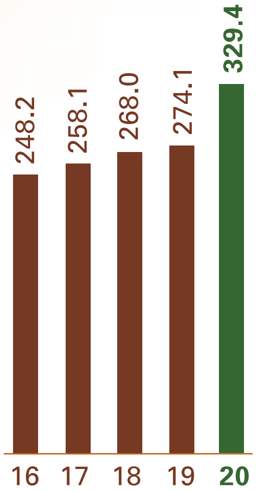
CARRIAGE
SERVICES

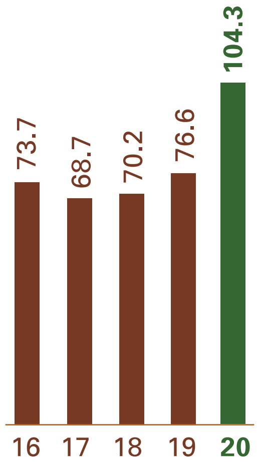
A Tale of High Performance Transformation

2020 Annual Report

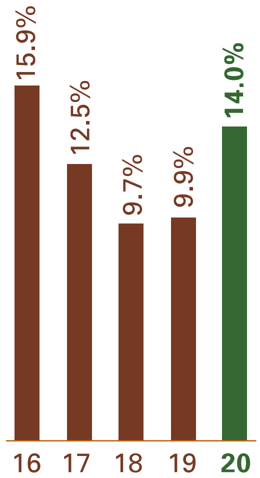
Total Revenue
(In Millions)



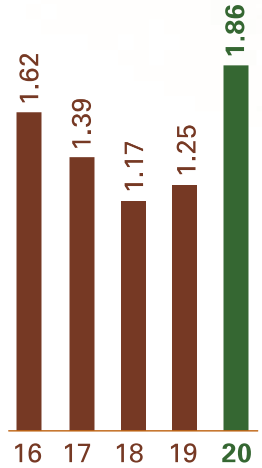
Adjusted Consolidated EBITDA
(In Millions)



Adjusted Return on Equity

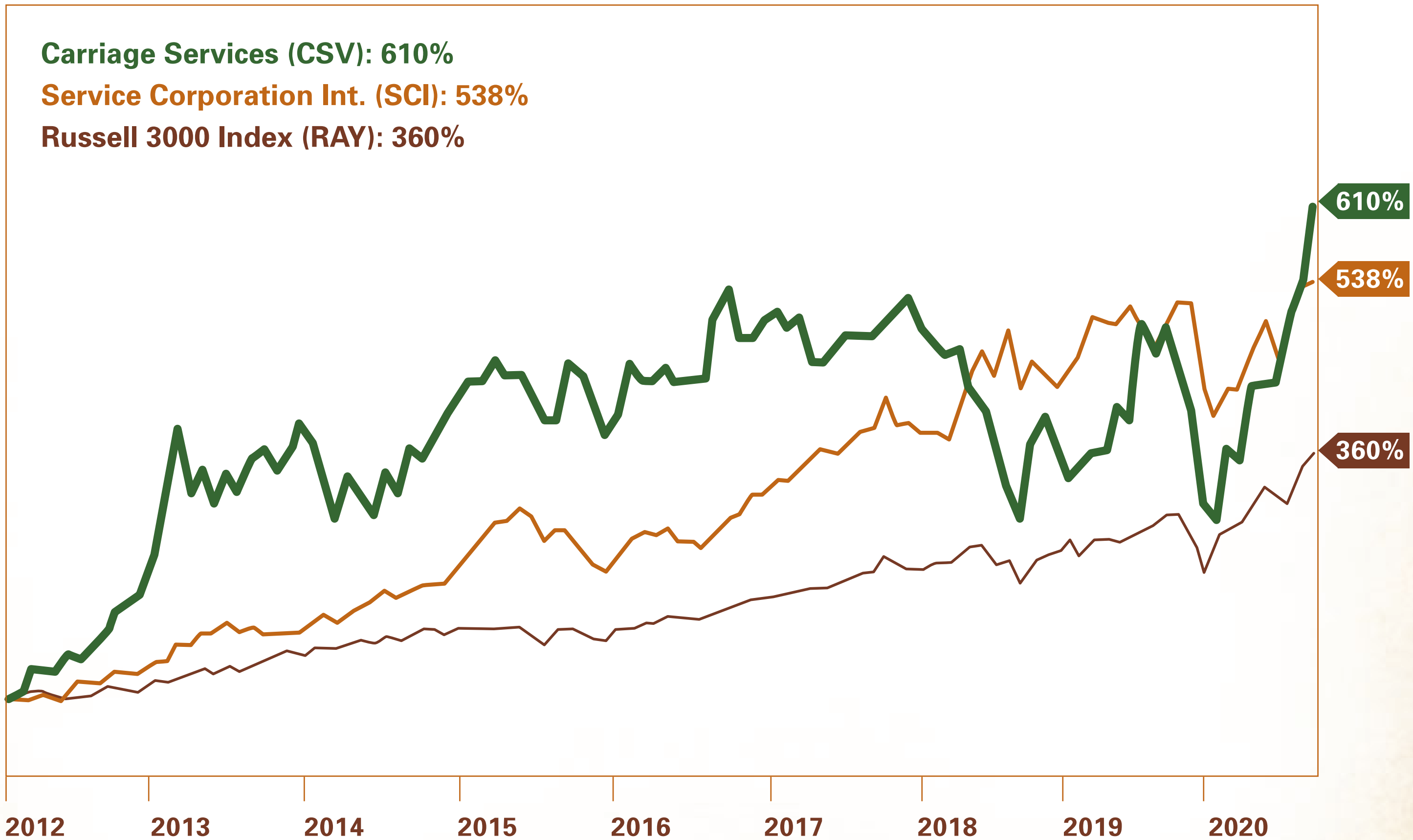


Adjusted Diluted Earnings Per Share



Total Return 2012-2020 YTD December *

** Total Return includes stock price appreciation and dividend reinvestment*



Shareholder Letter

It is Tuesday, March 2, 2021 as I now begin to write my 2020 Shareholder Letter about Carriage's record breaking **TRANSFORMATIVE HIGH PERFORMANCE** in 2020 amidst a "once in a lifetime" Coronavirus Pandemic Crisis in our country and most of the world. I began the 2019 Shareholder Letter, titled **TRANSFORMATIVE**, a little more than eleven months ago on Sunday, March 29, 2020, which now seems more like eleven lifetimes ago. My 2019 Shareholder Letter did not focus on our 2019 performance, as no one was concerned about our recent yearly performance at the end of last March, and everyone including me was concerned only about how the Coronavirus Pandemic might impact our country, industry and company and most importantly the health and safety of our leaders, employees, client families, personal families and friends during 2020 and thereafter.

No one inside or outside our company knew what to expect given the sudden shock and unknowns related to COVID-19, but many outside Carriage expected the very worst, i.e. that notwithstanding higher volumes of deaths during the pandemic, our revenues, margins, earnings and free cash flow would likely shrink dramatically as mandated social restrictions would be behavioral change catalysts that caused client families to choose mostly direct cremations without service options or lower revenue traditional burials for loved ones lost to death, regardless of the cause. In other words, COVID-19 had the potential to cause the value and importance of funeral and interment rituals that have existed for thousands of years, and therefore the current funeral and cemetery industry operating and consolidation model, to become uneconomic because of lower value and revenue funerals and interments during or even after a COVID-19 "new normal environment."

Reflective of such a negative perception of our noble business, Forbes Magazine published an article in early April titled, "How The Pandemic Is Killing The Death Business." I would like to thank Forbes Magazine on behalf of 47 Carriage Senior Leaders for its journalistic contribution toward our common shares plummeting to a Coronavirus Pandemic market crash low of $13.80 on April 16, 2020, which ena bled me to create our **Five Year Good To Great II Shareholder Value Creation Incentive Plan** using a "base gift price" of $14.38 on May 15, 2020.

But this Shareholder Letter is not primarily about what COVID-19 did for us or to us, but rather what our incredibly courageous and talented leaders and their teams of employees did with and in spite of the pandemic to serve their client families and communities when they were most needed in a time of great fear and danger. This Shareholder Letter is therefore proudly and with great honor dedicated to the leaders and employees of our funeral homes and cemeteries who have been nothing less than inspirational heroes to our Leadership Teams, Houston Support Center Employees and Board of Directors throughout the COVID-19 Pandemic crisis in 2020, which has now continued into 2021.

Theme Letter for 2020 – Transformative High Performance in 2020 / A Tale of Two Companies in 2019

Each year at the beginning of the year I write a Theme Letter to all Managing Partners, Sales Managers, Directors of Support and Houston Support Center Leaders. The Theme Letter announces the aspirational goals and related theme for that year but also importantly reviews those areas of weakness in the prior year that need material improvement in order for Carriage to achieve its stated Mission of **Being The Best** as an operational, consolidation and value creation platform for the funeral and cemetery industry.

The Annual Theme for 2020 announced in my Theme Letter dated February 18, 2020 was "**Carriage Services 2020: Transformative High Performance**" after which I stated, "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".

The 2020 Theme Letter content was much more about Carriage as a "**Tale of Two Companies**" during 2019 and was broken into two parts: **Part I** being about the **Great High Performance Carriage** during 2019, and **Part II** being about the **Unacceptable Low Performance Carriage**. I began last year's Theme Letter by making an analogy of Carriage's 2019 funeral portfolio performance (75% of revenues and historically the dominant driver of our performance) as a "**Tale of Two Companies**" when compared to the famous book by

Charles Dickens in 1859 titled, "**A Tale of Two Cities**", a historical novel set in London and Paris before and during the French Revolution in the timeframe of 1775 – 1792. This work of historical fiction is regularly cited as the bestselling novel of all time and covers London at a time when it was flourishing as a center of learning and commerce at the height of the British Empire, while Paris was collapsing into the French Revolution and the Reign of Terror that followed.

Shown below are vivid descriptions of each city during the period:

Needless to say, the analogy above was meant to motivate Managing Partners of funeral homes that were low performing in 2019 to join our many high performing Managing Partners of funeral businesses experiencing the "**Best of Times**" in London, as together with the Managing Partners and Sales Managers of our cemetery portfolio, we could achieve a breakout year in 2020 of **TRANSFORMATIVE HIGH PERFORMANCE**.

Sadly and incredulously, the above analogy for Paris would become only a few weeks later a tragic metaphor for families, industries, companies and countries as the Coronavirus Pandemic spread around the world from Wuhan, China. Never could I have guessed, much less predicted, that such a deadly, fearful and unknowing environment would produce a "**Proof of Concept**" year of **High Performance Transformation** for the high performance ideas and concepts we have been evolving at Carriage starting with our Standards Operating Model in 2003 and which now represent all the elements and linkages of our **High Performance Culture Framework** for operating and consolidating the highly fragmented funeral and cemetery industries.

Our funeral and cemetery portfolio performances in 2020, especially and increasingly during the second half of the year, were reflective of only **High Performance Carriage** with no hint of Low Performance Carriage taking up a seat on our accelerating **Good To Great Journey II Bus**. As the year progressed, we made the insight that one great business to have been in just prior to and immediately after the initial shock in mid-March of the COVID-19 Pandemic would have been the moving business from Paris to London! Almost all of our low performance businesses moved to join our high performing leaders and businesses in London – and committed to **NEVER MOVING BACK!**

Carriage's future is perfectly captured by the vivid descriptions above 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** that after thirty years of innovative business model and organizational development evolution we have entered the "**Best of Times with Everything Before Us.**"

After completing this Shareholder Letter, you should have a better understanding of the meaning to and excitement of the leadership and employees of our company related to our 2021 Theme shown below:

CARRIAGE SERVICES 2021: ACCELERATING HIGH PERFORMANCE FLYWHEEL EFFECT!

We often say that "**The Data Don't Lie**," but that organizing highly transparent operating and financial data in the right patterns and sequence over both shorter and longer term periods will enable anyone seeking the "**Truth About What's Going On**" to derive deeper insights and understanding into the past, present and future performance of our company. Shown below and on the following pages are comparative 2020 and 2019 financial performance highlights for full year 2020, comparative Year To Date (two months) February 2021 performance highlights, the Three Year Trend Report ending December 31, 2020, the Five Quarter Trend Report ending December 31, 2020 and our updated and increased Two Year Roughly Right Scenario ending December 31, 2022.

A TALE OF HIGH PERFORMANCE TRANSFORMATION will be told in two parts.

Part I will be a journey through all the high performance data related to our transformation since September 12, 2018 and my interpretation of the data through Page 10 of this letter, after which you will then be prepared for Part II of "**A Tale of High Performance Transformation**" of Carriage beginning on Page 11.

PART I. THE DATA DON'T LIE – A TALE TOLD WITH HIGH PERFORMANCE DATA

Year Ended December 31, 2020 versus Year Ended December 31, 2019

- Record Total Revenue of $329.4 million compared to $274.1 million, an increase of 20.2%;
- Record Total Field EBITDA of $141.9 million compared to $109.8 million, an increase of 29.3%;
- Record Total Field EBITDA Margin of 43.1% compared to 40.0%, an increase of 310 basis points;
- Record Adjusted Consolidated EBITDA of $104.3 million compared to $76.6 million, an increase of 36.1%;
- Record Adjusted Consolidated EBITDA Margin of 31.6% compared to 27.9%, an increase of 370 basis points;
- Record Adjusted Diluted EPS of $1.86 compared to $1.25, an increase of 48.8%;
- Record Adjusted Free Cash Flow of $70.0 million compared to $38.8 million, an increase of 80.3%;
- Record Adjusted Free Cash Flow Margin of 21.2% compared to 14.2%, an increase of 700 basis points;
- Record Total Debt reduction of $72.9 million equal to 13.7% from $534 million on January 3, 2020 (peak debt after Oakmont acquisition) to $461.1 million on December 31, 2020.
- Total Debt of $461.1 million at December 31 to 2020 Adjusted Consolidated EBITDA of $104.3 million equal to 4.4 times compared to Total Peak Debt of $534 million at January 3rd, 2020 to Trailing Four Quarter EBITDA (proforma for three acquisitions in fourth quarter 2019 and one on January 3, 2020) of $89.0 million at December 31, 2019 equal to 6.0 times, a decline of 1.6 turns of leverage during 2020;
- Net Income of $16.1 million, an increase of $1.6 million equal to 10.7%; and
- GAAP Diluted EPS of $0.89, an increase of $0.09 per share equal to 11.3%.

YTD February 2021 Comparative Results

- Record Same Store Funeral Contracts of 7,734, an increase of 29.2%;
- Record Total Revenue of $65.7 million, an increase of 26.9%;
- Record Total Field EBITDA of $32.2 million, an increase of 58.9%;
- Record Total Field EBITDA Margin of 49.0%, an increase of 980 basis points;
- Record Adjusted Consolidated EBITDA of $25.2 million, an increase of 77.2%;
- Record Adjusted Consolidated EBITDA Margin of 38.3%, an increase of 1,090 basis points;
- Record Adjusted Net Income of $11.7 million, an increase of 212.9%;
- Record Adjusted Diluted Earnings Per Share of $0.64, an increase of 220.0%;
- Estimated Adjusted Free Cash Flow of $13.8 million, an increase of 91.4%;
- Estimated Adjusted Free Cash Flow Margin of 21.1%, an increase of 710 basis points;
- Estimated Total Net Debt outstanding as of March 19, 2021 of $441.8 million; and
- Estimated Total Net Debt to Rolling Twelve Month Adjusted Consolidated EBITDA of $115.2 million equal to 3.83 times.

Never during my experience building Carriage over the last thirty years could I have imagined that we would ever achieve a two month period of comparative performance from our existing portfolio of operating businesses (no new acquisitions) during which record milestone performances included Total Revenue up 26.9%, Total Field EBITDA up 58.9%, Adjusted Consolidated EBITDA up 77.2%, Estimated Adjusted Free Cash Flow up 91.4%, and Adjusted Diluted EPS up 220.0% to $0.64. And our Total Debt to EBITDA Leverage Ratio plunged from 4.4 times at year end 2020 to 3.83 times on March 19, 2021.

While all five of our field operating and financial reporting segments had huge year over year performance increases, the two superstar segments were Same Store Funeral and Acquisition Cemetery, which combined to contribute 82.4% of incremental revenue and 79.1% of incremental Field EBITDA. Section VI, profiling the four transformational acquisitions we made at the end of 2019 covered on Pages 29-33, will highlight and explain the rapidly accelerating performance of both our acquisition funeral and cemetery portfolios.

Beginning in December 2020 we experienced a spike in deaths broadly across our portfolio of funeral homes and cemeteries in 26 states, but the epicenter of the much higher COVID-19 outbreak of infections and deaths has been and continues to be in California, as has been reported by the national media. Given our large portfolio of first class businesses in both Northern and Southern California, the tragic outbreak of COVID-19 deaths in California has been producing a material increase in our overall performance. But while the California impact has been extreme, our Central and Eastern Region businesses have also been experiencing substantially and broadly higher volumes, revenues and margins as reflected in the incredulous 49.0% Total Field EBITDA Margin for YTD February (ALMOST HALF of Record Revenue), up 980 basis points from last year.

Our peak seasonal period for deaths has historically been the December to March flu season with varying degrees of severity depending on the strain of flu and effectiveness of the flu vaccine created and modified annually as a health defense to that year's flu strain. We have no reports of flu impacting the current spike in deaths; and at this point in the COVID-19 Pandemic, it is difficult to know how the various vaccines will impact the much higher death rates we have been experiencing across most of our portfolio compared to pre-COVID-19 historical patterns. We also don't yet know how effective the MODERNA, PFIZER, JOHNSON & JOHNSON, etc., vaccines will be against the highly contagious and potentially more deadly Coronavirus variants from the U.K., South Africa and Brazil which have been spreading rapidly in the U.S., and when or whether death rates will return to normal seasonal patterns and long term trends during 2021 and thereafter.

After we report our record first quarter, we will update and increase the Roughly Right Two Year Scenario section on Page 10 that includes 2021 and 2022 to reflect the broadly higher performance we are currently achieving in all five operating and financial reporting segments. There is a view within the scientific community and among some deathcare industry experts that the Coronavirus in some form will regretfully become endemic, which would likely cause annual death rates in the future to normalize at a higher level than over the last 15-20 years. The death data from COVID-19 over the past year tragically indicates that 70% to 80% of deaths were in Americans over 70 years of age, a reflection of the large baby boomer population who have been shown to be the most vulnerable segment of our country and the reason nursing homes and assisted living facilities experienced a large percentage of COVID-19 deaths.

Regardless of how this future unknown level of death rates evolves, our company has enough known drivers of high performance in 2021 and thereafter that we can control to make us confident in our ability to achieve and sustain record high financial performance through the **Five Year Good To Great II Journey** timeframe ending on December 31, 2024.

