because the incidences of death from influenza and pneumonia are higher during this period than other periods of the year. However, we have experienced fluctuations in the death rate due to COVID-19, although the duration of these impacts on the death rate remain uncertain at this time because the ultimate impact of COVID-19 remains uncertain.

REGULATION

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

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

State Trust Laws. We have established a variety of trusts in connection with funeral home and cemetery operations as required under applicable state laws. Such trusts include (i) preneed funeral trusts; (ii) preneed cemetery merchandise and service trusts; and (iii) cemetery perpetual care trusts. These trusts are typically administered by independent financial institutions which we select. Under state trust laws, our wholly owned registered investment advisor is allowed to charge the trust a fee for advising on the investment of the trust assets and these fees are recognized as income in the period in which services are provided. Preneed funeral sales generally require deposits to a trust or purchase of a third-party insurance product. In most states, we are not permitted to withdraw principal or investment income from such trusts until the funeral service is performed. Some states, however, allow for the retention of a percentage (generally 10%) of the receipts to offset any administrative and selling expenses. Additionally, we are generally required under applicable state laws to deposit a specified amount (which varies from state to state, generally 50% to 100% of the selling price) into a merchandise and service trust fund for preneed cemetery merchandise and services sales.

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

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

HUMAN CAPITAL

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

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

AVAILABLE INFORMATION

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

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

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

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

ITEM 1A. RISK FACTORS

RISKS RELATED TO OUR BUSINESS

Key Employees and Compensation

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

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

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

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

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

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

Strategic Business Execution and Performance

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

We have implemented our Standards Operating Model to improve and better measure performance in our funeral and cemetery operations. We developed standards according to criteria, each with a different weighting, designed around market share, high-value services and operational and financial metrics. We also incentivize our location Managing Partners by giving them the opportunity to earn a fixed percentage of the field-level earnings before interest, taxes, depreciation and amortization based upon the number and weighting of the standards achieved. Our expectation is that, over time, the Standards Operating Model will result in improving field-level margins, market share, customer satisfaction and overall financial performance, but there is no assurance that these goals will be met. Failure to successfully implement our Standards Operating Model in our funeral and cemetery operations could have a material adverse effect on our financial condition, results of operations and cash flows.

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

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

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

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

Competitive Marketplace

The funeral and cemetery industry is competitive.

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

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

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

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

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

Change in Preneed Sales

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

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

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

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

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

Trust Fund and Life Insurance Contracts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tax Changes

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

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

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

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

Litigation and Claims

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

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

RISKS RELATED TO THE FUNERAL AND CEMETERY INDUSTRY

Changes in Death Rates and Consumer Preferences

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

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

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

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

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

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

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

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

Regulatory Changes

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

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

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

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

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

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

RISKS RELATED TO OUR CREDIT FACILITY AND FINANCIAL ACTIVITIES

Credit Facility and Debt Obligations

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

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

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

Pursuant to the terms of our Credit Facility, we must comply with, amongst other things, a maximum Total Leverage Ratio covenant that is measured quarterly. If we are unable to comply with the maximum Total Leverage Ratio, we will be in immediate default under the Credit Facility. For example, although we have not currently experienced any material negative impacts to our liquidity position, access to capital, or cash flows as a result of COVID-19, the expected duration of the pandemic is unknown and may have a future impact on our business that could result in our inability to comply with this Total Leverage Ratio covenant and other covenants in our Credit Facility. There can be no assurance that the lenders will agree to amend the Credit Facility in the future to adjust or eliminate this covenant or whether the lenders may agree to waive any non-compliance with this financial covenant or any other covenant in the future.

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

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

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

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

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

Our ability to make payments on and to refinance our indebtedness will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We may not generate sufficient funds to service our debt and meet our business needs, such as funding working capital or the expansion of our operations. If we are not able to repay or refinance our debt as it becomes due, we may be forced to take certain actions, including reducing spending on day-to-day operations, reducing future financing for working capital, capital expenditures and general corporate purposes, selling assets or dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on our indebtedness. In addition, our ability to withstand competitive pressures and to react to changes in our industry could be impaired. The lenders who hold our debt could also accelerate amounts due in the event that we default, which could potentially trigger a default or acceleration of the maturity of our other debt, including the notes.

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

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

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

GENERAL RISKS

Economic Conditions and Natural Disasters

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

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

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

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

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

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

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

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

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

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

Information Technology and Internal Controls

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

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

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

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

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

MARKET INFORMATION

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

RECENT SALES OF UNREGISTERED SECURITIES

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

DIVIDENDS

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

EQUITY PLANS

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

PURCHASES OF EQUITY SECURITIES BY THE ISSUER

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

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

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

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

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

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

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Dollar Value of Shares That May Yet Be Purchased Under the Program (1)
October 1, 2021 - October 31, 2021	—	$ —	—	$ 85,061,552
November 1, 2021 - November 30, 2021	—	$ —	531,417	$ 57,594,459
December 1, 2021 - December 31, 2021	—	$ —	847,369	$ 8,132,056
Total for quarter ended December 31, 2021	—		1,378,786	

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

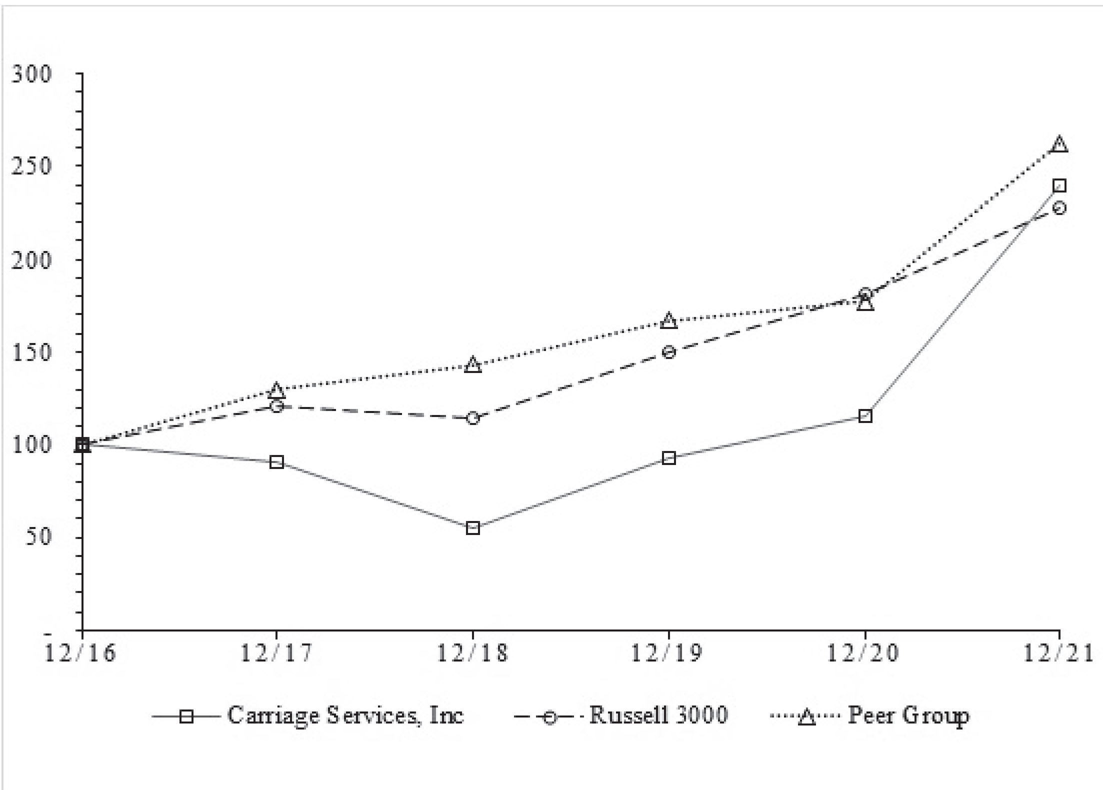
PERFORMANCE

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

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

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN(1)