THREE YEAR OPERATING AND FINANCIAL TREND REPORT HIGHLIGHTS

(000's except for volume, averages & margins)	2018	2019	2020	2 Year VAR %
Funeral Same Store Contracts	30,999	31,729	35,815	15.5%
Average Revenue Per Contract[1]	$5,447	$5,323	$5,020	-7.8%
Funeral Same Store Burial Contracts	12,246	12,085	12,984	6.0%
Funeral Same Store Burial Rate	39.5%	38.1%	36.3%	-8.2%
Average Revenue Per Burial Contract	$9,145	$9,166	$8,899	-2.7%
Funeral Same Store Cremation Contracts	16,345	17,165	20,313	24.3%
Funeral Same Store Cremation Rate	52.7%	54.1%	56.7%	7.6%
Average Revenue Per Cremation Contract	$3,514	$3,385	$3,188	-9.3%
Funeral Same Store Preneed Ratio	18.4%	17.9%	17.2%	-6.6%
Funeral Same Store Revenue	$168,835	$168,884	$179,779	6.5%
Funeral Same Store EBITDA	$64,390	$65,109	$74,817	16.2%
Funeral Same Store EBITDA Margin	38.1%	38.6%	41.6%	9.1%
Funeral Acquisition Revenue	$21,229	$27,547	$46,897	120.9%
Funeral Acquisition EBITDA	$7,394	$10,579	$18,617	151.8%
Funeral Acquisition EBITDA Margin	34.8%	38.4%	39.7%	14.0%
Cemetery Same Store Revenue	$44,805	$49,218	$51,694	15.4%
Cemetery Same Store EBITDA	$13,872	$17,118	$19,469	40.3%
Cemetery Same Store EBITDA Margin	31.0%	34.8%	37.7%	21.6%
Cemetery Acquisition Revenue	---	$295	$17,583	N/A
Cemetery Acquisition EBITDA	---	$73	$7,128	N/A
Cemetery Acquisition EBITDA Margin	---	24.7%	40.5%	N/A
Total Financial Revenue	$15,758	$15,839	$19,735	25.2%
Total Financial EBITDA	$14,209	$14,235	$18,404	29.5%
Total Financial EBITDA Margin	90.2%	89.9%	93.3%	3.4%
Total Revenue	$267,992	$274,107	$329,448	22.9%
Total Field EBITDA	$104,313	$109,767	$141,942	36.1%
Total Field EBITDA Margin	38.9%	40.0%	43.1%	10.7%
Adjusted Consolidated EBITDA	$70,192	$76,587	$104,250	48.5%
Adjusted Consolidated EBITDA Margin	26.2%	27.9%	31.6%	20.8%
Adjusted Diluted EPS	$1.17	$1.25	$1.86	59.0%
Adjusted Free Cash Flow	$42,739	$38,795	$69,963	63.7%
Adjusted Free Cash Flow Margin	15.9%	14.2%	21.2%	33.3%

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

Carriage's **High Performance Transformation** began on September 12, 2018 and has continued continuously over the last two and one half years, as shown in the Three Year Trend Report Highlights shown above. Our performance turnaround year in 2019 was only partially completed, as only two of our five operating and financial profit centers showed significant improvement over 2018, i.e. our Funeral Acquisition Portfolio (acquired in last five years) and our Cemetery Same Store Portfolio. The largest profit center, our Funeral Same Store Portfolio, was essentially flat from 2018 to 2019, leading to my analogy in the 2020 Theme Letter of its 2019 Performance as "**A Tale of Two Companies**."

Our operating leaders continued to focus on topgrading leadership talent and on turning around low performing businesses in the second half of 2019 through the first quarter of 2020. We also completed four large, high quality strategic market acquisitions at the end of 2019 which were expected to add about $50 million of high margin revenue when full integration was completed, thereby achieving a critical mass of over $300 million of revenue ideal for leveraging by our operating and consolidation platform into higher margin levels of Consolidated EBITDA and Free Cash Flow. Because of all the work since September 2018 in preparation for a year of **Transformative High Performance** in 2020, we were as prepared as possible for the sudden shock of the Coronavirus Pandemic.

As shown by our **Transformative High Performance** in 2020, each of our five operating sectors achieved historical record Revenues, Field EBITDA and Field EBITDA Margins, which were leveraged through our platform overhead and capital structure into record Adjusted Consolidated EBITDA of $104.3 million, up 36.1% from 2019, and record Adjusted Free Cash Flow of $70.0 million, up 80.3% from 2019. Our Adjusted Consolidated EBITDA Margin of 31.6% was up 370 basis points from 2019, achieving to our knowledge the highest cash earning power per dollar of revenue ever achieved in the sixty year public company history of consolidation of our industry.

One of the primary reasons for the unorthodox and highly transparent nature of our Five Year (only three years shown above due to the timeframe of our **High Performance Transformation**) and Five Quarter Trend Reports is to educate investors on the distinct trends over time of what we refer to as Value Creation Financial Leveraging Dynamics within the Carriage Operating and Consolidation Platform. Our Same Store Funeral and Cemetery Portfolios are comprised of businesses that have been owned for five years rather than the customary one year for most multi-store enterprises, which enables an investor to follow over a long period of time the value creation operating leverage financial dynamics, as modestly compounding revenues over the high fixed costs nature of our individual businesses produces higher compounded growth rates in Field EBITDA as Field EBITDA Margins increase over time.

For example, our Same Store Funeral Revenue in 2020 increased $10.9 million equal to 6.5% over 2019, which produced an increase of $9.7 million in Same Store Funeral EBITDA equal to 14.9% over 2019, as the inherent operating leverage along with skilled margin management (one of our Performance Standards weighted 15%) by our Managing Partners converted 89% of the additional revenue into Field EBITDA, which produced a record Same Store Funeral EBITDA Margin of 41.6% in 2020 compared to 38.6% in 2019, an increase of 300 basis points.

The high performance concept of keeping a newly acquired business in the acquisition portfolio for five years is simple and relevant for two reasons. First, integrating a newly acquired business into Carriage's framework of support and being governed by a unique Standards Operating Model takes time for a Managing Partner to learn, fully understand and successfully execute at a high level of **Being The Best** Standards Achievement, which are linked to the most generous annual and five year incentive programs for our Managing Partners in the sixty year history of funeral and cemetery consolidation.

Secondly, a five year holding period enables investors to follow the success of our acquisition and capital allocation program utilizing our Strategic Acquisition Model, which is defined by Strategic Criteria designed to identify, accurately assess a "roughly right range" of future performance over five to ten years, and therefore assess a fair value for both buyer and seller. This model well executed will enable Carriage to acquire selectively only larger, high quality businesses in the best remaining markets across the country. By doing so successfully over time, our entire portfolio should take on the higher revenue and earnings growth characteristics of the acquisition portfolio, i.e. higher organic revenue growth at higher Field EBITDA Margins than in prior years of our performance history. Section VI on Pages 29-33 highlights this concept using highly transparent performance data from our four acquisitions at the end of 2019.

FIVE QUARTER OPERATING AND FINANCIAL TREND REPORT HIGHLIGHTS

(000's except for volume, averages & margins)	4TH QTR 2019	1ST QTR 2020	2ND QTR 2020	3RD QTR 2020	4TH QTR 2020
Funeral Same Store Contracts	8,156	8,625	8,647	8,874	9,669
Average Revenue Per Contract (1)	$5,251	$5,108	$4,855	$4,987	$5,118
Funeral Same Store Burial Contracts	3,038	3,165	3,121	3,132	3,566
Funeral Same Store Burial Rate	37.2%	36.7%	36.1%	35.3%	36.9%
Average Revenue Per Burial Contract	$9,179	$9,032	$8,656	$8,913	$8,981
Funeral Same Store Cremation Contracts	4,471	4,771	4,977	5,114	5,451
Funeral Same Store Cremation Rate	54.8%	55.3%	57.6%	57.6%	56.4%
Average Revenue Per Cremation Contract	$3,324	$3,257	$3,036	$3,234	$3,223
Funeral Same Store Preneed Ratio	17.9%	16.9%	17.1%	17.4%	17.4%
Funeral Same Store Revenue	$42,827	$44,060	$41,983	$44,252	$49,484
Funeral Same Store EBITDA	$16,723	$17,081	$17,808	$18,148	$21,780
Funeral Same Store EBITDA Margin	39.0%	38.8%	42.4%	41.0%	44.0%
Funeral Acquisition Revenue	$8,414	$11,522	$11,337	$11,702	$12,336
Funeral Acquisition EBITDA	$3,119	$4,228	$4,672	$4,699	$5,018
Funeral Acquisition EBITDA Margin	37.1%	36.7%	41.2%	40.2%	40.7%
Cemetery Same Store Revenue	$12,061	$10,906	$11,611	$14,393	$14,784
Cemetery Same Store EBITDA	$4,158	$3,167	$3,656	$6,175	$6,471
Cemetery Same Store EBITDA Margin	34.5%	29.0%	31.5%	42.9%	43.8%
Cemetery Acquisition Revenue	$295	$2,799	$4,055	$5,220	$5,509
Cemetery Acquisition EBITDA	$73	$827	$1,434	$2,335	$2,532
Cemetery Acquisition EBITDA Margin	24.7%	29.5%	35.4%	44.7%	46.0%
Total Financial Revenue	$4,116	$4,236	$4,682	$5,591	$5,226
Total Financial EBITDA	$3,709	$3,819	$4,456	$5,242	$4,887
Total Financial EBITDA Margin	90.1%	90.2%	95.2%	93.8%	93.5%
Total Revenue	$71,149	$77,490	$77,477	$84,393	$90,088
Total Field EBITDA	$28,613	$30,094	$33,221	$37,309	$41,318
Total Field EBITDA Margin	40.2%	38.8%	42.9%	44.2%	45.9%
Adjusted Consolidated EBITDA	$19,183	$22,840	$25,444	$27,666	$28,300
Adjusted Consolidated EBITDA Margin	27.0%	29.5%	32.8%	32.8%	31.4%
Adjusted Diluted EPS	$0.28	$0.35	$0.45	$0.51	$0.57
Adjusted Free Cash Flow	$7,214	$12,607	$17,878	$27,608	$11,870
Adjusted Free Cash Flow Margin	10.1%	16.3%	23.1%	32.7%	13.2%

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

The Five Quarter Trend Report above captures the amazing **High Performance Transformation** in our company over the fifteen month period from September 30, 2019 to December 31, 2020.

We added more detailed contract data to the Funeral Same Store Section for highly relevant additional transparency over this fifteen month period that shows the initial shock and impact from the Coronavirus Pandemic to our funeral revenue averages in March, then the peak negative impact on revenue averages in the second quarter with a trend toward normalization of revenue averages reflected in the third quarter. The fourth quarter reflects a huge spike in deaths beginning in December 2020 that contributed 1,016 (up 35.7%) or two-thirds of the increase of 1,513 (18.6%) in Same Store Funeral Contracts in the fourth quarter of 2020 over fourth quarter 2019.

Even as the COVID-19 Pandemic has recently caused a new and higher spike in deaths along with renewed mandated social restrictions, our Funeral Managing Partners and their teams of employees performed an increasing number of traditional funerals both in absolute terms and as a percentage of total funerals. The ability by our Funeral Managing Partners to adapt quickly and effectively in the fourth quarter to rapidly changing local conditions was a function of learning how best to safely innovate during the early months of the pandemic, reflecting the entrepreneurial leadership skills that produced a same store average revenue per funeral contract of $5,118 in the fourth quarter of 2020, higher than any quarter during 2020 and only 2.5% lower than the $5,251 in the pre-COVID fourth quarter of 2019.

Maybe even more impressive was that our Cemetery Same Store EBITDA Margin of 43.8% in the fourth quarter almost equaled the all time record high 44.0% Funeral Same Store EBITDA Margin also achieved in the fourth quarter, but what was “mind blowing” to all our operating and Executive Team leaders was that our Cemetery Acquisition EBITDA Margin of 46.0% in the fourth quarter exceeded our Funeral Acquisition EBITDA Margin of 40.7% by 530 basis points. Our atneed cemetery performance was meaningfully and broadly higher because of the COVID-19 elevated death rate while our cemetery preneed property sales were no doubt dampened by the increased restrictive social mandates in some of our largest markets.

Yet in spite of the social restrictions, our Cemetery Same Store Preneed Property Revenue in the fourth quarter of 2020 was amazingly 26.7% higher than 2019 while Same Store Preneed Margin (Dollars) was 45.9% higher due to an increase of 690 basis points in the Preneed Margin Percentage from 52.4% to 59.3% of Same Store Total Preneed Property Revenue. Moreover, when the higher Same Store Cemetery preneed sales and margin performance is combined with our higher atneed performance, the Same Store Cemetery Total Operating Revenue in the fourth quarter was $14.8 million or 22.6% higher than 2019, while Same Store Cemetery EBITDA was $6.5 million or 55.6% higher than 2019 because of a 930 basis point increase in Same Store Cemetery EBITDA Margin to 43.8% from 34.5% in 2019. Such outstanding performance in our Same Store Cemetery portfolio is reflective of the inherent operating leverage of significantly higher revenue flowing through the mostly fixed costs of each business which was optimized by the management skills of our Cemetery Managing Partners.

From an operational and financial perspective, when our Executive Team saw that our Total Field EBITDA Margin in the fourth quarter was 45.9% (almost HALF of Total Revenue!) on record revenue of $90.1 million, we were first almost in disbelief, which quickly turned to being humbled, honored and inspired by the breadth and depth of such amazing work by highly motivated and skilled leaders and employees throughout our highly diverse (size, geography, revenue profile) portfolio of funeral homes and cemeteries under incredibly harsh local environments. To have so many **High Performance Heroes** in our company during a tragic COVID-19 Pandemic courageously serving client families and communities when they are needed the most is truly a milestone achievement for a company whose Mission is **Being The Best**.

Updated Milestone Two Year Scenario

Our updated Milestone Two Year Scenario shows significantly higher performance expectations through 2022 because of the broad improvements across our funeral and cemetery portfolios during 2020 and a planned $400 million bond refinancing on or before June 1, 2021. Much of the higher performance was in spite of the pandemic and severe social distancing restrictions and limits on gatherings, especially our record preneed property sales during the latter part of the year that have continued into 2021.

We believe it is important to provide the investment community with our best 'Roughly Right Ranges' view of our future performance regardless of the uncertainty that may exist in the world around us, as we wear as a badge of **High Performance Honor** that we never withdrew our Three Year Scenario during the initial peak period of Coronavirus Pandemic uncertainty. After initially lowering the 2020 ranges after our first quarter earnings release on May 19, 2020, we began to raise the performance ranges but not fast enough to catch up with our increasing record 2020 performance metrics during the balance of the year, which exceeded those for 2022 in our initial forecast and led to Carriage raising its dividend twice during the pandemic (May and October).

The updated two year scenario on the next page does not include any new acquisitions but does include the impact of our planned divestitures and the completion of a planned refinancing transaction of our high yield notes by June 2021. As stated earlier, we will update and increase the Milestone Two Year Scenario after our record first quarter results. The major takeaways from the updated Milestone Two Year Scenario are:

Improved operating and financial performance expectations through 2022 driven by:

- Continuation of Same Store Funeral market share gains with improvement in our average revenue per contract, particularly cremations;
- Higher growth rates in preneed cemetery property sales beginning in 2021 and accelerating in 2022 at higher Cemetery Field EBITDA Margins;
- Successful integration of the four recent strategic acquisitions leading to improved performance expectations compared to our initial expectations;
- Full impact of our trust fund repositioning strategy resulting in a significant and sustainable increase in Financial Revenue and EBITDA; and
- Substantially lower cash interest costs from our planned senior notes refinancing during the second half of 2021 and full year 2022.

UPDATED TWO YEAR SCENARIO

Performance Metric	2019A	2020A	2021	2022	3 Year Midpoint CAGR
Total Revenue	$274.1	$329.4	$330 - $338	$335 - $345	7.5%
Total Field EBITDA	$109.8	$141.9	$143 - $148	$146 - $152	10.7%
Total Field EBITDA Margin	40%	43.1%	43.0% - 44.0%	43.5% - 44.5%	3.2%
Adjusted Consolidated EBITDA	$76.6	$104.3	$104 - $110	$108 - $114	13.2%
Adjusted Consolidated EBITDA Margin	27.9%	31.6%	31.5% - 32.5%	32.0% - 33.0%	5.2%
Adjusted Diluted EPS	$1.25	$1.86	$2.25 - $2.35	$2.45 - $2.65	26.7%
Adjusted Free Cash Flow	$38.8	$70.0	$63 – $67	$67 - $71	21.8%
Adjusted FCF Margin	13.6%	21.2%	19.0% - 20.0%	20.0% - 21.0%	14.6%
Total Debt Outstanding (1)	$534(2)	$461.1	$420 - $430(3)	$365 - $375	(13.5)%
Total Debt to EBITDA Multiple	7.0(1)	4.4	3.8 - 4.0	3.2 – 3.4	N/A

(1) Includes 2020 EBITDA for acquisitions.
(2) Jan 3, 2020 Acquisition of Oakmont and peak debt.
(3) Doesn't include approximately $20 million prepayment premium on planned $400 million Senior Notes Refinancing

After the planned refinancing of our senior notes on or before June 1, 2021, we will have completely transformed all parts of our company into a sustainable and predictable shareholder value creation platform for the future by savvy, flexible and wise capital allocation to optimize the intrinsic value of each CSV share over time. When we report our full year 2021 performance results in February 2022, hopefully after the tragedy of COVID-19 is behind our country and the world, we will produce another Three Year Roughly Right Scenario for the 2022-2024 timeframe. This time we will also include multiple scenarios relating to various capital allocation assumptions and the application of benchmark valuation methodologies to our increasing performance metrics which will reflect a range of CSV share price levels over the three year period that closely align with the higher 30% to 40% five year compounded CSV share price return categories in our **Good To Great II Shareholder Value Creation Incentive Plan**.

I began **Part I** of **A TALE OF HIGH PERFORMANCE TRANSFORMATION** by saying that "**The Data Don't Lie!**" After reviewing **A TALE TOLD WITH HIGH PERFORMANCE DATA**, Mr. Forbes of Forbes Magazine found Carriage's 2020 **TRANSFORMATIVE HIGH PERFORMANCE** so compelling that he changed his opinion about the pandemic killing our business, and instead promoted Carriage to 97th on the **Forbes 2021 List of America's 100 Best Small Companies**. I would like to thank Mr. Forbes once again, as the ranking of only 97 inspired Carriage's 2021 Theme:

CARRIAGE SERVICES 2021: ACCELERATING HIGH PERFORMANCE FLYWHEEL EFFECT!