Among Carriage, the Russell 3000 Index and the Peer Group



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

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

ITEM 6. [RESERVED]

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

OVERVIEW

Recent Trends

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

General

We operate in two business segments: funeral home operations, which accounts for approximately 70% of our revenue, and cemetery operations, which accounts for approximately 30% of our revenue. Our funeral homes offer a complete range of high value personal services to meet a family's funeral needs, including consultation, the removal and preparation of remains, the sale of caskets and related funeral merchandise, the use of funeral home facilities for visitation and remembrance services and transportation services. Our cemeteries provide interment rights (grave sites and mausoleum spaces) and related merchandise, such as markers and outer burial containers. We provide funeral and cemetery services and products on both an "atneed" (time of death) and "preneed" (planned prior to death) basis.

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

Funeral Home Operations

Factors affecting our funeral operating results include: demographic trends relating to population growth and average age, which impact death rates and number of deaths; establishing and maintaining leading market share positions supported by strong local heritage and relationships; effectively responding to increasing cremation trends by selling complementary services and merchandise; controlling salary and merchandise costs; and exercising pricing leverage related to our atneed business to increase average revenue per contract. In simple terms, volume and price are the two variables that affect funeral revenue. The average revenue per contract is influenced by the mix of traditional and cremation services because our average cremation service revenue is approximately one-third of the average revenue earned from a traditional burial service. Funeral homes have a relatively fixed cost structure.

Cemetery Operations

Factors affecting our cemetery operating results include: the size and success of our sales organization; local perceptions and heritage of our cemeteries; our ability to adapt to changes in the economy and consumer confidence; and our response to fluctuations in capital markets and interest rates, which affect investment earnings on trust funds, finance charges on installment contracts and our securities portfolio within the trust funds.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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

For 2022, our plan is to remain focused on integrating our recently acquired businesses and to use cash on hand and borrowings under our Credit Facility primarily for general corporate purposes, payment of dividends and debt obligations, strategic acquisitions, internal growth capital expenditures, share repurchases, dividend increases and further debt repayments. We also expect continued divestiture activity for the next three-six months, which could yield an aggregate of approximately $3-4 million of cash from the proceeds of the sale. From time to time we may also use available cash resources (including borrowings under our Credit Facility) to repurchase shares of our common stock, subject to satisfying certain financial covenants in our Credit Facility and in the Indenture governing our Senior Notes. We believe that our existing and anticipated cash resources will be sufficient to meet our anticipated working capital requirements, capital expenditures, scheduled debt payments, commitments and dividends for the next 12 months as well as our long-term financial obligations.

Cash Flows

We began 2021 with $0.9 million in cash and ended the year with $1.1 million in cash. At December 31, 2021, we had borrowings of $155.4 million outstanding on our Credit Facility compared to $47.2 million on our Former Credit Facility as of December 31, 2020 and $83.8 million as of December 31, 2019.

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

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

Operating Activities

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

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

Investing Activities

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

Acquisition and Divestiture Activity

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

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

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

Capital Expenditures

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

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

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

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

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

Financing Activities

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

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

Senior Notes and Credit Facility; iv) $4.0 million for the conversions and maturity of our Convertible Notes; and v) $7.3 million in dividends.

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

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

Dividends

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

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

2021	Per Share	Dollar Value
March 1st	$ 0.1000	$ 1,799
June 1st	$ 0.1000	$ 1,808
September 1st	$ 0.1000	$ 1,783
December 1st	$ 0.1125	$ 1,873

2020	Per Share	Dollar Value
March 1st	$ 0.0750	$ 1,339
June 1st	$ 0.0750	$ 1,343
September 1st	$ 0.0875	$ 1,569
December 1st	$ 0.1000	$ 1,797

2019	Per Share	Dollar Value
March 1st	$ 0.0750	$ 1,360
June 1st	$ 0.0750	$ 1,365
September 1st	$ 0.0750	$ 1,336
December 1st	$ 0.0750	$ 1,337

Share Repurchases

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

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

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

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

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

Credit Facility, Lease Obligations and Acquisition Debt

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

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

Credit Facility

At December 31, 2020, our senior secured revolving credit facility (the "Former Credit Facility") was comprised of: (i) a $190.0 million revolving credit facility, including a $15.0 million subfacility for letters of credit and a $10.0 million swingline, and (ii) an accordion or incremental option allowing for future increases in the facility size by an additional amount of up to $75.0 million in the form of increased revolving commitments or incremental term loans. The final maturity of the Former Credit Facility was to occur on May 31, 2023.

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

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

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

Our obligations under the Credit Facility are unconditionally guaranteed on a joint and several basis by the same subsidiaries which guarantee the Senior Notes and certain of our subsequently acquired or organized domestic subsidiaries (collectively, the "Subsidiary Guarantors"). The Credit Facility allows for future increases in the facility size in the form of increased revolving commitments or new incremental term loans by an additional amount of up to $75.0 million in the aggregate. The final maturity of the Credit Facility will occur on May 13, 2026.

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

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

In addition, the Credit Facility also contains customary negative covenants, including, but not limited to, covenants that restrict (subject to certain exceptions) the ability of the Company and the Subsidiary Guarantors to incur indebtedness, grant liens, make investments, engage in mergers and acquisitions, and pay dividends and other restricted payments, and certain financial maintenance covenants. At December 31, 2021, we were subject to the following financial covenants under our Credit Facility: (A) a Total Leverage Ratio not to exceed, (i) 5.00 to 1.00 and (B) a Fixed Charge Coverage Ratio (as defined in the Credit Facility) of not less than 1.20 to 1.00 as of the end of any period of four consecutive fiscal quarters. These financial maintenance covenants are calculated for the Company and its subsidiaries on a consolidated basis.

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

At December 31, 2021, we had outstanding borrowings under the Credit Facility of $155.4 million. We also had one letter of credit for $2.1 million under the Credit Facility, which was increased to $2.3 million on September 1, 2021. The letter of credit will expire on November 25, 2022 and is expected to automatically renew annually and secures our obligations under our various self-insured policies. At December 31, 2021, we had $42.3 million of availability under the Credit Facility.

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

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

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

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

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

Lease Obligations

Our lease obligations consist of operating and finance leases. We lease certain office facilities, certain funeral homes and equipment under operating leases with original terms ranging from one to twenty years. Many leases include one or more options to renew, some of which include options to extend the leases for up to forty years. We lease certain funeral homes under finance leases with original terms ranging from ten to forty years.

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

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

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

Acquisition Debt

Acquisition debt consists of deferred purchase price and promissory notes payable to sellers. A majority of the deferred purchase price and notes bear no interest and are discounted at imputed interest rates ranging from 7.3% to 10.0%. Original maturities typically range from five to twenty years. Acquisition debt obligations were $4.5 million, with $0.5 million payable within 12 months.

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

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

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

Convertible Subordinated Notes due 2021

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

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

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

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

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

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

Senior Notes

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

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

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

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

The Senior Notes bear interest at 4.25% per year. Interest on the Senior Notes is payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2021. The Senior Notes mature on May 15, 2029, unless earlier redeemed or purchased. The Senior Notes are unsecured, senior obligations and are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally by each of the Subsidiary Guarantors.

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

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

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

The debt discount and the debt issuance costs are being amortized using the effective interest method over the remaining term of 89 months of the Senior Notes. The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Senior Notes for the year ended December 31, 2021 was 4.42% and 4.30%, respectively.

The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Original Senior Notes, issued in May 2018, for the year ended December 31, 2020 was 6.69%. The effective interest rate on the unamortized debt premium and the unamortized debt issuance costs for the additional Original Senior Notes, issued in December 2019, for year ended December 31, 2020 was 6.88%.

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

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

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

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

Off-Balance Sheet Arrangements

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

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

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

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

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

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

FINANCIAL HIGHLIGHTS

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

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

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

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

Revenue in 2020 increased $55.3 million compared to 2019, as we experienced a 21.2% increase in total funeral contracts primarily due to the funeral home acquisitions made in the fourth quarter of 2019 and first quarter of 2020, as well as increases from broad market share gains and increases in the number of deaths related to the COVID-19 pandemic. Volume growth was offset by a decrease in the average revenue per funeral contract of 6.4% primarily due to the decrease in services performed as restrictions mandated by state and local governments were placed on social gatherings. In addition, we experienced an increase of 31.9% in the number of preneed interment rights (property) sold primarily due to the cemetery acquisitions made in the fourth quarter of 2019 and first quarter of 2020, as well as an increase of 10.4% in the average price per interment right sold. Further discussion of Revenue for our funeral home and cemetery segments is presented herein under "Results of Operations."

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

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

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

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

Further discussion of General, administrative and other expenses, Home office depreciation and amortization expense, Net loss on divestitures, disposals and impairment charges, Interest expense, Income taxes and other components of income and expenses are presented herein under "Other Financial Statement Items."

REPORTING AND NON-GAAP FINANCIAL MEASURES

We also present our financial performance in our "Operating and Financial Trend Report" ("Trend Report") as reported in our earnings release for the year ending December 31, 2021, dated February 23, 2022 and discussed in the corresponding earnings conference call. This Trend Report is used as a supplemental financial statement by management and investors to compare our current financial performance with our previous results and with the performance of other companies. We do not intend for this information to be considered in isolation or as a substitute for other measures of performance prepared in accordance with United States generally accepted accounting principles ("GAAP"). The Trend Report is a non-GAAP statement that also provides insight into underlying trends in our business.

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

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

(1) Special items are defined as charges or credits included in our GAAP financial statements that can vary from period to period and are not reflective of costs incurred in the ordinary course of our operations. In 2019 and 2020, Special items are taxed at the federal statutory rate of 21.0%, except the Net (gain) loss on divestitures and other costs and the Net impact of impairment of goodwill and other intangibles, which are taxed at the operating tax rate for the period. In 2021, Special items are taxed at the operating tax rate for the period. The Accretion of discount on Convertible Notes, the Tax expense related to divested business and the Tax adjustment related to certain discrete items are not tax effected.

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

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

(4) Costs related to litigation matters.

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

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

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

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

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

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

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

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

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

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

Results of Operations

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

The term "same store" refers to funeral homes and cemeteries acquired prior to January 1, 2017 and owned and operated for the entirety of each period being presented, excluding certain funeral home and cemetery businesses that we intend to divest in the near future.

The term "acquired" refers to funeral homes and cemeteries purchased after December 31, 2016, excluding any funeral home and cemetery businesses that we intend to divest in the near future. This classification of acquisitions has been important to management and investors in monitoring the results of these businesses and to gauge the leveraging performance contribution that a selective acquisition program can have on total company performance.

The term "divested" when discussed in the Funeral Home Segment, refers to two funeral homes we sold and six funeral homes we merged with other businesses we own in existing markets during the year ended December 31, 2021 and eight funeral homes we sold during the year ended December 31, 2020. The term "divested" when discussed in the Cemetery Segment, refers to one cemetery we sold during the year ended December 31, 2021.

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

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

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

Funeral Home Segment

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

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

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

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

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

Funeral home same store operating profit for the year ended December 31, 2021 increased $13.2 million when compared to the year ended December 31, 2020. The comparable operating profit margin increased 170 basis points to 43.3%. The increase in operating profit is primarily due to the increase in same store operating revenue along with disciplined expense and cost management by leaders at each business. Overall same store operating expenses as a percent of operating revenue decreased 1.7% with the largest decrease in salaries and benefits expense of 1.2% as a percent of operating revenue, as we focused on optimizing the inherent operating leverage in each business by increasing revenue without adding extra personnel.

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

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

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

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

Cemetery Segment

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

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

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

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

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

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

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

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

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

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

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

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

Other Financial Statement Items

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

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

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

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

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

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

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

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

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

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

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

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

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

The majority of the NOLs generated in tax years 2018 and 2019 are the result of filing non-automatic accounting method changes relating to the recognition of revenue from our cemetery property and merchandise and services sales. Our unrecognized tax benefit reserve for the years ended December 31, 2020 and 2021 was $3.7 million and $3.8 million, respectively.

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

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Goodwill

Our quantitative goodwill impairment test involves estimates and management judgment. In the quantitative analysis, we compare the fair value of each reporting unit to its carrying value, including goodwill. We determine fair value for each reporting unit using both an income approach, weighted 90%, and a market approach, weighted 10%. Our methodology for determining an income-based fair value is based on discounting projected future cash flows. The discounted cash flow valuation uses projections of future cash flows and includes assumptions concerning future operating performance and economic conditions that may differ from actual future cash flows. Our methodology for determining a market approach fair value utilizes the guideline public company method, in which we rely on market multiples of comparable companies operating in the same industry as the individual reporting units. In accordance with the guidance, if the fair value of the reporting unit is less than its carrying amount an impairment charge is recorded in an amount equal to the difference.

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

Business Combinations

Determining the fair value of identifiable assets, particularly intangibles and liabilities acquired also requires management to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. To the extent that information not available to us at the closing date subsequently becomes available during the allocation period, we may adjust goodwill, intangible assets, assets or liabilities associated with the acquisition.

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

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

RECENT ACCOUNTING PRONOUNCEMENTS, ACCOUNTING CHANGES AND OTHER REGULATIONS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

The following quantitative and qualitative information is provided about financial instruments to which we are a party at December 31, 2021 and from which we may incur future gains or losses from changes in market conditions. We do not enter into derivative or other financial instruments for speculative or trading purposes.