The promotion has "highly motivated" our leadership teams across the company to a "Come Hell or Highwater Commitment" of **ACCELERATING Carriage's Good To Great II Journey To Become Number One On Forbes' List of America's 100 Best Small Companies by December 31, 2024!**

PART II – A TALE OF HIGH PERFORMANCE TRANSFORMATION

"**A Tale of High Performance Transformation**" for Carriage began on Wednesday, September 12, 2018 after our August 2018 financials reflected NO PROFIT earned in the month of August 2018. The last major element of our transformation process will be completed after we refinance our $400 Million of senior notes on or before their first call date of June 1, 2021, which ironically will be the thirtieth year anniversary of the founding of Carriage Services on June 1, 1991.

Our step by step transformation story over the past two and one half years has been comprehensively documented in my 2018 and 2019 Shareholder Letters and especially during 2020 in our earnings releases dated February 19, 2020, May 19, 2020, July 28, 2020, October 27, 2020 and February 17, 2021. So Part II of the Shareholder Letter will include substantive sections from those public materials but also add for perspective additional "meat on the bone" when it's believed to be helpful for a deeper understanding of our company.

I. High Performance Culture Concept: First Who, Then What

Jim Collins published his famous book ***Good To Great*** in 2001, yet we did not believe we were good (enough) to launch our first Five Year **Good To Great Journey** until the end of 2011. Since then we have focused relentlessly on the simple high performance culture concept of **First Who, Then What** to get the Right Who's on the **Carriage Good To Great Journey Bus**, get the Wrong Who's off the Bus, and then get the Right Who's in the Right Seats on the Bus: **BEFORE** stepping on the gas and accelerating toward our **Good To Great Journey Destination**.

As we learned the hard way in 2017 and 2018, writing the above concept down is easy, but getting it mostly right most of the time is extraordinarily difficult to sustain over many years. But it works performance magic when you do get it right, the most recent example being the Tom Brady led Tampa Bay Buccaneers winning the Super Bowl over the Kansas City Chiefs and their $500 million superstar magician quarterback Patrick Mahomes. I heard over and over in both the pregame activities and during the game that when Brady chose to go to the Buccaneers one year ago after winning six Super Bowls and becoming the Greatest Quarterback Of ALL Time (GOAT) with the New England Patriots, he had assessed the players and coaches and believed they lacked only one thing to become a perennial winner – **A CHANGE IN THEIR MINDSET** and **CULTURE** so that LOSING was unacceptable and **WINNING** was the only option.

When I had to step back into leading operations in September 2018, I found that the operating leaders whom I had promoted had lost the high performance followship of our winning leaders and teams across our portfolio, and had therefore lost the winning mindset and cultural edge and alignment needed to produce broadly higher and sustainable performance in our portfolio. **First Who, Then What** works just as powerfully in a negative direction when you have the Wrong Who's responsible for leading a group of Right Who's. It was my **First Who, Then What** mistake that let our people become demoralized, so it was my duty to make it right with the help of many aligned leaders and employees. Losing was unacceptable, failure was not an option and becoming a **Carriage Being The Best TEAM of WINNING TEAMS** again across our portfolio was the only option.

When we turned for help in finding a large number of **Right Who A Player** operating leaders at all levels of the company to replace the Wrong Who's from their seats on the **Carriage Good To Great Journey Bus**, Jason Buchbinder stepped up big time as head of our High Performance Talent Acquisition Program. Jason had joined Carriage only six months earlier on March 12, 2018 after twelve years of broad operating experience in our industry with another consolidation company.

What Jason has achieved in collaboration with our Operating Leaders and Executive Team Members since September 2018 has itself been transformative to the very nature of our definition of Carriage as a high performance culture company that just happens to be in the funeral and cemetery industry. He has mastered the art of getting the high performance culture concept of **First Who, Then What** to be **The RIGHT WHO A PLAYER** with almost every opportunity for High Performance Talent Acquisition that he handles, especially Directors of Support, Managing Partners, Sales Managers, Funeral Arrangers and Preneed Sales Counselors. It is an honor indeed to have him as one of the 47 key leader participants in our **Good To Great II Five Year Shareholder Value Creation Incentive Plan**.

Since September 2018 we have been through a difficult and sequential two and one half year process of assessing at each level of leadership the two primary leadership characteristics required to build and sustain a high performance culture company that just happens to be in the funeral and cemetery industry.

- **4E's of Leadership** that produce high and sustainable performance; and
- **Being The Best Mission / Five Guiding Principles** 360 Cultural Alignment Assessment.

As a result of this long and carefully designed process full of difficult people decisions, Carriage now has high performance leadership talent at all levels that are more skilled and aligned than at any time in our history.

For those of us with a leadership seat on the **Good To Great II Journey Bus**, we simply shake our heads in amazement no less than weekly and sometimes on a daily basis at the transformation of leadership talent into high performance cultural alignment and collaboration since only 2018, which is the number one reason our company executed a year of **Transformative High Performance** in 2020.

I will briefly summarize the current profile of our organizational leadership structure together with the degree of topgrading of talent since 2018 by category.

A. Board of Directors.

Almost overnight after the Sarbanes-Oxley Act of 2002 was passed by Congress and became the law of the land in response to highly publicized financial scandals at Enron and WorldCom, an army of "Good Governance Experts" sprang up and evolved over time into a huge and powerful industry. The purpose was to crack down on corporate accounting and other forms of fraud, and specifically to hold CEO's accountable for any wrongdoing.

To my knowledge after almost twenty years, not a single CEO has been convicted and held accountable for fraud under Sarbanes-Oxley, including during the financial meltdown of Lehman Brothers, Bear Stearns, Washington Mutual and others in 2007/2008/2009. Yet the army of Good Governance Experts are alive and well and more powerful than ever, especially related to who and what constitutes a highly effective Board of Directors.

Shown below are the three characteristics we list in our proxy that define an ideal Board Member for Carriage:

- A deep, genuine belief, understanding and commitment to our **Being The Best Mission Statement** and **Five Guiding Principles**;
- Business and investment savvy, including an owner-oriented attitude and conviction that we have evolved into a superior stockholder value creation investment platform and therefore represent a superior long term investment opportunity; and
- An ability to make a meaningful contribution and engagement to our Board's oversight of all elements and linkages of our **High Performance Culture Framework**.

We currently have six independent directors and one Advisor to the Board with a brief description of why each is an ideal fit and brings value from experience and diversity of thought to Carriage's Board shown below.

1. Don Patteson. Don is Chairman of our Audit Committee. I first met Don in 1990 when we were both CEO's turning around two separate Rent-To-Own companies for GE Capital. We later were partners in a successful venture to consolidate highly fragmented industries until I got the separate full time chance to start Carriage while Don consolidated the business forms industry and I was a shareholder and served on his Board. Don joined our Board in August 2011 immediately before our first Five Year **Good To Great Journey** and completely understands the uniqueness and culture of Carriage related to our leadership and people. He is a wonderful Board Member with great wisdom and judgement and is the largest Carriage Shareholder among our Board Members.

2. Barry Fingerhut. I first met Barry in 1995 when his venture capital company in New York did a pre-IPO funding for additional growth, but I told him that I wouldn't take his money without him joining our Board and adding personal value to me as a "beginner public company CEO" with his knowledge of public markets. He resigned in late 1999 after he and his partners sold their investment firm but rejoined in March 2012 after he had moved from New York to Phoenix and started an online education company where he serves as CEO.

Barry is Chairman of our Compensation Committee. Barry fully understands that the Carriage of 2021 has only three elements that are the same as the Carriage of the 1990's: the industry, the name and me! I would debate that last element, as my thinking and knowledge today has no correlation to my weak thinking and lack of knowledge in the 1990's, which I explained in my 2016 Shareholder Letter. Barry is a wonderful Board Member whose institutional memory of our company is priceless.

3. Bryan Liebman. Bryan joined our Board in 2015 and is our Lead Director. I first met Bryan around 2001 soon after he joined his family's travel business after dropping out of his last year of residency to become a urology surgeon. I had begun to use FROSCH Travel to coordinate our annual Pinnacle Trips to special places for the top performing Managing Partners of our businesses, while Bryan had begun to consolidate the highly fragmented travel agency business across America and then internationally starting with one family agency in Houston. We began to have breakfast every nine months or so to compare notes on how each was doing and to share ideas that worked as well as those that didn't.

   I became somewhat of a distant and infrequent mentor to Bryan but often felt that he should have been mine given his genius at doing high quality acquisitions on an "earn-out" basis with no debt! It's a good thing Bryan never got an MBA because he would have learned it wasn't possible to build a company by acquisition that would become one of the best and largest travel management companies without accumulating ANY DEBT! Witnessing Bryan's positive attitude this past year after the Coronavirus Pandemic devastated the travel industry for many months has been inspiring. He has successfully raised institutional capital recently to begin rebuilding his company by consolidating the best remaining travel management enterprises in his industry.

   Bryan is a wonderful Board Member who understands and knows our key leaders well, including many Managing Partners from attending a few of our annual four day Pinnacle Trips for our top performing Managing Partners and their spouses or significant others with our senior leaders and spouses as hosts.

4. James Schenck. I first met James at Dartmouth College in February 2016 as our daughter was graduating and his son was entering as a freshman. James and I hit it off because of our military backgrounds (he is a West Point graduate who later received his MBA from Harvard) and mutual interest and focus on high performance talent and leadership. I became a big supporter of James' leadership as CEO of PenFed, which was previously a once sleepy military credit union (Pentagon Federal Credit Union) that he had turned into a fast growing consolidator of the highly fragmented credit union industry across the country.

   I was also impressed at what James was doing through the PenFed Foundation to support our badly wounded military warriors returning from Iraq and Afghanistan, which is a "hot button" issue for me as a Vietnam Veteran. I introduced James to Tony La Russa and his annual Leaders and Legends Conference in Las Vegas, which through the Animal Rescue Foundation (ARF) founded over 25 years ago by Tony and his wife, does amazing and wonderful things for veterans suffering from PTSD by matching veterans with pets (mostly abused and abandoned dogs) to physically and emotionally heal together at the ARF facility in Walnut Creek, California. I have gifted many Carriage shares to both the PenFed Foundation and ARF over the last six or seven years in support of what James and Tony do for our veterans. GO WHITE SOX! James joined our Board in 2016 and is Chairman of our Governance Committee.

5. Doug Meehan. I met Doug in 2018 through a reference from one of our significant institutional shareholders who knew that I was looking for someone to join our Board who was currently in the institutional investment community with a curiosity and capacity to learn about a company doing something completely different from the conventional orthodoxy, i.e. consolidating the highly fragmented funeral and cemetery industry using an innovative business model and evolved framework. I could immediately tell that Doug was that person.

   Doug is Deputy Chief Investment Officer of Van Biema Value Partners in New York and has been on a wonderfully steep learning curve, having joined our Board in May 2018 shortly before our performance decline in 2018 when I stepped back into heading operations in September of 2018. So he has had a front row seat to witness the amazing transformation of Carriage and the mix of sequential components executed over the last two and a half years, becoming in the process a wonderful Board Member who completely understands the cultural nature of our high performance.

6. Dr. Achille Messac. Achille Messac joined our Board during the Coronavirus Pandemic in July 2020. Achille's life story could be made into an inspirational movie, as he was born in Haiti during the brutally fascist dictatorship of "Papa Doc" and "Baby Doc" Duvalier from 1957 to 1986 when "Baby Doc" was overthrown in a popular uprising. Achille and his family had to flee the country in 1973 rather than be murdered because his father had become a political enemy as a school reformer for children against the "no grow knowledge" status quo of the "Baby Doc" regime. Achille's journey took him from Haiti to first and briefly New York, then Belgium and finally to Boston when he was eighteen and spoke little English, yet he decided to enter that "good school nearby called MIT," a personal journey more akin to fiction than reality.

   Achille graduated from MIT with a PhD in Aeronautical Engineering and was briefly Dean of The Bagley School of Engineering at Mississippi State University (MSU) in 2013/2014, where I graduated in 1966 as a Chemical Engineer. I met him in August 2013 in connection with his tenure at MSU and we quickly bonded because of his boldness of thought and strategic thinking toward making ambitious dreams come true. We remained close friends over the years, and he was a special guest at the awards dinner on our **Being The Best Pinnacle of Service** trip to Washington, D.C. in April 2018, accompanying me and my wife on first time visits to the Vietnam War Memorial Wall and African American Museum of History, both highly emotional events given my history.

   I often thought Achille would make a great Board Member because he has a scientific big brain who could understand the conceptual and mathematical elements along with the many correlating linkages of our Standards Operating Model, a skill that I view as "priceless." But I waited to ask Achille to join our Board until I had the idea and concept of Carriage evolved to a "proof of concept" stage, which is what our performance in 2020 has achieved. If anyone wanted to see firsthand what "**Good To Great** Board Governance" looks like as opposed to the fashion of the day, they could review the five pages of slides that Achille recently sent me, part of a thirty page presentation he has developed on Carriage and its Standards Operating Model.

7. Greg Brudnicki. We acquired Greg's large premier combination business in Panama City in November 1997, but I got lucky and acquired a lifetime partner and foxhole buddy in the deal. Greg is extremely entrepreneurial, so the acquisition included four other funeral startups, two in smaller markets in Alabama, and one in a middle market in Georgia, all of which we later sold to prune our portfolio and pay down debt. But his fourth startup in Fort Walton, not far from Panama City, Emerald Coast Funeral Home, grew to become one of our largest and most profitable funeral businesses under the leadership of James Bass, Managing Partner and one of our ten Standards Council Members. We allocated a few million dollars of our precious capital in 2015 to construct a world class funeral facility for James, and his business has continued to grow and prosper along with the strong demographic growth of his market.

   Greg has been a trusted partner with sage counsel when I was faced with various turning points and difficult decisions over the last 23 plus years. At one point he served on the State Funeral Commission in Florida and later ran for Mayor of Panama City after we recruited his superstar Managing Partner Robert Maclary from Stewart Enterprises. Robert has led Greg's business to higher and higher performance since 2010 and was one of the twelve initial Five Year **Good To Great** winners in 2016 along with James Bass of Emerald Coast Funeral Home.

   Greg is in his fifth term as Mayor of Panama City and has continued to lead the City's recovery after it was almost completely devastated by Category 5 Hurricane Michael in October 2018. Greg brings a wealth of industry and company knowledge to our Board as an Advisor which would not be available anywhere else. Plus, he has a wicked sense of humor!

Doug joined our Board just before our transformation began in September 2018 and actually analyzed a comprehensive list of historical operating and financial performance data of each business compared to its Standards Achievement history by year from 2015 to 2018, which I had developed and shared with our Operations and Executive Leadership Teams for use in developing performance improvement plans for 2019. Doug concluded with sharp and savvy insight that there was a very weak correlation between financial performance and Standards Achievement trends! WOW, that was impressive and why we did a major update and reboot of our Funeral Performance Standards at the end of 2018, which I comprehensively covered in my 2018 Shareholder Letter.

You could think of Doug and Achille as our two **High Performance Transformation** Bookend Board Members, as Doug serves as a "Before Standards Update and Reboot" Board Member, while Achille has done his own deep dive analysis with compelling conclusions about our Standards Operating Model and Performance "Optimization" (title of a book he wrote and published for the elite engineering community), and therefore represents a "Post Standards Update and Reboot" Board Member." As the two most recent additions to our Board, Doug and Achille have benefitted from the historical Carriage knowledge and experience of our other Board Members, making for a great synergy of new members and old members on our Board. I plan to have both of them as guest speakers on one of our quarterly conference calls at some point in the near future to provide the investment community their views on what drives the value creation engines of Carriage.

The 2020 year was also transformative for our Board, as we began to have monthly update virtual calls after the COVID-19 shock in March simply because none of us knew what would happen next and we did not want our Board to be uninformed if some crisis arose. Later after it became clear that Carriage was achieving operating and financial performance at record levels, we invited our Board Members to participate voluntarily when available in our Thursday weekly operational update calls from across the country.

These monthly and weekly update calls, especially with each Board Member hearing from most of those participating in our **Good To Great II Value Creation Incentive Program**, have been engaging, addictive and invaluable for building on the three characteristics listed earlier for an ideal Board Member of Carriage. There can never be a return to only the quarterly meetings we had in person prior to COVID-19. I think our Board is actually having fun and being inspired by what they have learned from all of our **Right Who's** in the **Right Seats** on the **Carriage Good To Great Journey Bus**.

B. Executive Team.

Our Executive Team is currently comprised of eight members who are listed below:

Mel Payne, Co-Founder and Head of Executive Team;
Ben Brink, Head of Financial Reporting/Accounting, Tax, Treasury and Trust Fund Management Teams;
Steve Metzger, Corporate Secretary, Head of Legal and Human Resources Teams;
Chris Manceaux, Eastern Regional Partner;
Shawn Phillips, Central Regional Partner;
Paul Elliott, Western Regional Partner;
Carlos Quezada, National Sales and Marketing Partner; and
Peggy Schappaugh, Head of Operations and Acquisition Analysis Teams.

The five Operations Leadership Team Members who also serve on our eight member Executive Team are essentially performing in collaboration with each other and myself the role and responsibilities of a Chief Operating Officer. Carlos Quezada joined Carriage's Executive Team at the end of June as its eighth member and the 'missing piece" on **Carriage's Good To Great II Journey Bus** related to building a high performance culture sales organization to optimize and sustain preneed property sales in our cemetery portfolio. So given our historically high performance in the midst of a Coronavirus Pandemic along with a long term outlook for the future that has never been brighter, we do not plan to recruit a President and COO to fix what so clearly "ain't broke!"

The five operational leaders on our Executive Team collaborate daily on "all important matters" across our entire portfolio of funeral homes and cemeteries, including portfolio performance reviews, performance improvement plans and forecasts, internal growth and maintenance capital investments, topgrading of talent and adding short term overhead to increase intermediate and long term performance, etc. Each Thursday morning Shawn Phillips serves as host moderator for our Executive Team on a one hour operations update Zoom meeting from our operational support teams across the country, including ten Directors of Support for Operations/Sales (DOS's) who are located in the regions and assigned a specific portfolio; three Senior Operations and Acquisition Partners (SOAPs) who are each assigned a specific portfolio and collaborate closely with our DOS Team; and other key Operational Support Leaders including Field Operations, Administrative Support, Talent Acquisition and IT.

The Executive Team also has monthly update conference calls with the six independent members and one advisor to our Board as well as with the ten members of our Standards Council who represent the "**Best of The Best**" of our Managing Partners across our geographically widespread portfolio in 26 states.