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

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

In connection with our preneed funeral operations and preneed cemetery merchandise and service sales, the related funeral and cemetery trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices. Cost and market values of such investments at December 31, 2021 are presented in Part II, Item 8, Financial Statements and Supplementary Data, Note 7. The sensitivity of the fixed income securities is such that a 0.25% change in interest rates causes an approximate 1.26% change in the value of the fixed income securities.

We monitor current and forecasted interest rate risk in the ordinary course of business and seek to maintain optimal financial flexibility, quality and solvency. As of December 31, 2021, we had outstanding borrowings under the Credit Facility of $155.4 million. Any further borrowings or voluntary prepayments against the Credit Facility or any change in the floating rate would cause a change in interest expense. We have the option to pay interest under our Credit Facility at either the prime rate or the LIBOR rate plus a margin. At December 31, 2021, the prime rate margin was equivalent to 0.75% and the LIBOR rate margin was 1.75%. Assuming the outstanding balance remains unchanged, a change of 100 basis points in our borrowing rate would result in a change in income before taxes of $1.6 million. We have not entered into interest rate hedging arrangements in the past. Management continually evaluates the cost and potential benefits of interest rate hedging arrangements.

Our Senior Notes bear interest at the fixed annual rate of 4.25%. We may redeem the Senior Notes, in whole or in part, at the redemption price of 102.13% on or after May 15, 2024, 101.06% on or after May 15, 2025 and 100% on or after May 15, 2026, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. At any time before May 15, 2024, we may also redeem all or part of the Senior Notes at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to (but excluding) the date of redemption. At December 31, 2021, the carrying value of the Senior Notes on our Consolidated Balance Sheet was $394.6 million and the fair value of the Senior Notes was $401.6 million based on the last traded or broker quoted price as reported by FINRA. Increases in market interest rates may cause the value of the Senior Notes to decrease, but such changes will not affect our interest costs.

The remainder of our long-term debt and leases consist of non-interest bearing notes and fixed rate instruments that do not trade in a market and do not have a quoted market value. Any increase in market interest rates causes the fair value of those liabilities to decrease, but such changes will not affect our interest costs.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

CARRIAGE SERVICES, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Carriage Services, Inc.

Opinion on the financial statements

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

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

Basis for opinion

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

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

Critical audit matters

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

/s/ GRANT THORNTON LLP

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

Dallas, Texas
March 2, 2022

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Carriage Services, Inc.

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

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

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

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

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

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

/s/ GRANT THORNTON LLP

Dallas, Texas
March 2, 2022

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

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

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

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

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

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

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

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

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

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

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

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Carriage Services, Inc. ("Carriage," the "Company," "we," "us," or "our") is a leading provider of funeral and cemetery services and merchandise in the United States. Our operations are reported in two business segments: Funeral Home Operations, which currently account for approximately 70% of our revenue and Cemetery Operations, which currently account for approximately 30% of our revenue. At December 31, 2021, we operated 170 funeral homes in 26 states and 31 cemeteries in 11 states.

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

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

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

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

Cash and Cash Equivalents

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

Funeral and Cemetery Receivables

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

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

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

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

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

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

Inventory

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

Business Combinations

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

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

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

See Note 3 to the Consolidated Financial Statements herein for further information related to acquisitions.

Divested Operations

Prior to divesting a funeral home or cemetery, we first determine whether the sale of the net assets and activities (together referred to as a "set") qualifies as a business. First, we perform a screen test to determine if the set is not a business. The principle of the screen is that if substantially all of the fair value of the gross assets sold resides in a single asset or group of similar assets, the set is not a business. If the screen is not met, we perform an assessment to determine if the set is a business by evaluating whether the set has both inputs and a substantive process that together significantly contribute to the ability to create outputs. When both inputs and a substantive process are present then the set is determined to be a business and we apply the guidance in Accounting Standards Codification ("ASC") Topic 350 – Intangibles – Goodwill and Other to determine the accounting treatment of goodwill for that set (see discussion of Goodwill below). Goodwill is only allocated to the sale if the set is considered to be a business.

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

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

Goodwill

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

Our intent is to perform a quantitative impairment test at least once every three years and perform a qualitative assessment during the remaining two years. In addition to our annual test, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value of a reporting unit may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant negative industry or economic trends and significant adverse changes in the business climate, which may be indicated by a decline in our market capitalization or decline in operating results.

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

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

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

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

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

When we divest a portion of a reporting unit that constitutes a business in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), we allocate goodwill associated with that business to be included in the gain or loss on divestiture. The goodwill allocated is based on the relative fair value of the business being divested and the portion of the reporting unit that will be retained. Additionally, after each divestiture, we will test the goodwill remaining in the portion of the reporting unit to be retained for impairment using a qualitative assessment unless we deem a quantitative assessment to be appropriate to ensure the fair value of our reporting units is greater than their carrying value. For the years ended December 31, 2020 and 2021, after each divestiture, we concluded that it was more-likely-than not that the fair value of our reporting units was greater than their carrying value and thus there was no impairment to goodwill.

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

Intangible Assets

Our intangible assets include tradenames resulting from acquisitions and are included in *Intangible and other non-current assets, net* on our Consolidated Balance Sheet. Our tradenames are considered to have an indefinite life and are not subject to amortization. As such, we test our intangible assets for impairment on an annual basis as of August 31st each year. Under current guidance, we are permitted to first assess qualitative factors to determine whether it is more-likely-than not that the fair value of the tradename is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test.

Our intent is to perform a quantitative impairment test at least once every three years and perform a qualitative assessment during the remaining two years. In addition to our annual test, we assess the impairment of intangible assets whenever certain events or changes in circumstances indicate that the carrying value of the intangible asset may be greater than the fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant under-performance relative to historical or projected future operating results and significant negative industry or economic trends.

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

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

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

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

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

See Note 11 to the Consolidated Financial Statements included herein for additional information related to our intangible assets.

Preneed and Perpetual Care Trust Funds

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

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

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

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

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

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

An enterprise is required to perform an analysis to determine whether the enterprise's variable interest(s) give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Our analysis continues to support our position as the primary beneficiary in the majority of our funeral and cemetery trust funds.

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

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

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

Fair Value Measurements

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

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

In the ordinary course of business, we are typically exposed to a variety of market risks. Currently, these are primarily related to changes in fair market values related to outstanding debts and changes in the values of securities associated with the preneed and perpetual care trusts. Management is actively involved in monitoring exposure to market risk and developing and utilizing risk management techniques when appropriate and when available for a reasonable price.

See Notes 7 and 10 to the Consolidated Financial Statements herein for additional required disclosures related to our fair value measurement of our financial assets and liabilities.

Capitalized Commissions on Preneed Contracts

We capitalize sales commissions and other direct selling costs related to preneed cemetery merchandise and services and preneed funeral trust contracts as these costs are incremental and recoverable costs of obtaining a contract with a customer. Our capitalized commissions on preneed contracts are amortized on a straight-line basis over the average maturity period of ten years for our preneed funeral trust contracts and eight years for our preneed cemetery merchandise and services contracts. Amortization expense totaled $0.6 million for each of the years ended December 31, 2019, 2020 and 2021.

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

See Note 11 to the Consolidated Financial Statements herein for additional information related to our capitalized commissions on preneed contracts.

Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cemetery Property

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

Cemetery property was $101.1 million and $100.7 million, net of accumulated amortization of $46.6 million and $53.1 million at December 31, 2020 and 2021, respectively. When cemetery property is sold, the value of the cemetery property (interment right costs) is expensed as amortization using the specific identification method in the period in which the sale of the interment right is recognized as revenue. Our growth capital expenditures totaled $4.7 million and $5.9 million for the years ended December 31, 2020 and 2021, respectively, for cemetery property development. We recorded amortization expense for cemetery interment rights of $4.0 million, $5.0 million and $6.7 million for the years ended December 31, 2019, 2020 and 2021, respectively.

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

Leases

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

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

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

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

See Note 15 to the Consolidated Financial Statements included herein for additional information related to our leases.

Equity Plans and Stock-Based Compensation

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

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

We recognize all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) as income tax benefit or expense in the income statement. We treat the tax effects of exercised or vested awards as discrete items in the reporting period in which they occur. For the years ended December 31, 2019 and 2020 the excess tax deficiency related to share-based payments was $0.4 million and $0.1 million, respectively. For the year ended December 31, 2021, the excess tax benefit was $1.2 million. The excess tax benefit and tax deficiencies are recorded within *Tax adjustment related to discrete items* on our Consolidated Statements of Operations. Excess tax benefits and deficiencies related to share-based payments are included in operating cash flows on the Consolidated Statements of Cash Flows.

See Note 18 to the Consolidated Financial Statements included herein for additional information related to our equity plans and stock-based compensation.

Revenue Recognition

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

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

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

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

The earnings from our preneed trust investments, as well as trust management fees charged by our wholly-owned registered investment advisory firm ("CSV RIA") are recorded in *Other revenue*. As of December 31, 2021, CSV RIA provided investment management and advisory services to approximately 80% of our trust assets, for a fee based on the market value of trust assets. Under state trust laws, we are allowed to charge the trust a fee for advising on the investment of the trust assets and these fees are recognized as income in the period in which services are provided.

Balances due on undelivered preneed funeral trust contracts have been reclassified to reduce *Deferred preneed funeral revenue* on our Consolidated Balance Sheet of $8.2 million and $8.0 million at December 31, 2020 and 2021, respectively. As these performance obligations are to be completed after the date of death, we cannot quantify the recognition of revenue in future periods. However, we estimate an average maturity period of ten years for preneed funeral contracts.

Balances due from customers on delivered preneed cemetery contracts are included in *Accounts receivable, net* and *Preneed cemetery receivables, net* on our Consolidated Balance Sheet. Balances due on undelivered preneed cemetery contracts have been reclassified to reduce *Deferred preneed cemetery revenue* on our Consolidated Balance Sheet. The transaction price allocated to preneed merchandise and service performance obligations that were unfulfilled were $7.9 million and $10.4 million at December 31, 2020 and 2021, respectively. As these performance obligations are to be completed after the date of death, we cannot quantify the recognition of revenue in future periods. However, we estimate an average maturity period of eight years for preneed cemetery contracts.

See Notes 21 to the Consolidated Financial Statements herein for additional information related to revenue.

Income Taxes

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

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

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

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

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

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

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

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

Computation of Earnings Per Common Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options, performance awards and our Convertible Notes (as defined in Note 13).

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

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

See Note 20 to the Consolidated Financial Statements included herein related to the computation of earnings per share.

Subsequent Events

We have evaluated events and transactions during the period subsequent to December 31, 2021 through the date the financial statements were issued for potential recognition or disclosure in the accompanying financial statements covered by this report.

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

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020, the FASB issued ASU, *Reference Rate Reform* (“Topic 848”) to provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference London InterBank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. We did not utilize the optional expedients and exceptions provided by this ASU during the year ended December 31, 2021.

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

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

3. ACQUISITIONS

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

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

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

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

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

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

4. GOODWILL

Many of the former owners and staff of our acquired funeral homes and certain cemeteries have provided high quality service to families for generations, which often represents a substantial portion of the value of a business. The excess of the purchase price over the fair value of identifiable net assets of funeral home businesses and cemeteries acquired is recorded as goodwill.

Our goodwill has an indefinite life and is not subject to amortization. As such, we test goodwill for impairment on an annual basis as of August 31st each year. In addition to our annual test, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value of a reporting unit may be greater than fair value. Factors that could trigger an interim impairment review include, but are not limited to, significant negative industry or economic trends and significant adverse changes in the business climate, which may be indicated by a decline in our market capitalization or decline in operating results.

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

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

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

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

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

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

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

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

5. DIVESTED OPERATIONS

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

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

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

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

6. RECEIVABLES

Accounts Receivable

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

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

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

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

The following table summarizes the activity in our allowance for credit losses by portfolio segment for the year ended December 31, 2021 (in thousands):

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

Preneed Cemetery Receivables

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

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

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

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

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

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

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

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

The aging of past due preneed cemetery receivables as of December 31, 2021 is as follows (in thousands):

	31-60 Past Due	61-90 Past Due	91-120 Past Due	>120 Past Due	Total Past Due	Current	Total Financing Receivables
Recognized revenue	$ 777	$ 738	$ 210	$ 1,919	$ 3,644	$ 34,214	$ 37,858
Deferred revenue	271	159	57	467	954	14,043	14,997
Total contracts	$ 1,048	$ 897	$ 267	$ 2,386	$ 4,598	$ 48,257	$ 52,855

The aging of past due preneed cemetery receivables as of December 31, 2020 is as follows (in thousands):

	31-60 Past Due	61-90 Past Due	91-120 Past Due	>120 Past Due	Total Past Due	Current	Total Financing Receivables
Recognized revenue	$ 759	$ 348	$ 174	$ 1,763	$ 3,044	$ 32,219	$ 35,263
Deferred revenue	220	130	42	557	949	11,010	11,959
Total contracts	$ 979	$ 478	$ 216	$ 2,320	$ 3,993	$ 43,229	$ 47,222

7. TRUST INVESTMENTS

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

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

Where quoted prices are available in an active market, investments held by the trusts are classified as Level 1 investments pursuant to the three-level valuation hierarchy. Our Level 1 investments include cash, U.S. treasury debt, common stock and equity mutual funds. Where quoted market prices are not available for the specific security, then fair values are estimated by using quoted prices of similar securities in active markets or inputs other than quoted prices that can corroborate observable market data. These investments are fixed income securities, including foreign debt, corporate debt, preferred stocks, mortgage-backed securities and fixed income mutual funds and other investments, all of which are classified within Level 2 of the valuation hierarchy. We review and update our fair value hierarchy classifications quarterly. See Note 10 to the Consolidated Financial Statements included herein for further information of the fair value measurement.