Readers should take notice that no "pecking order" titles were used above in this listing of our Executive Team Members, as each of the eight members is considered an equal "Leader Owner" of all areas of Carriage and therefore treated that way by other team members. The Executive Team meets formally each Friday at 10:00 AM to discuss matters that every other member would either want or need to know to best do their job and optimize the joy and meaning of the high performance journey we are on together. But any member can call the entire team together on short notice to address any relevant opportunity or challenge.

I have previously covered in our October 27, 2020 earnings press release the leadership teams and critical roles and responsibilities of Steve Metzger and Peggy Schappaugh, as well as the Standards Council and its ten members in my 2018 Shareholder Letter and other quarterly releases during 2020, so those important areas of our company won't be covered again in this shareholder letter.

Of the eight current members on our Executive Team, four were serving in this role in September 2018, three were promoted from within and one was recruited. Seven others since September 2018 were either terminated or resigned to pursue other opportunities or for personal reasons. As a central part of this process of "Darwinian Natural Selection" of Carriage's leadership for the future, we developed a simple 360 4E Leadership Alignment Assessment which described a **Carriage 4E Leader** as someone with ideas about the present and a vision of the future that other talented leaders and employees want to align with and voluntarily follow.

C. Regional Partners.

Our field operations are comprised of 174 funeral homes and 32 cemeteries (19 combination businesses) in 26 states that are organized into three regions, i.e. Western, Central and Eastern. Each business (multiple locations clustered in certain markets) is led and managed by a Managing Partner who reports to a Regional Partner on our Executive Team. Shawn Phillips, a thirteen year veteran of our company, was brought back into the Central Regional Partner role at the beginning of 2019 and led an incredible turnaround performance in 2020, elevating the Central Region into the top performing Carriage region from the lowest performing region in 2019 (lots of **First Who, Then What** topgrading of talent).

Shawn was also the "Go To Foxhole Buddy" leader responsible for finding and securing emergency PPE and other supplies for our frontline COVID-19 battlefield Managing Partners and employees, but especially and specifically skilled staff, and then delivering these critical resources timely when they were most needed by our Managing Partners during COVID-19 death spikes whenever and wherever they occurred. Such sudden outbreaks and spikes in local deaths always had the potential of overwhelming our local leadership and employee teams, which never happened and enabled Carriage's businesses to respond to the needs of families and communities when they were needed most in the midst of crisis, a primary reason we were able to make significant market share gains throughout this past year.

Paul Elliott has been the Regional Partner of our Western Region since joining Carriage in 2012, so he had to deal with California being the first state to impose highly restrictive behavioral and social distancing mandates on March 17, 2020, as well as the late November spike in deaths which has only recently begun to subside, although at an elevated death rate level compared to pre-COVID-19 normalized seasonal patterns in our Western Region Portfolio. Three of our four largest cemeteries are in Northern California in the Oakland/San Jose area, so while our atneed cemetery revenues and margins also spiked in line with our large funeral volumes, revenues and margins in this market, our Cemetery Sales Managers and their Sales Counselors in California and the Western Region contributed hugely to increasingly high preneed property sales that produced record third and fourth quarter cemetery portfolio performance across all three regions that has continued into the first quarter of 2021.

Chris Manceaux was promoted to Regional Partner of our Eastern Region in 2017 after first joining Carriage in 2010 and becoming the best Director of Support – Operations in the history of this role, first established in 2004 after we implemented our initial Standards Operating Model for our funeral portfolio. Chris has the largest region with the most funeral and cemetery businesses, which necessitates four Directors of Support – Operations who have individual portfolios clustered into multi-state market areas from Massachusetts down the Atlantic coast to Florida, where we have a large portfolio of businesses. Chris also has responsibility for Fairfax Memorial Park and Funeral Home, the largest business in our portfolio with revenues of over $20 million and one of our transformative acquisitions at the end of 2019.

D. Directors of Support.

This is a highly critical role that has evolved since our Standards Operating Model was introduced effective January 1, 2004 for funeral operations and January 1, 2007 for cemetery sales and operations. The concept is for Directors of Support to have a portfolio of 10 - 15 businesses each with Managing Partners who can be "supported" rather than managed to achieve a high level of annual **Being The Best** Performance Standards which don't change form year to year like a budget.

We have had many women join our Managing Partner leadership ranks along with a trend toward younger Managing Partners over the last seventeen years, while our Directors of Support Team has grown into a more seasoned and savvier group of industry specific professionals who excel at coaching and mentoring their teams of Managing Partners.

The Directors of Support – Operations role and the Cemetery Sales Manager Role have had the most dramatic turnover since September 2018 with five of our current group of seven Directors of Support – Operations either joining about the time I again became head of operations in mid-September 2018 or being recruited thereafter. Our Western Region has two Directors of Support – Operations, JC Barr and Brad Bishop, both joining since July 2018, our Central Region has one in the North Subregion, Tom Frisch, who joined October 2019; and the large Eastern Region has four, two of which are veterans, Bob Muccino and Dan Casotti, who joined as recently as 2015 and 2017 with portfolios in the Northeast and Mid-Atlantic Subregions, and two of which joined in 2019 and 2020, Paul Mousseau and Randy Weagley.

All of our three Directors of Support – Sales are new since mid-2019, as Carlos recruited two of his former colleagues into this role in the last half of 2020.

Every member of our Executive Team and Peggy's SOAP Team (Senior Operations and Acquisitions Partners previously covered in the third quarter release dated October 27, 2020) will say that this vital role is the critical link to successful broad execution of higher and sustainable performance across our diverse portfolio. Each Thursday morning in our weekly operations update Zoom call, we all get inspired and excited listening to this group of 4E DOS Leaders letting us know the most recent success stories and how our Managing Partners and Sales Managers are "pumped" about the opportunities that have yet to be realized.

None of us question that on a scale of Zero to Ten, this group of Directors of Support talent is an **ELEVEN** compared to pre-September 2018 and a huge factor in the broadly higher performing portfolio of funeral homes and cemeteries since the first quarter of 2020. And **NO ONE** believes we will ever return to a low portfolio performance anywhere close to the "**Worst of Times**" like in Paris between 1775 – 1792!

E. Managing Partners / Sales Managers.

We have 115 Managing Partners of funeral and cemetery businesses in our three regions with topgrading since September 2018 as shown below:

Western: Thirty Managing Partners with nine new and two businesses clustered to eliminate two positions;
Central: Thirty Managing Partners with thirteen new, two reassigned and three businesses clustered to eliminate three positions; and
Eastern: Fifty-three Managing Partners with seven new.

We have fourteen cemeteries large enough to support a full time Sales Manager or in the case of our seven largest cemeteries several specialist Sales Managers (for example, Rolling Hills in Northern California near Oakland has three Sales Managers that lead teams in Family Service, Pacific Rim Office in Oakland, and Advanced Planning).

As is necessary to create a high performance sales organization, there was a large topgrading turnover in our Cemetery Sales Managers, whose numbers are listed below by region with the number of new Sales Managers since March 2018.

Western: Nine Sales Managers, six new;
Central: Six Sales Managers, five new; and
Eastern: Six Sales Managers, four new.

This entire section has been about the **First Who, Then What** nature of building a high performance culture company that just happens to be in the funeral and cemetery industry. Being part of a company like Carriage is not for everyone, just like being part of a super bowl winning team in Tampa, Florida led by the "GOAT" Quarterback Tom Brady was not for everyone. Winning locally against competition who wants your market share is not easy, and winning broadly and sustainably across our entire portfolio has not happened easily or overnight.

There is a magical **People Power** unleashed in any enterprise that focuses intensely and continually on **First Who, Then What** until finally the **Right Who's** are in the **Right Seats** on the **Enterprise Bus**. That is exactly what has happened at Carriage since September 2018, which means we can now step on the gas pedal to accelerate the high performance of the **Carriage Good To Great Journey Bus**. Which is the compelling reason why I told my two adult children to never sell their Carriage shares!

II. Background History to Good To Great II Shareholder Value Creation Incentive Plan

From an early age I became aware that if I really wanted to become the best at something, it wasn't motivating unless it was something difficult, for example pitching a baseball, dancing or shooting snooker (very large table with very small holes!). I learned that I first had to commit myself to that goal and then practice, practice, practice until I achieved a **Being The Best** status and recognition from others whose opinion I respected. I achieved all three of those goals in high school. Consequently, I concluded that if I committed to become the best at something difficult, I could master it and achieve my goal in five years.

As my career and life evolved through various experiences and phases, I began to first think and then write in terms of having a ten year vision of my personal life as well as my career; a five year strategy for each that aligned with the vision with a roughly right range of outcomes at the end of five years; and finally a one year more detailed plan of action to execute the strategy. Then each year I would update the written action plan and rethink my written vision and strategy to make certain that I was living my life to its fullest potential, something I committed to myself after serving one year in the countryside of Vietnam in 1967/1968 (no American forces within 30-40 miles) pioneering with others the modern concept of counterinsurgency. Since every day after November 25, 1968 was equivalent to a gift of life, why not make the most of this precious gift every day for the rest of my life.

It wasn't until after I accumulated a "little capital" and quit my high paying job (which I hated) financially restructuring and turning around troubled companies in 1986 that I began to be a full time investor, or so I thought until I got wiped out financially from "speculating" on just about anything tradeable in the October 19, 1987 "Black Monday" market crash (DOW down over 22%). After somehow navigating through a couple of years of recovery, I committed to learning from the great investment masters how to professionally think about and invest money for long term capital gains. While I studied many successful styles and individuals, I found Warren Buffett and Charlie Munger and their simple ideas and philosophies to be a perfect fit for me.

But in my search for an investment philosophy and wisdom, I also began to study the technical side of the price/volume dynamic of stock charts over time of individual companies, which led to the CANSLIM Stock Selection System designed to identify early stage growth companies developed by William O'Neal, Founder in 1984 of Investors Business Daily ("IBD"). I Co-Founded Carriage on June 1, 1991 at 48 years of age with the goal of creating a great common stock investment at some future point, only 3½ years after losing all my capital in the Black Monday market crash. A primary motivation was that I realized that even if I learned how to be a great investor over the next twenty years, I likely would not have enough capital saved to invest to become financially independent. Plus I hated the idea of working for someone else after being exposed to Richard Rainwater on a few deal ventures in my job while he was first with the Bass Brothers in 1984/1985 and then on several of my venture ideas after we both quit our jobs and Richard formed his famous deal shop Rainwater, Inc. in 1986.

Richard quickly formed several ventures (Columbia / HCA, ENSCO, Pioneer Natural Resources, etc.) in the 1986-1990 timeframe from a beginning idea and then built major companies from these ideas backing top management talent, and in the process became a multi-billionaire while having tons of fun with his deal flow and brilliant off the wall antics. I tried to do several deals with him, and while he was always very encouraging and supportive, the October 19, 1987 market crash took me financially out of his major league game of big idea deals and business.

When I got the chance to start Carriage on June 1, 1991 with a loan (conditioned on my personal guaranty) from a financial subsidiary of Service Corporation International co-founded and managed by former colleagues from Texas Commerce Bank, I committed to building a **Being The Best** regional funeral home company within five years. I quickly learned that some of the best acquisition opportunities and businesses were in other areas of the country, which meant I needed to raise equity capital (real cash common equity of which Carriage during its first five years had NONE!). So I took Carriage public in August 1996, a little over five years from its founding. That five year "I can master it" rule kept working its magic. My vision for Carriage even then was to build and evolve Carriage into a "**Built To Last**" company in the same way Jim Collins subsequently profiled for a small number of companies in his first book ***Built To Last***, published in 1994 and co-written with Jerry Porras.

My thinking in hindsight was hilariously naïve if not downright stupid, as I thought we could make Carriage so valuable as a public company within five years that no one could buy us, so I insisted on insiders having a super voting class of common with ten votes each, whereas public shareholders in the IPO would be issued common shares with only one vote. After five years from our August 1996 IPO, all shares would revert to one vote each. **VERY COMMON!** Within five years, no problem: we would be "**Built To Last!**" Alas, as it turned out, being very common when your shares go from $29 in January 1999 to $1 in August 2000 was when all the learning from mistakes began. Each of the four other domestic public companies in our industry which would have previously bought us were in financial survival crises by 2001 from the acquisition mania of the 1990's using maximum short term bank leverage, and all debt and equity capital sources (fair weather friends) had fled the scene of the "consolidation at any price" crime!

After "**Built To Last**" Carriage in the 1990's turned into an "Acquisition Mania Bust", I had to rethink everything except the **Mission of Being The Best, The Five Guiding Principles** and the idea that by first developing an unorthodox and counterintuitive business model for operations, Carriage could evolve over time into a great and valuable ownership investment.

The incredible thing about IBD for me was not so much its growth stock selection methodology but its **10 Secrets To Success** and biographies of highly successful people from all walks of life both alive and long dead. I was simply mesmerized by these "**10 Secrets**", which were the exact sequential framework of elements that I had already been practicing with my Ten Year Vision, Five Year Strategy and One Year Plans. For those of you unfamiliar with IBD and its **10 Secrets To Success**, they are shown below with the IBD research finding as a preface to the list:

IBD's 10 Secrets To Success

Investor's Business Daily has spent years analyzing leaders and successful people in all walks of life. Most have 10 traits that, when combined, can turn dreams into reality.

1. **How You Think Is Everything**: Always be positive. Think success, not failure. Beware of a negative environment.
2. **Decide Upon Your True Dreams and Goals**: Write down your specific goals and develop a plan to reach them.
3. **Take Action**: Goals are nothing without action. Don't be afraid to get started now. Just do it.
4. **Never Stop Learning**: Go back to school or read books. Get training and acquire skills.
5. **Be Persistent and Work Hard**: Success is a marathon, not a sprint. Never give up.
6. **Learn to Analyze Details**: Get all the facts, all the input. Learn from your mistakes.
7. **Focus Your Time and Money**: Don't let other people or things distract you.
8. **Don't Be Afraid to Innovate; Be Different**: Following the herd is a sure way to mediocrity.
9. **Deal and Communicate With People Effectively**: No person is an island. Learn to understand and motivate others.
10. **Be Honest and Dependable; Take Responsibility**: Otherwise, Numbers 1-9 won't matter.

I have been teaching and mentoring our leaders and my children for many years using the material from the **Leaders and Success** page of IBD, as I know with certainty that the framework and wisdom of these sequential **10 Secrets To Success** are not secrets at all, but can absolutely work magic for both individuals and companies when individuals and teams align themselves toward a mission of becoming the best in their field of work, and commit to following this way of disciplined thought completely.

After our operational turnaround work from September 2018 and 2019 culminated in four major acquisitions at the end of 2019, we developed an internal five year operating and financial plan through 2024, i.e. a Five Year **Transformative Performance Strategy** aligned with a Ten Year Vision of **Being The Best** Operating, Consolidation and Value Creation Company in our industry. We also applied benchmark valuation multiples to forecast five year performance metrics to produce a relatively tight range of Carriage share price levels by year. We published the first three years of performance ranges without share price ranges publicly on February 19, 2020 as our initial "**Milestone Three Year Scenario**". And then the Coronavirus Pandemic came to America and quickly no one cared about our Three Year Scenario because **FEAR** quickly followed by **PANIC** spread even faster than the Coronavirus and infected every part of our country, including the investment community that owned our shares.

III. Good To Great II Five Year Shareholder Value Creation Incentive Plan

We have received a lot of positive feedback from institutional investors about what I labeled on Page 7 of our first quarter release dated May 19, 2020 as a pure form of shareholder aligned "Pay For Long Term High Performance," i.e. incentive awards paid in appreciated CSV shares in early 2025 to 47 key leaders of Carriage conditioned on achieving one of five CSV share price CAGR categories (20%, 25%, 30%, 35%, 40%) over the five years ending 2024 (CSV price range of $35.78 to $77.34). After initially publishing our Milestone Three Year Roughly Right Scenario on February 19, 2020, and subsequently having our shares plummet briefly below $14 per share in the Coronavirus Pandemic market crash, it seemed like a "no-brainer" to create a five year "pay for sustained high performance incentive plan" for 47 of our leaders (ten of which are **Best of the Best** Managing Partners who serve on our Standards Council), all of whom I considered critically important to the execution of our five year operating and financial performance plan.

Even at the beginning of the COVID-19 Pandemic and market crash, I was so totally convicted on what Carriage could achieve over the five years ending 2024 that we cancelled all other long term equity incentives for our Executive Leadership Team that had been approved in our February Board Meeting, not only for 2020 but 2019 as well. We were all together "**All In Or Nothing!**"

As I have learned from being a long time student of the awesomely simple but wonderful investment ideas of Warren Buffett and Charlie Munger, patience is a "competitive advantage virtue" not only in investing but also in building a good and valuable company over time based on the **Good To Great** high performance concepts of "**First Who, Then What**", especially related to that company finally evolving after almost thirty years into a unique superior long term investment opportunity. Given the thousands of investment choices available in markets across the world, I realized that Mr. Market crashing almost 40% in February and March last year because of scary and real "Black Swan Events" related to COVID-19 had served up one of the greatest investment opportunities of my life in the company I had co-founded on June 1, 1991.

While the scoreboard (the daily price of our shares) during the initial shock of the Coronavirus Pandemic in March, April and the first two weeks of May reflected that we were not only losing the game but might not even survive the game as a "going concern", I was thinking only about "what's going on" on the playing field across our portfolio of businesses with all the talent we had positioned to make plays to win the game of serving client families and their local communities when literally "life and death" was on the line.

As the largest individual shareholder owning about 10% of outstanding shares with my wife and two grown children and owning nothing else but Carriage, it made total sense to create "a unique one time only" incentive program over five years for 47 of our most talented and aligned people based on wealth creation defined by compounded share price returns of between 20% and 40% at 5% increments, starting with the Mr. Market base "gift price" of $14.38. In order to specifically define the incentive plan, I "dreamed up" potential share price outcomes over a five year timeframe that aligned with our Five Year **Transformative Performance Strategy**, believing that we could execute this strategy successfully after the COVID-19 Pandemic was brought under control with vaccines, which would mean that Carriage had the potential to achieve "At Last" a "**Built To Last**" status and valuation by the end of 2024.

But what got me really passionate and excited was thinking about mentoring the other 47 participants over the five year vesting timeframe on how each of them could and therefore would execute their role individually and as a team to create sustained high performance wealth for all our shareholders which in turn would achieve financial rewards in the form of ownership of their company beyond what they could previously have imagined. The **10 Secrets To Success** would lead us to the mythical pot of Gold of "**Carriage High Price Shares**" at the end of the rainbow! And the Five Year Rule would work its magic once again and finally confirm that Carriage had achieved its **Being The Best Mission**.