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

For fixed income securities in an unrealized loss position, we first assess whether we intend to sell or it is more-likely-than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For fixed income securities that do not meet the aforementioned criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If our assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

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

Preneed Cemetery Trust Investments

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

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

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

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

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

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

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

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

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

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

The following table summarized our fixed income securities (excluding mutual funds) within our preneed cemetery trust investments in an unrealized loss position at December 31, 2020, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 2020					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses
Fixed income securities:						
Foreign debt	$ 2,517	$ (57)	$ 371	$ (645)	$ 2,888	$ (702)
Corporate debt	784	(99)	542	(259)	1,326	(358)
Preferred stock	709	(118)	4,049	(218)	4,758	(336)
Mortgage-backed securities	—	—	112	(159)	112	(159)
Total fixed income securities with an unrealized loss	$ 4,010	$ (274)	$ 5,074	$ (1,281)	$ 9,084	$ (1,555)

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

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

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

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

Preneed Funeral Trust Investments

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

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

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

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

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

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

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

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

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

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

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

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

	December 31, 2020					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses
Fixed income securities:						
Foreign debt	$ 2,225	$ (55)	$ 337	$ (579)	$ 2,562	$ (634)
Corporate debt	763	(96)	528	(214)	1,291	(310)
Preferred stock	506	(87)	3,942	(211)	4,448	(298)
Mortgage-backed securities	—	—	111	(155)	111	(155)
Total fixed income securities with an unrealized loss	$ 3,494	$ (238)	$ 4,918	$ (1,159)	$ 8,412	$ (1,397)

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

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

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

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

Cemetery Perpetual Care Trust Investments

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

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

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

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

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

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

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

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

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

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

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

	December 31, 2020					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses
Fixed income securities:						
Foreign debt	$ 1,728	$ (43)	$ 312	$ (539)	$ 2,040	$ (582)
Corporate debt	592	(74)	410	(166)	1,002	(240)
Preferred stock	1,142	(191)	3,060	(164)	4,202	(355)
Mortgage-backed securities	—	—	85	(121)	85	(121)
Total fixed income securities with an unrealized loss	$ 3,462	$ (308)	$ 3,867	$ (990)	$ 7,329	$ (1,298)

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

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

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

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

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

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

8. RECEIVABLES FROM PRENEED FUNERAL TRUSTS

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

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

The following summary reflects the composition of the assets held in trust and controlled by third parties to satisfy our future obligations under preneed arrangements related to the preceding contracts at December 31, 2020 and 2021. The cost basis includes reinvested interest and dividends that have been earned on the trust assets. Fair value includes unrealized gains and losses on trust assets.

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

	Historical Cost Basis	Fair Value
As of December 31, 2021		
Cash and cash equivalents	$ 5,595	$ 5,595
Fixed income investments	11,386	11,386
Mutual funds and common stocks	2,611	2,682
Annuities	5	5
Total	$ 19,597	$ 19,668

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

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

9. CONTRACTS FUNDED BY INSURANCE

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

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

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

10. FAIR VALUE MEASUREMENTS

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

We evaluated our financial assets and liabilities for those that met the criteria of the disclosure requirements and fair value framework. The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate the fair values of those instruments due to the short-term nature of the instruments. The fair values of our receivables on preneed cemetery contracts are impracticable to estimate because of the lack of a trading market and the diverse number of individual contracts with varying terms. Our acquisition debt and Credit Facility (as defined in Note 12) and Senior Notes (as defined in Note 14) are classified within Level 2 of the Fair Value Measurements hierarchy.

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

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

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

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

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

11. INTANGIBLE AND OTHER NON-CURRENT ASSETS

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

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

Tradenames

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

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

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

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

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

Prepaid Agreements

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

Capitalized Commissions

We capitalize our selling costs related to preneed cemetery merchandise and services and preneed funeral trust contracts. These costs are amortized on a straight-line basis over the average maturity period for our preneed cemetery merchandise and services contracts and preneed funeral trust contracts, of eight and ten years, respectively. Amortization expense was $558,000, $580,000 and $640,000 for the years ended December 31, 2019, 2020 and 2021, respectively.

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

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

12. CREDIT FACILITY AND ACQUISITION DEBT

At December 31, 2020, our senior secured revolving credit facility (the "Former Credit Facility") was comprised of: (i) a $190.0 million revolving credit facility, including a $15.0 million subfacility for letters of credit and a $10.0 million swingline, and (ii) an accordion or incremental option allowing for future increases in the facility size by an additional amount of up to $75.0 million in the form of increased revolving commitments or incremental term loans. The final maturity of the Former Credit Facility was to occur on May 31, 2023.

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

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

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

Our obligations under the Credit Facility are unconditionally guaranteed on a joint and several basis by the same subsidiaries which guarantee the Senior Notes and certain of our subsequently acquired or organized domestic subsidiaries (collectively, the “Subsidiary Guarantors”). The Credit Facility allows for future increases in the facility size in the form of increased revolving commitments or new incremental term loans by an additional amount of up to $75.0 million in the aggregate. The final maturity of the Credit Facility will occur on May 13, 2026.

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

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

In addition, the Credit Facility also contains customary negative covenants, including, but not limited to, covenants that restrict (subject to certain exceptions) the ability of the Company and the Subsidiary Guarantors to incur indebtedness, grant liens, make investments, engage in mergers and acquisitions, and pay dividends and other restricted payments, and certain financial maintenance covenants. At December 31, 2021, we were subject to the following financial covenants under our Credit Facility: (A) a Total Leverage Ratio not to exceed, (i) 5.00 to 1.00 and (B) a Fixed Charge Coverage Ratio (as defined in the Credit Facility) of not less than 1.20 to 1.00 as of the end of any period of four consecutive fiscal quarters. These financial maintenance covenants are calculated for the Company and its subsidiaries on a consolidated basis.

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

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

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

At December 31, 2021, we had outstanding borrowings under the Credit Facility of $155.4 million. We also had one letter of credit for $2.1 million under the Credit Facility, which was increased to $2.3 million on September 1, 2021. The letter of credit will expire on November 25, 2022 and is expected to automatically renew annually and secures our obligations under our various self-insured policies. At December 31, 2021, we had $42.3 million of availability under the Credit Facility.

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

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

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

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

Acquisition debt consists of deferred purchase price and promissory notes payable to sellers. A majority of the deferred purchase price and notes bear no interest and are discounted at imputed interest rates ranging from 7.3% to 10.0%. Original maturities typically range from five to twenty years.

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

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

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

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

13. CONVERTIBLE SUBORDINATED NOTES

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

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

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

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

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

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

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

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

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

14. SENIOR NOTES

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

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

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

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

The Senior Notes bear interest at 4.25% per year. Interest on the Senior Notes is payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2021. The Senior Notes mature on May 15, 2029, unless earlier redeemed or purchased. The Senior Notes are unsecured, senior obligations and are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally by each of the Subsidiary Guarantors.

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

Indenture remain outstanding immediately after the occurrence of such redemption (unless all Senior Notes are redeemed concurrently), and (2) each such redemption must occur within 180 days of the date of the consummation of any such equity offering.