The Five Year **Good To Great II Shareholder Value Creation Incentive Plan** for 37 critical leaders who aren't Managing Partners of one of our businesses aligns perfectly with the annual and five year incentive plans for our Managing Partners, which I have previously covered in other Shareholder Letters as well as in comprehensive detail in our 2020 quarterly releases, especially the year end release on February 17, 2021. In combination, unique corporate and field operations one year and five year incentive plans serve as a "superglue" for high performance culture A Player talent at all levels to execute their roles individually and in teams at the highest possible level.

I have explained to all of these wonderful leaders and employees that few people in their careers are at the right company in the right industry at the right time so that their financial dreams and aspirations can come true while at the same time finding great meaning and joy in their work. We are all committed to the passionate belief that the right company is **Carriage** and the right time is **NOW**, and that we have control over our own performance destiny based on **HIGH PERFORMANCE CULTURE EXECUTION, EXECUTION, EXECUTION!**

IV. Adaptation, Entrepreneurialism and Innovation Amidst Coronavirus Pandemic

Given the decentralized nature of our business model and the entrepreneurial "can do" spirit of the vast majority of our Managing Partners and sales Managers, combined with the "adapt or die" mindset of our Field and Houston Support Center Leadership Teams with Legal (what you can and cannot do) and Information Technology out front in the lead, we quickly implemented **Digital Transformative High Performance** changes at businesses in those areas and markets most impacted by the rapidly spreading Coronavirus Pandemic. Innovation in business practices and acceptance of technological and digital tools as an accelerator of **TRANSFORMATIVE HIGH PERFORMANCE** against abrupt, mandated obstacles related to meeting and communicating with client families was embraced and adopted across our portfolio at what seemed like warp speed.

It is ironic indeed that, in a traditional industry normally resistant to change and especially technological change, our response to the adversity of a new and threatening harsh operating environment was to adapt in ways that have fundamentally enhanced our **Service and Guest Experience** delivery (one of our **Being The Best** Performance Standards weighted 10%) and driven competitive differentiation for years to come.

It would be impossible to put a comprehensive list in this letter that would do justice to all the amazingly creative funeral services our Funeral Managing Partners and their army of courageous employee teams performed across our portfolio of businesses since March 2020. So I will simply provide a small and random sampling for investors and non-industry readers for a better understanding of what it means when I refer to the **NOBLE WORK** our wonderful people do every day when they are called to service without regard to adverse environments not under their control.

1. Clarke Thomson, Managing Partner of Alsip Funeral Home, Nampa, Idaho – Branded Casket. Alsip Funeral Home served a local ranching family in the Boise, Idaho market. In order to customize the family experience, the funeral home delivered the selected hardwood casket to the family's ranch where they were able to burn the family ranch brand emblem into the casket. When guests arrived for the funeral, the casket was displayed with the family ranch emblem clearly in view for a touching personalized family tribute.

2. Tom Paquette, Managing Partner of A.A. Mariani and Son, Providence, Rhode Island – Radio Transmitter. Early in the pandemic after severe limitations on social and especially indoor gatherings, Tom put into place the use of a Radio Transmitter that enabled friends and families to come together to share the experience of the loss of a loved one and friend. From the parking lot of the funeral home, guests could gather in their own vehicles to listen to and experience a life journey history event by tuning their radio to a certain frequency. Tom and his team recognized that coming together for family and friends became even more important when restrictions on gatherings were being tightened and coming together to honor the deceased seemed impossible. Tom and his team made a difference for many families during the pandemic that they were called upon to serve, who otherwise would have missed out on the benefit of the presence of their friends.

3. Joshua Joseph, Location Manager of Carman Funeral Home, Flatwood, Kentucky – Send In The Clowns. When a long time resident of Flatwood, Kentucky passed away last year, his family knew immediately which funeral home to call: Carman Funeral Home, led by Joshua Joseph. The gentleman who passed away was a clown in his off time, entertaining children and adults alike for decades. The family brought in his clown suit and scooter, pictures and a big bag of rubber noses to hand out to all those who attended his celebration of life. Joshua and his team then went to work.

   They set up a carnival-style popcorn machine and surrounded it with bags of popcorn and animal crackers for guests to take home and enjoy. They found a mannequin to display his clown suit and made a bouquet of rubber nose-tipped flowers to put next to the bowl of red rubber noses the family provided. The entrance of the visitation room was decorated with balloons and carnival accessories and balloons were tied to chairs throughout the room. The team even found some red and white striped fabric at the local Hobby Lobby store, which they used to drape the memory table and wrap the casket bier. The family and all the guests that attended to celebrate the life of this iconic clown were extremely appreciative of everything Carman Funeral Home did to make his celebration of life a truly unique farewell.

4. Christine Amittone, Managing Partner of Greer Mortuary, Alameda, California – Reacquainted One Last Time. The Navy held a special place in the heart of this gentleman who had passed away. So much so that after serving 25 years, he jokingly called his eight children his “crew”! He was extremely proud of his service during his military career as a cook on the USS Hornet. The staff team at Greer Mortuary thought it was only fitting that as part of his funeral procession, the team at Greer Mortuary would arrange one final salute, a funeral procession drive by the USS Hornet which is now a navel museum in Alameda, California. With the assistance of the museum’s curator, the funeral staff team and volunteers stood on the deck of the now repurposed war ship, waving American flags as the procession of cars passed by, his “crew” of eight adult children each wearing a sailor cap and producing a final salute to a great man, their father.

5. Ken Summers, Managing Partner of P.L. Fry & Sons, Manteca, California – Final Wish. While getting to know a family in her role as a Funeral Arranger, Cathy learned from the deceased’s sister that this lady always wanted to be in a real parade. Without hesitating, Cathy responded, “I bet we can make that happen.” The arrangements for a flatbed trailer and truck were made, which was decorated with bales of hay, a hay and flower arch and potted plants. A banner with a photo of the deceased draped the back end of the trailer. On the day of the service the “float” was staged at the funeral home with the casket appropriately placed on the trailer after which the funeral procession took place through town. At the entrance to the cemetery, the six pallbearers took their place of honor next to the casket on the trailer as the procession of family and friends made their way to the final resting place. The family were exuberant and incredibly appreciative that something the deceased had always wished for had finally come true.

I once gave a speech on customer service at the National Funeral Directors Association (NFDA) along with three other CEO's. I stepped to the microphone in front of 1,000 or more funeral directors in the convention hall and said, "At Carriage Services, our client families always come second!" Then I said nothing more as the shock of that statement was processed by the stunned crowd of undoubtedly wonderful funeral directors and business owners.

After a long period of "deafening silence" during which you could have heard a pin drop, I went on to say "**BECAUSE**, 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. 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 best to honor and memorialize the life of their loved one."

I call attention to the fact that no mention of the final disposition choice of cremation or burial was made in any of the five services profiled above, as any one of them could have been either. Almost every discussion we have with investors incudes the question about the trend toward more cremations in our mix being a huge negative revenue headwind. But we already have a mix of 57% cremation for our Combined Same Store and Acquisition Funeral Portfolio and the revenue and margin trends have become our dear friend, and should stay our dear friend long term even after an adjustment to a lower level of deaths once the COVID environment normalizes at some point.

Most families whom we are privileged to serve don't really know what is possible in a cremation or burial service other than their choice of "final disposition" as either cremation or burial. The secular trend toward cremation as a final disposition has been steadily increasing over the thirty years since Carriage was founded in 1991, when the national rate was about 25% and Carriage's initial small portfolio in the traditional markets of Texas, Tennessee and Kentucky was only about 16%-17%.

What might surprise a non-industry reader is that a majority of families think there are rules or certainly protocols about what you can and cannot do once they make the final disposition choice, which 80% - 85% of the time is not primarily about price. So what is possible to create a high value service quickly turns to the initiative of the Funeral Arranger / Director and his or her imagination and creativity after engaging the members of the family to learn about the life of their loved one, and what specific uniqueness really mattered in that life that could create a memorable and emotional final goodbye.

There is an abundant amount of research on how people best recover from the grief of loss of someone they lived with and loved deeply. The type of funeral business that can do such **NOBLE WORK** consistently family by family is what I signed up for when I co-founded Carriage, not a low-priced, no value body-processing commodity business we often encounter in our markets. As opposed to the common view by many investors, we view the upside potential for more high value service options and revenue on our majority cremation funeral business as one of our best organic revenue and profit growth opportunities in the years ahead. And our operating leaders led by Chris Manceaux are laser focused on this opportunity like never before in our history.

In summary, **First Who, Then What** is a winning people strategy for the "**Service and Guest Experience**" with every client family every time regardless of whether the final disposition choice is cremation or burial. This intensely focused high performance people strategy has been the primary reason our winning teams of employees have been so successful this past year during the COVID-19 Pandemic, as exemplified by the five wonderful services by our **Right Who** people detailed above.

V. Cemetery High Performance Sales Culture Organization

As Carriage was founded as a funeral operations and acquisition company in 1991, we have long been funeral revenue dominant at about 75% funeral and 25% cemetery, having acquired our first large cemetery in Northern California on January 1, 1997. Since then I have believed that our cemetery sales high performance potential was gigantic but still unknown and certainly unrealized. While we have made various efforts at different times in the past with mixed and unsustainable results, our decentralized and fragmented sales organization has not been able to produce high performance more broadly and predictably within our increasingly large cemetery portfolio.

Shown below is an excerpt from our second quarter earnings release on July 28th:

> "While in the past we have had spurts of high property sales performance in our ten largest cemeteries, we have never been able to sustain such performance over the long term under our decentralized decision making business model designed originally for our standalone funeral business portfolio."

In my 2020 Theme Letter dated February 18, 2020, I announced to all our Managing Partners, Sales Managers, Directors of Support and Houston Support Center Leaders that we had a high priority goal of recruiting the **Right Who** Sales Leader to head Cemetery Sales and Marketing for our **High Performance Cemetery Bus** who would also become an Executive Team Member. We successfully recruited Carlos Quezada with his immense cemetery sales and entrepreneurial history on June 26, 2020.

Following is an excerpt from an internal email from me to all employees dated July 1, 2020 announcing that Carlos had joined our Executive Team.

> "Carlos will have the primary responsibility of building high performance sales teams and standardized sales systems across our portfolio of cemeteries, as we believe that his leadership and past success at building high performance winning teams will finally unleash the broad and sustainable performance power within our cemetery portfolio, especially our largest cemeteries that now include three top quality combination businesses acquired in the fourth quarter of 2019 and early January 2020.
>
> Carlos has been the missing piece on **Carriage's Good To Great Journey Bus**, which means we now have all the right people in the right seats at the right time. Therefore, my job as the driver of our **Carriage High Performance Culture Framework Bus** has just become the easiest job I have ever had because of the eight powerful Executive Team Leader Owner Engines firing on all cylinders as we accelerate and drive in the direction of greatness on our **Good to Great Journey** that never ends. But the real secret to our company lies with the huge and unlimited leadership and people power in each of our operating businesses in alignment with our Third and Fifth Guiding Principles:
>
> - Belief in the Power of People through Individual Initiative and Teamwork; and
> - Growth of the Company is Driven by Decentralization and Partnership.
>
> Together we will drive toward and achieve our **Mission and Vision of Being The Best** as an operating, consolidation and value creation company in the deathcare industry."

It has now been nine months since Carlos joined Carriage and it has been a joy and revelation to witness him embrace our Carriage High Performance Culture Framework with insight and wisdom. In July 2020 Carlos presented his plan for the creation of **Transformational High Performance** sales teams across the cemetery portfolio. The plan, while ambitious and aggressive with respect to goals and timelines, inspired excitement, possibility, and complete support by his Executive Team peers and operations and support team leaders toward its successful execution. The plan consists of six primary **High Performance Sales Drivers**.

1. Leverage technology as an enabler of sales acceleration.
2. Introduction of performance-based rewards and incentives.
3. Strategic capital allocation to high yield cemetery products and offerings.
4. Sales growth through advance planning strategies and robust marketing.
5. Deployment of lead generation programs while improving conversion ratios.
6. Standardization of cemetery sales processes, policies and systems.

We have experienced progress over the past nine months beyond what I believed was possible given the harsh socially restrictive mandates in most of our large cemetery markets, particularly California. Yet the **Transformational High Performance** plan continued to be executed with minimum delays by: Traveling when permitted to visit the cemetery portfolio; Meeting the various Directors of Support, Managing Partners and Sales Manager teams; Building new relationships; and Understanding and identifying challenges, opportunities and possibilities. Carlos was amazingly able to get things done rapidly in spite of the environment with never a reason that advancing his plan couldn't happen. Below is an outline of the progress and results thus far:

- Recruited a new cemetery portfolio sales leadership team comprised of three talented **High Performance** Directors of Sales Support, Tulio Bertello, Shane Pudenz and Paula Harris. Each was assigned a specific portfolio of cemeteries to support based on the issues and opportunities at each cemetery that matched up best with their individual skills and strengths;
- Launched **CAREdge**™, an internal campaign promoting our core values and what it means to be part of a **High Performance Sales Organization**, i.e. when you join Carriage you are more than a member of a sales team. You are part of a **High Performance Culture** driven by people who truly care for our client families while being **Inspired** and **Energized** by incredible **Passion** for sales success and excellence. **CAREdge**™ defines the three pillars of our **Sales DNA**: **Who we are, What we do** and **How we do it**;
- Recruited a new Sales Development Partner, Erin Embry, who is now the leader/owner of our new **CAREdge Academy** where she will focus on instilling the sales skills conducive for building top sales teams across our cemetery portfolio;
- Selected Microsoft Dynamics 365 as our new customer relationship management system (CRM), which is in the process of being customized for Carriage through our implementation partner;
- Launched a new performance-based high reward compensation program that started as a pilot at a few select cemeteries, which went effective across the portfolio on April 1, 2021;
- Deployed digital communication management system (CMS) enabling quick, direct, and effective communications across the cemetery portfolio; and
- Record-breaking months of Total Preneed Property Sales during the fourth quarter of 2020 and first two months of 2021, as January 2021 was exceptional with total preneed property sales performance at 152.2% over January of 2020; and February 2021 was even more exceptional with total preneed property sales performance at 191.6% over February 2020.

We have achieved significant milestones toward building a **High Performance Culture Sales Organization** in only nine months because of the collaboration and partnership from leaders across our company. **Our Good Sales To Great Sales Journey** has begun. However, this is just the beginning on our quest to **Become The Best** at sales and reach our optimum cemetery performance potential. I can say with certainty that Carriage's cemetery portfolio future is very bright and will become even brighter as we capitalize on every opportunity to build an agile, effective, and very successful **High Performance Sales Organization** across our portfolio of cemetery businesses.

Our **High Performance Sales Team** led by Carlos is highly inspired, totally driven, ridiculously passionate and fully committed to success. I would like to end this section in the same way that Carlos and his team end all conversations with Carriage Partners: **There Has Never Been A Better Time To Be With Carriage And The Best Is Yet To Come!**

VI. Consolidation Platform Transformative Acquisitions

As we were heading into the final quarter of our 2019 turnaround year, we suddenly had the opportunity to acquire four large, high quality businesses in large strategic markets. I had personal relationship history and/or performance potential knowledge of the three large combination businesses and over two years of performance history knowledge of the large funeral business in Buffalo, New York. I had not experienced such a flurry of opportunity with high quality acquisition candidates with huge upside growth potential in our 28 year history, and therefore considered the four together as transformative to Carriage as a Value Creation Platform, notwithstanding the very high prices we had to pay to get all four of about $170 million. I was confident that these four would be worth the risk of taking our leverage ratio up to an elevated level of six times on a proforma basis, and fully integrated would take our company and its performance to a much higher and sustainable "**Critical Mass**" level of Revenue, Consolidated EBITDA, Free Cash Flow and the associated "**Being The Best Margins**" in the 60 Year History of Funeral/Cemetery Industry Consolidation.

They are summarized by date of closing below.

October 9, 2019: Lombardo Funeral Home, Buffalo, New York:

- "Best in Class" and largest funeral home provider in Western New York with four funeral chapels serving approximately 2000 families annually;
- Founded in 1907 by Joseph Lombardo, Sr. Joseph P. Lombardo, grandson of Joseph Sr., became President in 1984 and grew the business from a single funeral home serving about 40 families to four locations serving about 2,000 families in 2019;
- Carriage entered the Large Strategic Market of Buffalo, New York for the first time.

October 28, 2019: Rest Haven Funeral Home and Cemetery, Rockwall, Texas:

- Partnered with Dewayne and Ann Cain. Dewayne founded this wonderful business in his hometown in 1970 (50 years ago) and is a visionary industry leader and dream partner;
- Expanded from one funeral home and cemetery in Rockwall to full service funeral home chapels in near by Rowlett and Royce City, an onsite Northeast Texas Crematory and other ancillary businesses;
- Carriage entered the Dallas – Fort Worth Metroplex for the first time.

December 31, 2019: Fairfax Memorial Park and Funeral Home, Fairfax, Virginia:

- Co-founded 1957 by Cornelius H. Doherty and son Cornelius Jr. (Neil). Led by Neil's son Michael Doherty;
- Largest single business acquisition in Carriage's history performing 850 cemetery interments and 900 funerals with combined revenue of almost $17 million;
- Represented for Carriage the "crown jewel flagship" property and business in the highly attractive large and growing strategic market of the Greater Washington Metropolitan Area.

January 3, 2020: Oakmont Memorial Park and Mortuary, Lafayette, California:

- Founded in 1956 and serves the East Bay Area including Oakland and many affluent communities in Contra Costa County;
- Uniquely beautiful cemetery with lush mountainside landscape and spectacular views of nearby Mount Diablo and Briones Regional Park;
- Carriage added another “crown jewel” property and business to our large portfolio of high quality funeral homes and cemeteries in the San Jose, Oakland and East Bay markets.

There was no doubt that we stretched thin and to the maximum our company’s operations and support leadership teams who were responsible for the acquisition and subsequent integration of these four large transformative acquisitions, especially because cemeteries are a multiple of times more complex than a funeral home from an operating systems and accounting perspective, and therefore much more difficult to integrate. Our plan was to be as fully integrated as possible during the first half of 2020, but we barely got out of the gate when the Coronavirus Pandemic set back these plans by 4 to 6 months, especially at our two largest acquired cemeteries, Oakmont in Lafayette, California and Fairfax in Fairfax, Virginia. Both of these high potential properties required recruiting an A Player Sales Manager and building high performance sales teams in the midst of a COVID-19 Pandemic that has yet to be resolved.

Shown on the next page are the comparisons of each of our four acquisitions to the most recent full year performance before acquisition, which largely along with recent five year performance data informed the development of a ten year forecast and ROIC with the first year forecast shown in comparison to actual performance by each business for the Rolling Full Year Ended February 2021. As the Rolling Full Year Results through February 2021 reflect, the combined revenue for all four acquisitions totaled $50.5 million, Field EBITDA $22.6 million and Field EBITDA Margin 44.8%, consistent with the following partial quote from me in the first paragraph of our February 19, 2020 full year 2019 earnings release and introduction to our Three Year Roughly Right Scenario:

> “We made bold strategic moves in the last quarter of 2019 by acquiring four large high quality businesses in great strategic markets with about $50 million in new high margin revenue once fully integrated into Carriage’s operating model framework. We believe that in 2019 we positioned Carriage for unprecedented performance and valuation success over the next five years.”

(000's) EXCEPT FUNERAL CONTRACTS AND CEMETERY INTERMENTS

OAKMONT MEMORIAL PARK AND MORTUARY

	2018 Full Year			Roll Year Ending Feb. 21			Year 1 Forecast		
	Revenue	EBITDA	Margin	Revenue	EBITDA	Margin	Revenue	EBITDA	Margin
Funeral Contracts	338	N/A	N/A	399	N/A	N/A	345	N/A	N/A
Funeral Revenue	$1,930	$ 850	44.0%	$2,289	$1,003	43.8%	$2,034	$ 915	45.0%
Cem. Interments	538	N/A	N/A	454	N/A	N/A	565	N/A	N/A
Cem. Ops. Revenue	$5,928	$2,745	46.3%	$5,544	$2,317	41.8%	$6,200	$2,807	45.3%
Cem. Fin. Revenue	$ 426	$ 426	100.0%	$ 412	$ 412	100.0%	$ 450	$ 450	100.0%
Subtotal	**$8,284**	**$4,021**	**48.5%**	**$8,245**	**$3,732**	**45.3%**	**$8,684**	**$4,172**	**48.0%**

REST HAVEN FUNERAL HOME AND CEMETERY

	Recent Full Year 2018			Roll Year Ending Feb. 21			Year 1 Forecast		
	Revenue	EBITDA	Margin	Revenue	EBITDA	Margin	Revenue	EBITDA	Margin
Full Service Funeral	$3,635	$1,490	41.0%	$ 4,768	$2,684	56.3%	$ 3,892	$1,428	36.7%
Cremation Funeral	$ 513	$ (128)	(25.0)%	$ 426	$ (108)	(25.4)%	$ 529	$ 77	14.6%
Cem. Ops. Revenue	$1,623	$ 194	12.0%	$ 2,033	$ 637	31.3%	$ 2,013	$ 653	32.4%
Cem. Fin. Revenue	-	-	-	$ 506	$ 506	100.0%			
Pet/Other	$3,637	$ 602	16.6%	$ 4,694	$1,198	25.5%	$ 3,327	$ 714	21.5%
Subtotal	**$9,408**	**$2,158**	**22.9%**	**$12,427**	**$4,917**	**39.6%**	**$ 9,761**	**$2,872**	**29.4%**

LOMBARDO FUNERAL HOME

	2018 Full Year	Roll Year Ending Feb. 21	Year 1 Forecast
Funeral Contracts	1,837	2,563	1,892
Funeral Revenue	$4,802	$5,996	$5,042
Funeral EBITDA	$1,042	$1,302	$1,815
Funeral Margin	**21.7%**	**21.7%**	**36.0%**

FAIRFAX MEMORIAL PARK AND FUNERAL HOME

	2019 Annualized			Roll Year Ending Feb. 21			Year 1 Forecast		
	Revenue	EBITDA	Margin	Revenue	EBITDA	Margin	Revenue	EBITDA	Margin
Funeral Contracts	887	N/A	N/A	1,022	N/A	N/A	920	N/A	N/A
Funeral Revenue	$ 8,415	$ 2,918	34.7%	$ 8,684	$ 4,059	46.7%	$ 8,714	$ 3,658	42.0%
Cem. Interments	846	N/A	N/A	820	N/A	N/A	888	N/A	N/A
Cem. Ops. Revenue	$ 8,366	$ 3,753	44.9%	$13,557	$ 7,001	51.6%	$ 8,872	$ 3,610	40.7%
Cem. Fin. Revenue	$ 294	$ 294	100.0%	$ 1,623	$ 1,623	100.0%	$ 1,000	$ 1,000	100.0%
Subtotal	**$17,075**	**$ 6,965**	**40.8%**	**$23,864**	**$12,623**	**53.1%**	**$18,586**	**$ 8,268**	**44.5%**

Four Combined Business Totals	**$39,569**	**$14,186**	**35.9%**	**$50,532**	**$22,634**	**44.8%**	**$42,073**	**$17,127**	**40.7%**

Because of the slow start to our integration at the beginning of 2020 and subsequent COVID-19 Pandemic delay into the middle to latter part of the year for substantial progress on building A Player Preneed Sales Teams at Fairfax and Oakmont, I decided to show in this letter the highly transparent performance trend of the four acquisitions through February of 2021. By doing so, anyone reading our **Tale of High Performance Transformation** who might have been skeptical about the high prices we paid might change that skepticism to "glass half full thinking" in the future. We have never shown individual business performance before and don't anticipate doing so again, but we have never made such a bold series of large acquisitions in a short timeframe before financed with $170 million of additional debt, which many thought at the time was overly aggressive and risky even before the Coronavirus Pandemic arrived in March.

After our February 19, 2020 earnings release, as opposed to a lift in our shares by buyers believing that we were way undervalued given the unusual and "**Transformative High Performance**" reflected in our "**Three Year Scenario**", our shares headed south and accelerated in that direction in March during the Coronavirus Market Crash to a bear market low of $13.80 on April 16, 2020. However, Mr. Market began to perk up and started buying our shares in volume again after we reported first quarter and April results on May 19th along with an outlook that reflected the COVID-19 environment as performance positive for Carriage rather than a huge negative.

Shown below are four reasons among many others covered in this letter why we do not expect to visit the old neighborhood of Carriage's stock price in the teens ever again!

COMPARATIVE TWO MONTHS 2021 VERSUS 2020 ENDING FEBRUARY (000's)

	2020			2021			VARIANCE			
Funeral	**Revenue**	**EBITDA**	**Margin**	**Revenue**	**EBITDA**	**Margin**	**Revenue**	**%**	**EBITDA**	**%**
Lombardo	$ 986	$ 266	27.0%	$1,201	$ 412	34.3%	$ 215	21.8%	$ 146	54.9%
Rest Haven	$ 608	$ 264	43.4%	$1,103	$ 677	61.4%	$ 495	81.4%	$ 413	156.4%
Fairfax	$1,294	$ 486	37.5%	$1,488	$ 787	52.9%	$ 194	15.0%	$ 301	61.9%
Oakmont	$ 282	$ 126	44.7%	$ 480	$ 274	57.1%	$ 198	70.2%	$ 148	117.5%
Subtotal	**$3,170**	**$ 1,142**	**36.0%**	**$4,272**	**$2,150**	**50.3%**	**$1,102**	**34.8%**	**$ 1,008**	**88.3%**
Cemetery	**Revenue**	**EBITDA**	**Margin**	**Revenue**	**EBITDA**	**Margin**	**Revenue**	**%**	**EBITDA**	**%**
Rest Haven	$ 223	$ 19	8.5%	$ 426	$ 227	53.3%	$ 203	91.0%	$ 208	1,094.7%
Fairfax	$ 954	$ 354	37.1%	$3,735	$2,687	71.9%	$2,781	291.5%	$ 2,333	659.0%
Oakmont	$ 502	$ 260	51.8%	$1,139	$ 698	61.3%	$ 637	126.9%	$ 438	168.5%
Subtotal	**$1,679**	**$ 633**	**37.7%**	**$5,300**	**$3,612**	**68.2%**	**$3,621**	**215.7%**	**$ 2,979**	**470.6%**
Total	**$4,849**	**$ 1,775**	**36.6%**	**$9,572**	**$5,762**	**60.2%**	**$4,723**	**97.4%**	**$ 3,987**	**224.6%**

Our performance in the first two months of 2020 was weak from our four acquisitions as it was immediately after the acquisition of Fairfax on December 31, 2019 and Oakmont on January 3, 2020, so our integration process had barely begun and our integration and operating teams were stretched thin. What a difference a year makes! The first two months performance of 2021 in our four funeral businesses was spectacular, especially at Rest Haven and Fairfax. The Combined Funeral Revenue from our four businesses increased by $1.1 million or 34.8%, 92.5% of which was converted into Combined Field EBITDA of $1.0 million equal to an increase of 88.3%, as Field EBITDA Margin increased by 1,430 basis points from 36.0% in the pre-integration first two months of 2020 to 50.3% in the post-integration first two months of 2021.

The three acquired cemeteries produced $3.6 million or 77% of the $4.7 million increase in Combined Funeral and Cemetery Revenue, and $3 million or 75% of the $4 million increase in Combined Funeral and Cemetery Field EBITDA from the four acquisitions in the first two months of 2021. Carlos and his team of Directors of Support – Sales in collaboration with our Regional Partners, Directors of Support – Operations and other support teams were able to recruit A Player Sales Managers at Fairfax and Oakmont and begin to build high performance teams of preneed sales counselors. The results thus far have been beyond spectacular, especially from Fairfax which is already at this early stage becoming the powerful growth and profitability engine we knew it had the potential to be. We are confident that the cemetery performance potential of these acquisitions has enormous upside from the current level of performance, as does our Same Store Cemetery Portfolio, a huge reason we are so confident about our high performance during 2020 being sustainable into the future.

The most exciting thing about each of our four recent acquisitions is that, while we are not implying that the combined performance for the first two months of 2021 can be annualized to derive a normalized year of near to intermediate term future performance, we know with certainty that we are still in the early phases of optimizing and normalizing each business for high and sustainable performance over the next five to ten years. Opportunities and upside possibilities for each are as follows:

LOMBARDO

- Continued market share and revenue growth;
- Expansion of funeral contract revenue averages which have been low while driving market share gains; and
- Expansion of Field EBITDA Margins toward **Being The Best Standards Range** in the high 30% level.

REST HAVEN

- Continued growth of funeral volumes and revenues from rapid population growth near Rockwall, Texas;
- Development and execution of **High Performance Cemetery Sales Strategy** that can be executed over the next ten years; and
- Allocate capital for high return internal growth projects.

FAIRFAX

- Continue market share and demographic growth of funeral volumes and revenues; and
- Development of extensive higher end preneed product inventory designed and customized pursuant to a new cemetery development master plan for highly diverse and dense cultural and religious communities in the Fairfax market area; and
- Allocate capital for extremely high returns on invested capital over the next ten years.

OAKMONT

- Assess feasibility of building a new funeral chapel to serve the affluent communities in the market;
- Finish development of master plan for cemetery designed for optimum use of beautiful topography with development of high end product inventory; and.
- Allocate capital for extremely high returns on invested capital over the next ten years.

I will go out on a limb and predict that by the end of **Carriage's Five Year Good To Great II Journey** ending in 2024, these four acquisitions should combine for over $60 million in annual revenue and $30 million in annual Field EBITDA at a combined 50% Field EBITDA Margin. While reflecting back on other predictions I have made about Carriage's future performance and related share price, I have often concluded that I have been an eternal optimist with a "glass half full" mindset 100% of the time, which meant that "I was right so early it seemed as if I was wrong for so long!"

But after witnessing the **High Sales Performance Vision** Plan that Carlos and his A Player Team have brought to our company, and not just to our cemetery portfolio, maybe this **Five Year Good To Great II Journey** will indeed lead to that "**Carriage Compounded Shareholder Returns**" pot of gold at the end of the 2024 rainbow. An earned outcome of financial independence because of "Carriage ownership awards" at the end of 2024 would be only fitting for the 47 wonderful leaders in our **Good To Great II Shareholder Value Creation Incentive Plan** who make it happen.

VII. Free Cash Flow and Leverage

Our record operating results in 2020 led to a record $70 million of Adjusted Free Cash Flow and a record Adjusted Free Cash Flow Margin of 21.2%. These historic performance records represent incredible increases of 80.3% in Adjusted Free Cash Flow and 700 basis points in Adjusted Free Cash Flow Margin in 2020 compared to 2019, and demonstrate the cash earning power and potential of Carriage going forward.

We introduced the new Adjusted Free Cash Flow Margin financial metric in our first quarter earnings press release dated May 19, 2020 to further illustrate the growing percentage of each dollar of revenue that is available as internally generated cash capital for allocation into high return investments to optimize the growth in intrinsic value per share of Carriage. We will continue to report this important differentiating metric in our future performance releases and expect continued expansion on an annual basis after completion of our planned senior note refinancing transaction.

Our record Adjusted Free Cash Flow also benefited from a minimal amount of cash taxes being paid in 2020 due to previously implemented internal tax methodology changes and benefits from the CARES Act. In addition, we received a tax refund of approximately $7 million that is **not** included in our reported Adjusted Free Cash Flow for 2020. Carriage will be a full cash taxpayer in 2021, which is the only reason we have forecast the range of Adjusted Free Cash Flow to be slightly lower at $63 - $67 million in 2021 compared to 2020.

The record Adjusted Free Cash Flow allowed Carriage to make remarkably fast progress on our commitment to reduce debt and improve our leverage profile in 2020. For the year our leverage ratio improved 1.6 turns to 4.4 times from a high of 6 times, and our Total Debt declined $72.9 million or 13.7% from a peak of $534 million on January 3, 2020 to $461.1 million at year end. Our Total Debt to Adjusted Consolidated EBITDA has already fallen to 3.83 times as of March 19, 2021 ahead of our anticipated senior note refinancing.

We have closed on more than $10 million in divestitures while pruning our portfolio of smaller underperforming businesses over the last nine months, and have another $10 - $11 million in planned divestitures that are either under contract or currently being actively marketed. We believe we will have closed or have the majority of these divestitures under contract to sell by the end of 2021.

VIII. Senior Note Refinancing & Capital Allocation

As we have outlined in previous earnings releases, we intend to execute a capital markets transaction to refinance our $400 million 6.625% unsecured senior notes on or before when they become callable at $104.696 on June 1, 2021. Based on the current trading price and yield of our outstanding bonds, the continued historically low interest rate environment and the strength of the high yield bond market, we are confident in the ability to refinance the $400 million of notes with a new 8-10 year unsecured senior notes issue with a coupon approximately 200 to 250 basis points lower than our current rate. This planned transaction should be immediately accretive to annual earnings per share by $0.30 - $0.38 and should also substantially increase annual Adjusted Free Cash Flow by reducing cash interest expense by $8 - $10 million.

We view the approximately $20 million call premium on our senior notes from the ROIC perspective of a new investment opportunity just as we would a new acquisition or share repurchase. In this case, assuming a new $400 million senior notes issue at a coupon of 4.375% versus the existing coupon of 6.625%, the pretax cash ROIC would be 45% annually for the 8-10 year maturity of the issue. It would be almost impossible to find a better value creation use for our capital. Moreover, this transaction should lower our cost of capital a full point to about 6.5% from 7.5%, enhancing the value creation ROIC spread on all future capital allocation investments.

Post the completion of our planned senior notes refinancing, Carriage would have the financial flexibility to allocate our capital strategically to optimize the intrinsic value of each share. We believe Carriage has entered a capital allocation and value creation 'sweet spot' for the next 5-10 years, meaning numerous attractive investment opportunities with higher long term organic growth potential and consequently higher rates of return on invested capital than ever before in our history. Savvy and flexible capital allocation will primarily be funded with our own recurring and growing Free Cash Flow, allowing Carriage to maintain a more moderate Debt to Adjusted EBITDA leverage profile and policy than in the past. Higher return capital allocation in combination with our lower cost of capital from a refinancing transaction should lead to significant increases in Carriage's overall return on invested capital in the years ahead.

After completion of a planned refinancing transaction, our capital allocation decisions will be focused on the following five areas:

1. <u>Acquisitions</u>. Partnering with the best remaining independent funeral homes and cemeteries in America based on our updated Strategic Acquisition Model. Due to the operational challenges that our industry has experienced due to the Coronavirus Pandemic, we have seen the acquisition market for high quality independent businesses in large strategic markets be close to non-existent over the past year, as independent owners focused on the challenges of the pandemic rather than succession planning. We expect this dynamic to change in the latter half of this year and into 2022 and believe Carriage will be uniquely positioned to continue to be a preferred choice for leading independent owners who are looking for the best long term succession planning solution for their businesses, employees and communities they serve.

2. <u>Internal Growth Capital Expenditures</u>. We believe the best businesses are ones that have superior growth opportunities, enabling us to allocate more capital over time at higher and increasing rates of return on invested capital. We are excited about the opportunities we have across our portfolio to allocate capital at high rates of return as part of our expectation for higher organic Funeral Home and Cemetery Revenue and Field EBITDA growth rates in the future.

3. <u>Share Repurchases</u>. We will allocate capital opportunistically to repurchase Carriage shares if we believe they trade at a significant discount to intrinsic value. We will also evaluate potential share repurchase activity in relation to any near term large scale acquisition opportunities, as we are much more focused on increasing the long term compounding rate for each of our ownership shares than on just getting bigger by adding revenue from acquisitions.

4. <u>Dividend Increases</u>. We were pleased to increase our annual dividend to shareholders by 33% in 2020 with two increases of $.05 each in the second and fourth quarters. Our current annual dividend is $.40 per CSV share and represents a current dividend equity yield of about 1.1%. In the future, we intend to have our annual dividend per share at a level that approximates a 1% dividend equity yield, while the total amount of dividends paid would approximate no more than 10% of our annual Adjusted Free Cash Flow.

5. <u>Debt Repayment</u>. We made amazingly fast progress on our debt reduction plan in 2020 that led to acceleration of the improvement in our credit profile. Once we have completed the planned refinancing transaction, we intend to operate at a more moderate leverage policy of about 3.8 to 4.0 times Debt to Adjusted Consolidated EBITDA in order to maintain the maximum financial flexibility to support our future capital allocation. We also believe equity investors would support this policy as less risky, which could have the impact of increasing our valuation multiples.

IX. Preneed Trust Fund Repositioning Strategy: Never Waste a Market Crash and Panic

INVESTMENT PERFORMANCE 2020					
Time Frame	Investment Performance		Index Performance		
1 year ended 12/31/2020	Discretionary 16.10%	Total Trust 14.90%	S&P 500 18.40%	High Yield Bond Index 7.10%	70/30 Index Benchmark 10.50%

Carriage's Discretionary Preneed Trust Fund Portfolio had a total return of 16.1% in 2020 compared to 18.4% for the S&P 500 and 10.5% for our 70/30 High Yield Bond/S&P 500 benchmark. The 16.1% return in 2020 improved our long term average annual total return for our Discretionary Preneed Trust portfolio to 13.9% since Carriage began to manage its trust fund assets internally on October 14, 2008.