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

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

The debt discount and the debt issuance costs are being amortized using the effective interest method over the remaining term of 89 months of the Senior Notes. The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Senior Notes for the year ended December 31, 2021 was 4.42% and 4.30%, respectively.

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

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

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

The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Original Senior Notes, issued in May 2018, for the year ended December 31, 2020 was 6.69%. The effective interest rate on the unamortized debt premium and the unamortized debt issuance costs for the additional Original Senior Notes, issued in December 2019, for year ended December 31, 2020 was 6.88%.

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

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

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

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

15. LEASES

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

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

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

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

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

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

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

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

During the year ended December 31, 2021, we received a leasehold improvement allowance of $1.4 million for the renovation of our home office space in Houston, Texas from our lessor. We recorded a leasehold improvement asset as property,

plant and equipment and reduced our right-of-use asset by $1.4 million. The leasehold improvement allowance will be recognized prospectively by ratably reducing the lease expense over the remaining lease term.

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

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

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

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

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

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

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

16. COMMITMENTS AND CONTINGENCIES

Non-Compete, Consulting and Employment Agreements

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

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

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

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

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

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

Defined Contribution Plan

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

Litigation

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

Chinchilla v. Carriage Services, Inc., et al., Superior Court of California, San Joaquin County, Case No. STK-CV-UOE-2021-0004661. On May 19, 2021, a putative class action against the Company and several of our subsidiaries was filed. Plaintiff, a former employee, seeks monetary damages on behalf of himself and other similarly situated current and former non-exempt employees. Plaintiff claims that the Company failed to, among other things, pay minimum wages, provide meal and rest breaks, pay overtime, provide accurately itemized wage statements, reimburse employees for business expenses, and provide wages when due. See Note 24 to the Consolidated Financial Statements included herein for further discussion of the expected final settlement of this matter.

17. INCOME TAXES

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

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

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

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

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

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

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

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

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

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

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

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

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

We record a valuation allowance to reflect the estimated amount of deferred tax assets for which realization is uncertain. Management reviews the valuation allowance at the end of each quarter and makes adjustments if it is determined that it is more-likely-than not that the tax benefits will be realized. We recognized an immaterial net decrease in our valuation allowance during 2020 and 2021.

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

We analyze tax benefits for uncertain tax positions and how they are to be recognized, measured, and derecognized in financial statements; provide certain disclosures of uncertain tax matters; and specify how reserves for uncertain tax positions should be classified on our Consolidated Balance Sheet. The deferred tax assets recognized for those NOLs are presented net of these unrecognized tax benefits.

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

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

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

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

18. STOCKHOLDERS' EQUITY

Share Authorization

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

Stock Based Compensation Plans

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

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

Restricted Stock

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

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

(1) Restricted stock granted during the years ended December 31, 2020 and 2021 will vest over a three-year period, if the employee has remained continuously employed by us during the vesting period, at a weighted average stock price of $25.00 and $34.79, respectively.

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

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

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

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

Stock Options

During the year ended December 31, 2021, we granted 150,000 options to a certain key employee at a weighted average price of $34.79. These options will vest when the price of our common stock closes at or above $53.39 (50,000 options) and $77.34 (100,000 options) for three consecutive days within the ten-year term and the employee has remained continuously employed by us through such date. The fair value of these options was $1.7 million and was calculated using the Monte-Carlo simulation pricing model.

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

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

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

(1) Stock options granted during the years ended December 31, 2020 and 2021 had a weighted average price of $18.02 and $34.79, respectively. The fair value of these options was calculated using the Black-Scholes option pricing model. The options granted in 2020 vest over a three-year period and have a ten-year term. The options granted in 2021 vest over a five-year period and have a ten-year term. These options will vest if the employee has remained continuously employed by us through the vesting period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Performance Awards

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

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

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

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

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

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

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

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

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

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

Employee Stock Purchase Plan

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

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

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

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

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

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

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

Good To Great Incentive Program

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

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

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

Non-Employee Director and Board Advisor Compensation

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

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

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

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

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

We recorded compensation expense, which is included in *General, administrative and other* expenses, related to annual retainers, including the value of stock granted to non-employee Directors and an advisor to our Board, of $455,000, $889,000 and $858,000 during the years ended December 31, 2019, 2020 and 2021, respectively.

Cash Dividends

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

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

2021	Per Share	Dollar Value
March 1st	$ 0.1000	$ 1,799
June 1st	$ 0.1000	$ 1,808
September 1st	$ 0.1000	$ 1,783
December 1st	$ 0.1125	$ 1,873

2020	Per Share	Dollar Value
March 1st	$ 0.0750	$ 1,339
June 1st	$ 0.0750	$ 1,343
September 1st	$ 0.0875	$ 1,569
December 1st	$ 0.1000	$ 1,797

19. SHARE REPURCHASE PROGRAM

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

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

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

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

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

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

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

20. EARNINGS PER SHARE

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

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

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

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

For the year ended December 31, 2019, there were 338,440 stock options excluded from the computation of diluted earnings per share because the inclusion of such stock options would result in an antidilutive effect. For the years ended December 31, 2020 and 2021, no stock options were excluded from the computation of diluted earnings per share.

Our performance awards are considered to be contingently issuable shares because their issuance is contingent upon the satisfaction of certain performance and service conditions. At December 31, 2021, we had satisfied certain performance criteria for the first, second and third predetermined growth targets of our performance awards to be considered outstanding. Therefore, we included these awards in the computation of diluted earnings per share as of the beginning of the reporting period.

21. SEGMENT REPORTING

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

Year Ended, December 31, 2021

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

Year Ended, December 31, 2020

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

Year Ended, December 31, 2019

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

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

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

22. SUPPLEMENTARY DATA

Balance Sheet

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

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

23. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

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

24. SUBSEQUENT EVENTS

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

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

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

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Management's Evaluation of Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control over Financial Reporting

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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

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

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

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

/s/ Melvin C. Payne

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

/s/ C. Benjamin Brink

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

March 2, 2022

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION.

None.

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

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Code of Ethics

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

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

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

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

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	1,265,154	$ 30.94	2,427,279
Equity compensation plans not approved by security holders	—	—	—
Total	1,265,154	$ 30.94	2,427,279

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(1) FINANCIAL STATEMENTS

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

(2) FINANCIAL STATEMENT SCHEDULES

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

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

(3) EXHIBITS

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

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

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

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

10.26	Release and Separation Agreement by and between Carriage Services, Inc. and Viki K. Blinderman, dated February 2, 2021 and effective March 31, 2021. Incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K filed on March 2, 2021. †
*21.1	Subsidiaries of the Company.
*23.1	Consent of Grant Thornton LLP.
*31.1	Certification of Periodic Financial Reports by Melvin C. Payne in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Periodic Financial Reports by C. Benjamin Brink in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
**32	Certification of Periodic Financial Reports by Melvin C. Payne and C. Benjamin Brink in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. Section 1350.
*101	Interactive Data Files.

(*) Filed herewith.

(**) Furnished herewith.

(†) Management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY.

None.

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 March 2, 2022.

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.