Shown below in quotation marks are the six paragraphs from the preneed trust fund section in my 2016 Shareholder Letter, because the commentary is still highly relevant and timely for a deeper historical perspective of the major trust fund repositioning strategy we executed in 2020:

> "We took control of our trust funds on October 14, 2008 and executed a complete repositioning strategy over the next eighteen months focused on individual security selection with a large concentration in the TARP pari passu preferred stocks of 'Too Big To Fail' financials (cents on the dollar – apparently we were "the market"). Consequently, we were able to emerge from the 2008/2009 market crash with trust funds that were hugely overfunded and had large recurring income from our fixed income portfolio (financial preferred stocks and high yield notes).
>
> Since October 2008 we have developed an in-house team of professionals under the leadership of Ben Brink to manage our trust assets. Over the past eight years we have continued to execute a strategy of individual company and security selection geared toward high yield fixed income securities and large market capitalization stocks. Given the long term nature of preneed contract liabilities and the permanent nature of the capital, we have the ability to take a long term and patient view of our investments and be most active in the portfolio at times of market distress and dislocation (i.e. Be Greedy when others are Fearful).
>
> We view the permanent nature of this capital and the long term liabilities of preneed contracts as an important competitive investing advantage since we have no concerns about a sudden outflow of funds from our portfolio during times of market distress, nor do we feel the pressure to make short term decisions in order to beat a benchmark performance index. We believe that the permanent nature of the preneed trust funds has enabled us to remain patient, diligent yet opportunistic for occasional portfolio repositioning for better relative value opportunities.
>
> Since the financial crisis of 2008/2009 we have had several other significant opportunities to reposition the portfolio for long term success. The two most significant timeframe opportunities were the six to nine months after S&P downgraded the triple A credit rating of the United States on August 5, 2011, and again in the fourth quarter of 2015 through the first quarter of 2016 when the energy markets plummeted (oil price hit $26 per barrel before rebounding), triggering substantial declines and volatility in most other equity and fixed income sectors as well. Both of these time periods gave us the opportunity to upgrade the credit quality of our large fixed income portfolio allocation at prices less than par, thereby positioning our trust funds for future capital gains while simultaneously increasing our recurring annual income.
>
> We view the in-house management of our trust funds as an integral part of our Mission of **Being The Best** and a critical support service for enhancing operating financial revenue for our Managing Partners and their operating businesses toward the goal of higher Standards Achievement over time. Our long term investing track record is confirmation that we are performing at a high level that is in complete alignment with the high operating and financial performance history of our operating portfolio of businesses.

> We decided in 2012 to separate the trust fund financial performance embedded within the funeral and cemetery operations segments in our Five Year and Five Quarter Trend Reports to more clearly reflect financial performance mostly produced by our in-house investment team in Houston from pure operating and sales performance produced by our Managing Partners and Sales Managers in our funeral and cemetery businesses. Our thinking then and even more so now was that such separation and transparency of performance would increase the ownership mindset, personal accountability and sense of 'Carriage Team' responsibility for those who produce the results and therefore lead to continuous improvement over time.
>
> That simple yet powerful idea in our operations and overhead reporting has been and remains a driving force for the high performance evolution in all areas of our company."

A. <u>Repositioning Strategy, Execution and Result During Coronavirus Market Crash and Recovery</u>. As stated at the beginning of this 2020 Shareholder Letter, I began the 2019 Shareholder Letter in my home library on Sunday, March 29, 2020, five days after Houstonians were subjected to "Stay at Home Orders" that lasted until April 30, 2020, and six days after the market hit a bear market bottom on Monday, March 23, 2020. The DOW had reached an all time high of 29,551 on February 12, 2020 in the climax to an almost eleven year bull market (prior bear market bottom on Friday, March 6 / Monday, March 9, 2009), and then declined 38% in forty days to 18,321 on March 23, 2020, when the DOW finished its historically short bear market by plunging almost 3,000 points that Monday.

By Friday, March 6, 2020, we had completed most of the preparation for a major trust fund repositioning by raising our cash allocation from $15.5 million or 8% at December 31, 2019 to about $54 million or 25% of total assets at cost on March 6th. We began to make a major rotation into equities and fixed income securities on Monday, March 9th when the DOW was down over 2000 points because of Coronavirus Pandemic fears and the economic and financial impact to our country, economy and businesses.

I had previously experienced an economic environment with similar characteristics in the mid to late eighties when Texas went through an oil, real estate and banking depression while the rest of the economy was booming because of low energy prices and declining short and long term interest rates under the Reagan/Volker policies.

So we devised a specific relative value rotation into the equities and fixed income securities of companies that we believed would weather the short to intermediate COVID-19 economic damage and emerge as big winners. In a more normal market, there is a trade-off between an investment strategy designed to optimize either capital gains or recurring income or in our case a balance of both biased toward recurring income with a majority asset allocation to fixed income securities.

But the Gold Standard Black Swan Event of the sudden and violent Coronavirus Market Crash gave us the opportunity to "get greedy" when the fear was greatest and achieve both huge recurring income and huge capital gains in both equities and fixed income securities trading at incredible discounts to intrinsic fair value. When liquidity is sucked out of a market and the price discovery concept is nowhere to be found, investing becomes an exciting and fun thing to do, especially as I was locked at home with nothing to do but watch fear mongering "noise" masquerading as news on television.

We picked mostly equity securities with high dividends (likely sustainable through the crisis which in each case has happened) and a smaller group of "deep value" equities in companies that were local to Houston or Texas or otherwise that we had personal knowledge of for over twenty years, including Dow, Lyondell Basell, Main Street Capital, Phillips 66, Valero, Westlake Chemical Corp. and Partners L.P., Freeport McMoran, Hillenbrand, Independent Bank Group, Insperity, etc. We executed on what we already knew from long experience and other dramatic cycles as there was no time for research and due diligence in the midst of panicked fear and crashing markets.

We picked fixed income securities in companies which mostly were already in our portfolio except that we went big on an allocation in the early summer timeframe into the first group of “desperation survival financings” from cruise lines that included really high coupon (low double digits) first lien bonds maturing in 3 – 6 years (Carnival, Norwegian, Royal Caribbean). Shown below was my description in my 2019 Shareholder Letter on the state of the markets as of March 29, 2020:

- After the S&P 500 Index closed at an all-time high of 3,386 on February 19, 2020 (39 days ago), the equity and bond markets collapsed because of fear and panic by investors over the Coronavirus Pandemic, with the S&P 500 plummeting to an intraday low of 2,337 on Monday, March 23rd, down 34% in 33 days, while the DOW Industrials were down 37.1% intraday;
- Bond markets began to freeze up as liquidity was sucked out of bond funds when investors sought safety in cash, exploding yields;
- As the shock of the Coronavirus Pandemic Crisis, having already caused a sudden economic crash and crisis, began to be processed by investors, fears of a financial and credit crisis were made worse by a slow response by the House of Representatives to the fiscal and monetary package passed by the Senate because of the deep political divide in our country;
- A lack of liquidity in the markets and a spike in volatility has characterized both equity and bond markets over the last month with the CBOE Volatility Index (VIX) hitting an all-time high of 82.69 on Monday, March 16, 2020, and the U.S. Ten Year Treasury yield hitting an all-time low of 0.54% on Monday, March 9, 2020, as investors sought safety and the avoidance of any corporate risk;
- Share prices of the most directly and severely impacted companies (airlines, hotels, cruise lines, Boeing, etc.) were down as much as 50% - 80% in one month at the recent market low on March 23, 2020, as were most energy companies that were already way down from the excess production and supply driven by geopolitical dynamics between large producers like Russia and Saudi Arabia;
- Bond yields especially in all high yield categories exploded as the lack of liquidity caused a breakdown in normal price discovery mechanisms, i.e. no buyers “bidding” and sellers willing to “ask” and accept hugely discounted prices from par (30 to 60 cents that one month ago were 100 cents).
- The medical, economic, financial and political crises, compounded by scary worst case reporting by almost all media, all occurring simultaneously and suddenly because of a once in a lifetime novel Coronavirus Pandemic, have defined the Gold Standard for a Black Swan Event, creating an investment environment of uncertainty that is likely to last for months if not much longer.

B. Execution of Trust Fund Repositioning Strategy. Since March 6, 2020, we have deployed a total of about $94 million in new capital through March 2021 that has led to the following benefits to the current and future performance of our trust fund portfolio and the correlated substantial increase in Carriage’s reported Financial Revenue and EBITDA:

1. The $94 million of new capital deployed increased recurring annual income in our trust fund portfolio by approximately $8.6 million or 112%, which increased the total recurring annual income to $16.3 million.
2. The $94 million of new capital deployed has generated about $45 million of realized and unrealized capital gains, of which about $41 million remain unrealized at this time.
3. The $94 million of new capital deployed was allocated $41.9 million (45%) into equities at a yield to cost of 7.2% which currently have about $30 million in unrealized gains, and $52.1 million (55%) into fixed income securities at a yield to cost of 10.6% which currently have $11.0 million in unrealized gains.

4. Execution of the Repositioning Strategy coupled with existing long term core holdings has positioned our Preneed Trust Funds for additional long term capital appreciation **and** the ability to maintain the current high level of recurring income.
5. Primarily driven by the increase in recurring investment income earned by our Cemetery Perpetual Care Trusts, our recognized and reported Financial Revenue increased 24.6% to $19.7 million while Financial EBITDA increased 29.3% to $18.4 million in 2020 compared to 2019. This increase while substantial only included the benefits to Financial Revenue and EBITDA from our Repositioning Strategy for 7 months from June through December.
6. Financial Revenue is expected to increase to approximately $22 - $23 million in 2021, while Financial EBITDA is forecast to grow to $21 -$22 million at a 94% -95% Financial EBITDA Margin in 2021. We view this amount of Financial Revenue and EBITDA as sustainable over the next 3-5 years based on the current dividend profile of our equity positions and maturity and quality profile of our fixed income portfolio.

C. Preneed Trust Allocation and Results at Key Dates. Shown below are our preneed trust fund holdings on key dates beginning on December 31, 2019 and ending on February 8, 2021. Since February 8, 2021, additional allocations have been made into equities which added over $300,000 in recurring income.

CSV DISCRETIONARY PRENEED TRUST HOLDINGS (IN MILLIONS)

At December 31, 2019	Cost	% Total	Market	% Total	Unrealized Gain/Loss	Annual Income
Fixed Income	$ 114,519	55%	$ 118,668	56%	$ 4,148	$ 7,532
Equity	$ 77,815	37%	$ 78,957	37%	$ 1,142	$ 2,568
Cash & Cash Equivalents	$ 15,518	8%	$ 15,518	7%	$ -	$ 70
Total	**$ 207,852**	**100%**	**$ 213,143**	**100%**	**$ 5,290**	**$ 10,170**
At March 6, 2020	**Cost**	**% Total**	**Market**	**% Total**	**Unrealized Gain/Loss**	**Annual Income**
Fixed Income	$ 88,371	40%	$ 89,039	43%	$ 688	$ 6,957
Equity	$ 76,951	35%	$ 63,2397	31%	$ (13,711)	$ 2,345
Cash & Cash Equivalents	$ 53,876	25%	$ 53,876	26%	$ -	$ 85
Total	**$ 219,198**	**100%**	**$ 206,154**	**100%**	**$ (13,043)**	**$ 9,387**
At March 23, 2020	**Cost**	**% Total**	**Market**	**% Total**	**Unrealized Gain/Loss**	**Annual Income**
Fixed Income	$ 100,801	46%	$ 80,113	51%	$ (20,688)	$ 8,305
Equity	$ 107,303	49%	$ 67,927	43%	$ (39,376)	$ 3,791
Cash & Cash Equivalents	$ 10,286	5%	$ 10,286	6%	$ -	$ 65
Total	**$ 218,390**	**100%**	**$ 158,326**	**100%**	**$ (60,064)**	**$ 12,161**
At December 31, 2020	**Cost**	**% Total**	**Market**	**% Total**	**Unrealized Gain/Loss**	**Annual Income**
Fixed Income	$ 138,548	61%	$ 150,722	63%	$ 12,174	$ 12,247
Equity	$ 82,332	37%	$ 85,401	35%	$ 3,069	$ 3,673
Cash & Cash Equivalents	$ 4,667	2%	$ 4,667	2%	$ -	$ 0
Total	**$ 225,547**	**100%**	**$ 240,790**	**100%**	**$ 15,243**	**$ 15,920**
At February 8, 2021	**Cost**	**% Total**	**Market**	**% Total**	**Unrealized Gain/Loss**	**Annual Income**
Fixed Income	$ 138,491	63%	$ 154,135	61%	$ 15,644	$ 12,229
Equity	$ 78,050	35%	$ 95,306	38%	$ 17,256	$ 3,720
Cash & Cash Equivalents	$ 4,052	2%	$ 4,052	1%	$ -	$ 0
Total	**$ 220,593**	**100%**	**$ 253,493**	**100%**	**$ 32,900**	**$ 15,949**

D. Recognized and Reported Results of Trust Fund Repositioning Strategy. Shown below is the Five Year Financial Trend Report section from Carriage's Five Year Trend Report ending December 31, 2020.

FIVE YEAR FINANCIAL TREND REPORT (MILLIONS, EXCEPT MARGINS)

Financial Revenue	2016	2017	2018	2019	2020	Proforma 2021
Preneed Funeral Commissions	$1.4	$1.3	$1.3	$1.5	$1.3	
Preneed Funeral Trust and Insurance	$6.9	$6.9	$7.1	$6.9	$7.8	
Cemetery Trust & Perpetual Care	$7.2	$6.2	$5.7	$6.0	$9.7	
Preneed Cemetery Finance Charges	$1.6	$1.5	$1.7	$1.4	$0.9	
Total Financial Revenue	$17.1	$15.9	$15.8	$15.8	$19.7	$22.0 - $23.0
Funeral Financial EBITDA	$7.5	$7.2	$7.4	$7.4	$8.2	
Cemetery Financial EBITDA	$8.5	$7.4	$6.8	$6.8	$10.2	
Total Financial EBITDA	$16.0	$14.6	$14.2	$14.2	$18.4	$20.8 - $21.8
Total Financial EBITDA Margin	93.3%	91.7%	90.2%	89.9%	93.3%	94.8% - 95.2%

This trust fund portfolio repositioning benefit began to first be reflected in our June 2020 financials. On a full year basis as reflected in the Five Year Financial Trend Report as Proforma 2021, we expect our Financial Revenue to increase by $6 million to $7 million to a range of $22 million - $23 million, about 40% higher than the $15.9 million annual average for 2017-2019. Moreover, because we have restructured some of the underlying cost structure mechanics in our pooled trust fund asset partnership, the Financial EBITDA Margin should increase from about 90% during the 2017-2019 timeframe to approximately 94% - 95% over the remaining period of our Milestone Two Year Scenario ending 2022.

The result through 2022 and to a large degree thereafter should be an increase of 45% - 50% in annual Financial EBITDA equal to about $6.5 million - $7.0 million, adding approximately 23-25 cents per share annually to EPS (2 cents per month) and dollar for dollar to Adjusted Consolidated EBITDA, pretax net income and pretax Free Cash Flow. The sustainable cash earning power of our Total Revenue will therefore move to a higher plateau as reflected in our Adjusted Consolidated EBITDA Margin and Adjusted Free Cash Flow Margin over our second five year **Good To Great II Journey** timeframe ending in 2024.

X. Carriage Good To Great Flywheel

Any serious investor or person who has an interest in Carriage for any reason must know by now that the famous book **Good To Great** written by Jim Collins in 2001 has had a huge impact on how I have built Carriage, especially since October/November 2011 after a major management reorganization on November 4, 2011. I wrote extensively in my 2016 Shareholder Letter about the 2001 – 2011 "under the public covers" radical evolutionary learning journey phase of Carriage which led to our internal and public declaration that on January 1, 2012 we were embarking on our first Five Year **Good to Great Journey** ending 2016.

Our high performance took off in 2012 and was sustained through 2016, and our share price followed like night follows day, increasing from $5.60 per share on December 31, 2011 to $28.64 on December 31, 2016, equal to a 38.4% annual compounded return over the first Five Year **Good To Great** Timeframe.

I explained in my 2018 Shareholder Letter that my mistake in promoting the Wrong Who to Chief Operating Officer at the beginning of 2017 had led to declining performance trends in an increasing number of our operating businesses in 2017 and particularly the first eight months of 2018. I linked the declining trends to a rapidly slowing **Flywheel Effect** within our portfolio of businesses and operating leadership at all levels, which was the first time I had focused internally and externally on this high performance concept first introduced in **Good To Great**.

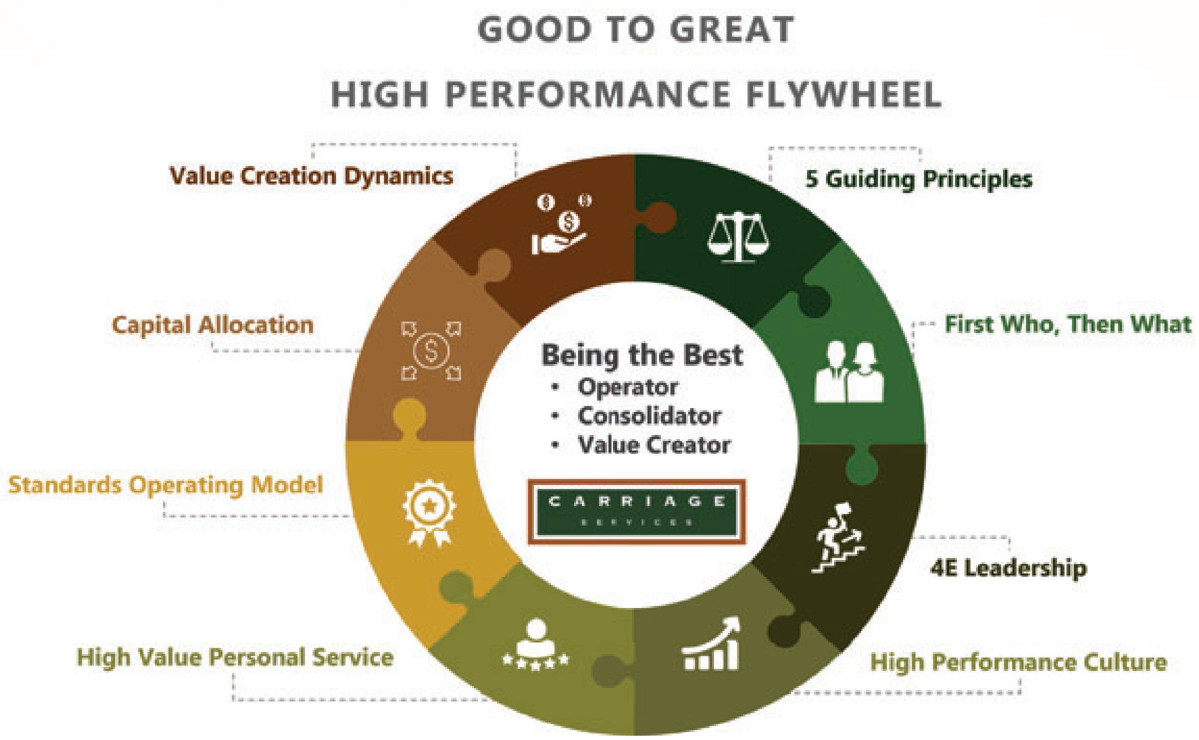
The **Flywheel Effect** performance concept much like the **First Who, Then What** concept can either have a significant negative impact on performance trends (Carriage in 2017 and 2018) or a huge positive impact (Carriage from 2011 to 2016). Jim Collins concluded the same after witnessing many of the original companies featured in **Built To Last** and **Good To Great** fall from being special in any way and in some cases disappear completely. So eighteen years after writing **Good To Great**, Jim in 2019 wrote **Turning The Flywheel**, a Monograph to Accompany **Good To Great**, with a subheading, "**Why Some Companies Build Momentum….And Others Don't.**"

As Carriage's 2020 **Transformative High Performance** began to accelerate during the second half of the year, our Executive Team and Operations Leadership Teams began to say frequently in our daily conversations that the **Flywheel Effect** was kicking in and accelerating our already broadly higher performance across all three regions. One morning I arrived in my board conference room where I had been working since the pandemic began and there was the **Flywheel Effect** Monograph lying on my Board table for my review. I had not been aware that Jim Collins had written this 60 page piece, much less that Jeff Bezos and Amazon had developed an Amazon Flywheel after meeting in the autumn of 2001 with Jim Collins just as **Good To Great** hit the market in the middle of the dot.com bust.