Signature	Title	Date
/s/ Melvin C. Payne **Melvin C. Payne**	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 2, 2022
/s/ C. Benjamin Brink **C. Benjamin Brink**	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	March 2, 2022
/s/ Adeola Olaniyan **Adeola Olaniyan**	Corporate Controller and Principal Accounting Officer	March 2, 2022
/s/ Donald D. Patteson Jr. **Donald D. Patteson Jr.**	Director	March 2, 2022
/s/ Barry K. Fingerhut **Barry K. Fingerhut**	Director	March 2, 2022
/s/ Bryan D. Leibman **Bryan D. Leibman**	Director	March 2, 2022
/s/ Douglas Meehan **Douglas Meehan**	Director	March 2, 2022
/s/ Achille Messac **Achille Messac**	Director	March 2, 2022

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Corporate Information

Carriage Services is a leading provider of funeral and cemetery services and merchandise in the United States. As of December 31, 2021, Carriage operated 170 funeral homes in 26 states and 31 cemeteries in 11 states.

Board of Directors

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

Bryan D. Leibman
President and Chief Executive Officer,
Frosch Travel

Barry K. Fingerhut
Chief Executive Officer,
Certification Partners, LLC

Douglas B. Meehan
Deputy Chief Investment Officer,
van Biema Value Partners, LLC

Dr. Achille Messac
Former Dean of Engineering at
Howard University and Mississippi
State University

Donald D. Patteson, Jr.
Former Chief Executive Officer and
Chairman of the Board, Sovereign
Business Forms, Inc.

Advisor to the Board of Directors

Gregory R. Brudnicki
Mayor of Panama City, Florida

Independent Public Accountants
Grant Thornton LLP, Houston, Texas

Form 10-K Availability
The Company's Annual Report on Form 10-K for the year ended December 31, 2021 may be obtained by writing to: Investor Relations, Carriage Services, Inc., 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056; via the Company's website: **www.carriageservices.com**; or via the SEC's website: **www.sec.gov**.

Common Stock
Carriage Services, Inc.'s common stock is traded on the New York Stock Exchange under the symbol "**CSV**".

Executive Leadership Team

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

Carlos Quezada*
President and Chief Operating Officer

C. Benjamin Brink*
Executive Vice President, Chief Financial
Officer and Treasurer

Steven D. Metzger*
Executive Vice President, Chief Administrative
Officer, General Counsel and Secretary

Paul D. Elliott
Senior Vice President and Regional Partner

Shawn R. Phillips
Senior Vice President and Regional Partner

Shane T. Pudenz
Vice President of Sales and Marketing

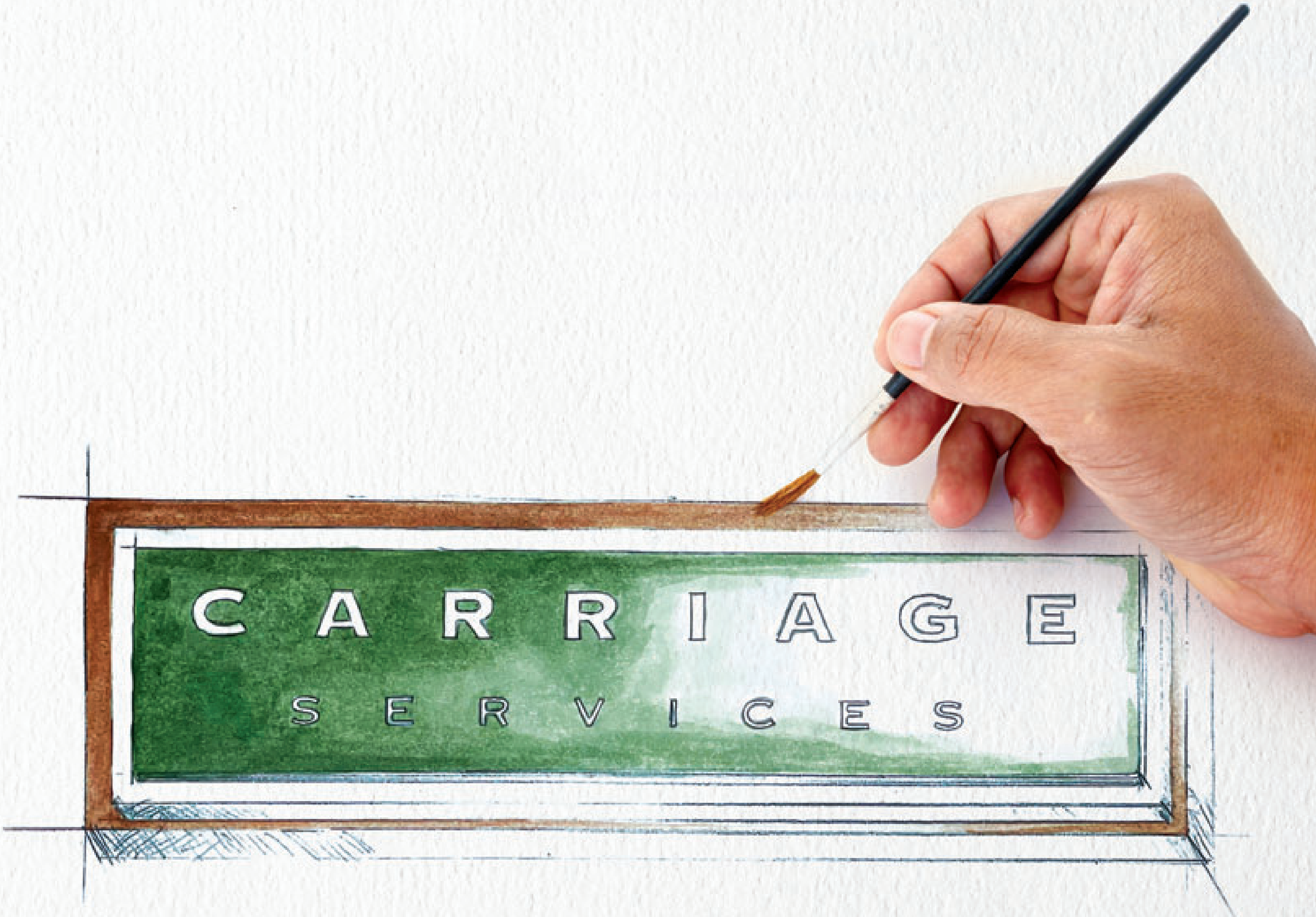
Peggy Schappaugh
Vice President of Operations and
Acquisitions Analysis

*Member, Strategic Vision and Principles Group

Transfer Agent & Registrar
American Stock Transfer & Trust Company, LLC
6201 15th Avenue, Brooklyn, New York 11219
800.937.5449
www.amstock.com

Houston Support Office
Carriage Services, Inc.
3040 Post Oak Boulevard, Suite 300
Houston, Texas 77056
713.332.8400
www.carriageservices.com

Forward-Looking Statements
Statements made in this Annual Report that are not historical facts are intended to be forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on assumptions that the Company believes are reasonable; however, many important factors, including factors not in our control, or as discussed under "Forward-Looking Statments" in the Company's Form 10-K for the year ended December 31, 2021, could cause the Company's results to differ materially from the forward-looking statements made herein and in any other documents or presentations made by or on behalf of the Company.



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