As a known student of highly successful people and companies, I often get books on leadership and biographies of highly successful people sent to me as gifts. As there was no note from anyone with the Monograph, I asked my Executive Assistant, "**Winnie The Winner**" Hurston, who had sent me the **Flywheel Effect** Monograph. She immediately said, "No one, I went online and found and ordered it, since I knew you would be interested in reading about the **Flywheel Effect** because thats what's going on in Carriage now!" Stunned but not shocked at her insight and initiative, I immediately said, "Please order fifty more copies as I want to drive this concept first among our Executive Team and Board and then across all Operations and Houston Support Center leadership teams." She said, "I already ordered twenty copies knowing you would want to do that, but I'll order thirty more!"

Steve and Carlos immediately began a project to develop Carriage's own **Good To Great Flywheel** in collaboration with other Executive Team Members. The completed **Carriage Good To Great Flywheel** is shown on the next page, which led to our 2021 Theme of "**Carriage Services 2021: Accelerating High Performance Flywheel Effect!**"

To be clear to anyone reading this section, Winnie isn't available as she has had a front row seat since October 2006 to witness and personally participate in Carriage's evolutionary learning journey that never ends, which produced **Transformative High Performance** in 2020. Plus, she enjoys her work, has a VIP seat on **Carriage's Good To Great Journey Bus** and has her sights clearly on our intrinsic value destination by the end of 2024!



I will close this section with a quote from the Jim Collins ***FLYWHEEL*** Monography.

> "Never underestimate the power of a great flywheel, especially when it builds compounding momentum over a very long time. Once you get your flywheel right, you want to renew and extend that flywheel for years and decades – decision upon decision, action upon action, turn by turn – each loop adding to the cumulative effect."

XI. Observations about 2020 and the Evolution of our Standards Operating Model

After the shock of a once in a lifetime worldwide Coronavirus Pandemic during which death and the fear of death and the unknown becomes part of daily life (or the lack of normal daily life as we had known it), it has been a time for reflection on what really matters both personally and professionally. Within Carriage, we are blessed that the nature of the noble work that our wonderful people do means that there is little distinction between personal and professional, as Carriage has become like family to most of us who are committed to a **Good To Great Journey** that never ends.

For those of you interested in Carriage but maybe new to our almost thirty years of history, I will repeat verbatim the entire last section in my 2016 Shareholder Letter (Pages 38 and 39), which covered the first 25 years of Carriage and was titled, "**The Evolution of Our Learning Journey**." As you reflect upon our amazing milestone year of **Transformative High Performance** in 2020 during the tragedy of a Coronavirus Pandemic, I believe you will find the content in this section more profoundly valid today in the era of the COVID-19 Pandemic than when it was written four years ago in early 2017.

Final Observations About The Past and Present. To conclude this Shareholder Letter, I will share a few observations and conclusions about human nature and the nature of our markets as well as what I believe to be the current state of the nature of Carriage.

- It is very difficult for most people (even some very smart ones) to think about something in a completely new, unorthodox, counterintuitive and unconventional way – which makes the uniqueness of Carriage as it has evolved pretty cool for those who "get to the other side!"

- Our small market capitalization size is a large hurdle to overcome with many institutional investors who perceive our small size as riskier and/or need to invest much larger pools of capital than the liquidity of our outstanding shares can accommodate, but we have learned to live with this frustration and focus only on maximizing the compounding of the intrinsic value of each of our shares over five to ten year timeframes into a "coulda, woulda, shoulda bought that" share price!

- Our organizational framework is designed around the idea of partnership. Our three models and high performance culture ideas and concepts as they have evolved over the last thirteen years have turned the classic methodology of consolidation upside down and made the most important jobs in the company those of our Managing Partners at the local business level rather than up the chain of command.

- The high performance culture ideas and concepts of Carriage as they have been implemented and evolved have dramatically flattened our organization structure; eliminated numerous bureaucratic layers and the associated politics, perks and meaningless titles; simplified and eliminated in many cases the complexity of burdensome reporting, policies and procedures; and eliminated endless corporate process oriented initiatives – all characteristics that creep into most companies as they grow through a succession of enterprise leaders over time.

- Our High Performance Culture Framework is more cost effective organizationally, as the corporate organizational overhead does not "eat up" a substantial amount of the incremental financial performance of our field businesses, especially as we leverage our consolidation platform with growth by highly selective acquisitions, enabling more of the value creation to be shared with both those who create it locally and with public shareholders.

- The best remaining family owned funeral home and cemetery business franchises in the best markets will absolutely get better over time after full integration into our **Being The Best** framework of operations support.

- The innovation, evolution and application of our Standards Operating Model and High Performance Culture Framework for operating and consolidating the funeral and cemetery industry is akin to intellectual property that was developed over the last thirteen years which forms a "protective cultural moat" around Carriage's earnings power.

- Curious and disappointed why no one has challenged our contention that Carriage's 29.7% Adjusted Consolidated EBITDA Margin in 2016 is not only a company but an industry milestone that has never been achieved. But even more profoundly, "What Does It Mean?"

- Intrigued why no one has had the curiosity to ask us about the book ***Beyond Budgeting*** co-authored and published in 2003 by Robin Frazer and Jeremy Hope or about their article "Who Needs Budgets" published in the February 2003 edition of Harvard Business Review. But really fascinated that the ideas and concepts they researched on a "radically decentralized" business model have gone nowhere fast in "Corporate America" over the last fourteen years.

- Fascinated to learn about and read ***The Evolution of Cooperation***, authored by Robert Axelrod and published in 1984, from a recommendation in Mark Leonard's 2014 Constellation Software Shareholder Letter, a book he said changed his thinking on many important matters. After reading this book and a subsequent one titled ***Harnessing Complexity*** with the subtitle ***Organizational Implications of a Scientific Frontier***, co-authored by Robert Axelrod and Michael D. Cohen in 2000, I would postulate (maybe not so humbly) that Carriage has evolved into a rather advanced state of "harnessing the complexity" of successfully operating and consolidating the highly fragmented funeral and cemetery industry for the huge benefit over time of long term shareowners."

XII. Who and What Really Matters

The very best part of my job is letting our wonderful leaders and employees know what those of us here in the Houston Support Center and our Board think of them and the noble work they do no matter the harshness of the environment or local conditions in which they are called to service. Shown below is the last paragraph of my 2020 annual theme letter to Managing Partners, Sales Managers and Houston Support Center Leaders at the beginning of the year dated February 18, 2020, followed by my verbatim year end message to all employees dated December 29, 2020, which together serve as the beginning and ending bookends to a year that profoundly changed our country and the world:

Last Paragraph of 2020 Theme Letter Dated February 18, 2020

"I will end this theme letter the same way I have ended many others since we launched the first five year **Good To Great Journey** on January 1, 2012, with a quote from the book ***Good To Great*** by Jim Collins:

"Greatness is not a matter of circumstance.
Greatness, it turns out, is a matter of conscious choice!"

As I have always done and can never do otherwise, **I choose Greatness** because the challenges and difficulties that must be overcome by special people bound together by a common cause of **Being The Best** at their noble profession is simply the most meaningful and wonderful journey in business and life that anyone could hope for or indeed imagine.

Mel"

Year End 2020 Message to All Employees Dated December 29, 2020

"We entered this year with high hopes of 2020 being a breakout year of **TRANSFORMATIVE HIGH PERFORMANCE** for each of our operating businesses and for Carriage as a **Being The Best Company** in the funeral and cemetery industry. And then the world, our country, our industry and our company were all shocked to the core by the Coronavirus Pandemic Crisis which began in March and is now reaching new peaks of infections and deaths during what has typically been our peak flu season.

Yet our wonderful Managing Partners, Sales Managers and their teams of high performance employees in each of our businesses adapted quickly to the many fears and initial unknowns related to the COVID-19 Pandemic and became role models for their communities and client families for what courageous leadership in times of crisis is all about. And the wonderful support teams comprised of our Directors of Support and Sales across the country along with the leaders and employees in the various Houston Support Center departments have been in your foxhole since day one of the pandemic supporting each of you through the battle against not only the Coronavirus but the endless mandated restrictions and frequently with a shortage of staff for serving your client families effectively when they needed it most.

In a normal environment the leaders and employees of our funeral homes and cemeteries have the heavy fiduciary responsibility of performing the noble work of caring for client families who have lost a loved one to death or are planning in advance for that inevitability. Even amidst a once in a lifetime Coronavirus Pandemic, client families have not been immune to the need for a special ritual to grieve and/or celebrate the life of a loved one or friend who has died, a uniquely human need dating back thousands of years to the beginning of time.

So I am honored and proud to express the gratefulness and pride that our Leadership Team feels toward each of you and what you have achieved through your courageous service to your client families and communities throughout this year of the Coronavirus Pandemic.

Each one of you are nothing less than an inspirational hero to each member of our Leadership Team and Board of Directors and we thank you from the bottom of our hearts.

And you did achieve a breakout year of **TRANSFORMATIVE HIGH PERFORMANCE! THANK YOU FOR THE BLESSING OF YOU!**

May you and those near and dear to your heart have a ***SAFE, HEALTHY AND HAPPY NEW YEAR!***"

ACKNOWLEDGEMENTS

To start and build Carriage after thirty years into a **High Performance Culture Company** that just happens to be in the funeral and cemetery industry is a dream come true for me. That **Vision of Becoming The Best** in our industry could not have been achieved without a handful of people inspiring, developing and mentoring my skills, leadership style and thinking in my pre-Carriage career. I acknowledge and thank them as follows:

- **Ben Love**, the iconic Visionary Chairman and CEO of Texas Commerce Bank (TCB) and Bancshares. I moved to Texas and joined TCB in October 1975 and in my five years got to be part of Ben building TCB from the second largest bank in Houston into one of two Triple A banks in the country, the other being JPMorgan at the time. I learned from observing Ben's metric driven, untraditionally and aggressively market share driven, nothing but Darwinian top talent culture, decentralized decision making banking framework, "how to build" a high performance culture company that just happened to be in the banking industry. I would like to think of Carriage as the TCB of the deathcare industry, a thought that I know would make Ben proud, who passed away in 2006.

- **Peter de Savary**, the English Entrepreneur, Sailor and Sponsor of England's America's Cup entry in the 1983 competition in Newport, Rhode Island. I worked with Peter from July 1981 to the end of 1983 attempting to restructure and revitalize what turned out to be an uneconomic independent refining company after President Reagan decontrolled the price of oil on January 20, 1981. Peter taught me how to be an entrepreneur and to have fun and project optimism about the future even in an economic environment that had turned negative against you.

- **Richard Rainwater**, who taught me from 1984 to 1987 that big ideas and dreams can come true and were incredibly fun to achieve, and that we are only limited by our imagination, boldness and ability to inspire others who are like minded at becoming the best. After I heard about his rare degenerative brain disease, I wrote Richard a letter in August 2014 letting him know that his encouragement for me to strike out on my own had changed my life and led to the founding of Carriage. I subsequently had lunch with Richard in Fort Worth to express my appreciation in person (he could not speak, but he had a strong man-hug) not long before he died in 2015.

- **Dr. Chihiro Kanagawa**, Chairman of Shin-Etsu Chemical Co., Tokyo, and founder of a small PVC plastics company in Houston named Shintech, Inc. in the mid 1970's with its principal plant in Freeport, Texas. I made a non-recourse TCB loan in the early summer of 1976 for Shintech to buy out its 50-50 joint venture American Partner. Kanagawa-san then built Shintech into the world's largest and most profitable PVC company over the next 35 years and became an icon in Japan known as the Jack Welch of Japan. There have been numerous books written about him, one describing him as the best business manager in the world, having gotten rid of budgets in 1995, an achievement Jack Welch could not do during his 20 years as CEO of GE.

  As a young banker, Kanagawa-san taught me to demand excellence in all things and from all people all the time and not to settle for anything else. After 27 years of having no contact, we had four consecutive years of lunch reunions starting in 2014 at his favorite Japanese Tea Room at the Imperial Hotel in Tokyo, where we always laughed at guessing how high our respective share prices might be at our lunch reunion when he is 150 years of age (now 94) and I will be 133! (I'm 17 years younger). I hope to have another lunch reunion with my dear friend in Tokyo when the environment is again safe to travel internationally.

A SPECIAL ACKNOWLEDGMENT TO THE LOVE OF MY LIFE

Carriage would never have become my dream company come true if I had not first met Karen Payne, who was, became and is my **Dream Girl, Dream Wife, Dream Mother and Dream Partner** in **My Life Journey**.

In May 1982, after returning to Houston on a Saturday from three weeks in Paris restructuring the debt of the independent refining company that Peter and I were trying to recapitalize and then revitalize, I decided to dress up and have dinner alone at the most popular dance/supper club in Houston at the time, Elan's. I wanted to simply relax and enjoy the scene and retire early to recover from my jet lag and three weeks of hard work.

Soon after I was seated, I spotted a group of lively and beautiful young women friends among which there was one who was very tall, gorgeous and literally a vision in white (she appeared more like an Angel than a real person!). Obviously, I was smitten by her rare beauty and poise, but she was also "the life of the party" within her group of friends and others who interacted with them. I was so mesmerized that I sat there until almost 2:00 AM enchanted by her every move. But when the club announced, "Last call for drinks and last dance," I said to myself, "If I don't ask that **Dream Girl** to dance, I might regret it for the rest of my life!" Karen and I danced to 'Frank Sinatra's New York, New York' as if we had been dancing together for twenty years, confirming there really can be ***Love At First Sight***. After our marriage in October 1983, we've been dancing and living our life together to the fullest degree possible for 37 years on our personal **Good To Great Life Journey** that I never want to end.

Karen and I are very different in our personalities (opposites indeed are magnificently and magnetically attracted to each other) but **Being The Best** at what we individually choose to do is NOT one of those differences.

Soon after we were married, I encouraged Karen to quit her job in accounting (she hated it!) and become a model, which she had said her exotically beautiful mother Dorothy (Lebanese but known as the Sophia Loren of Houston in the 1950's) had always dreamed she could be. After entering a modeling school founded by a well known talent agent, Karen was immediately discovered by Joan Wilson of Neiman Marcus (Devil Loves Prada personality profile) who said Karen would be "loved" by James Galanos, the famous American fashion designer and couturier based in Los Angeles whose career spanned from the early 1950's to 1998. Indeed Mr. Galanos did immediately "love" the way Karen fit his designs and made customers feel so special. She became one of Mr. Galanos' two "fit" models for his haute couture spring and fall collections for the next twelve years. After modeling for Gianni Versace in 1986 shortly after our son Preston was born, Karen most famously was offered the opportunity to move to Milan in 1986 to become a house model for Versace. She turned that opportunity down as well as any others that would have interfered with her first being a mother and my wife and partner.

If not for Karen's significant modeling income after I lost my financial savings in the October 19, 1987 Black Monday Market Crash, I don't know what would have happened to all our future choices and outcomes that turned into the many blessings that we enjoy today, including the founding of Carriage in 1991. After Karen and I began to take our top performers on **Being The Best Pinnacle of Service** Trips in the 1993-1994 timeframe, she became fast friends and family with each couple, so over time we became a Carriage family of families coming together each year to catch up on each other's lives. As the Carriage portfolio grew by acquisition, our Carriage family of friends grew as well, as Karen would focus on making any newcomer feel at home immediately.

After our daughter Sumner was born in 1993, Karen continued to model for all the top fashion designers at the time until 1997, and then retired at her very peak (think of a young "Audrey Hepburn" on a fashion show runway) to become a full time mother devoted to her children and support for me while I continued to build Carriage. And later after our two wonderful children left our nest, Karen became a top quality homebuilder devoted to making each home uniquely special and analogous to a finely designed couture dress with only the best fabrics and exquisitely detailed construction. The only issue even today is that she falls in love with each one by the finish and has to go through a bit of a grieving process when a lucky buyer puts in a winning contract (the higher the price, the less the grieving!).

I'm very proud of my wife and everything she has accomplished with her life, and grateful beyond words at how she has supported me through the ups and downs of building Carriage. Karen dearly loves all our field leaders and people and they in return dearly love her, as she has a magical way of making each one feel as if they are the most important person in the world when they are interacting with each other (**They ARE!**). Karen has therefore been critical to building the vitally important deep, trusting and long term relationships that help define our culture, which is what Carriage is all about.

Karen's greatest achievements in life have been raising our two children, **Preston and Sumner**, to become wonderful and intelligent young adults who are also close friends. Thank You Dear Karen for the **Blessing of Having You as My Dream Wife and the Unimaginable Joy and Meaning You Have Given to Our Good To Great Life Journey**.

A FINAL GOODBYE

To end this Shareholder Letter, I would like to say a public final goodbye to two Carriage Managing Partner Icons who we lost late in 2020 and early 2021, Ed English and Mark Cooper. Over the last thirty years of building a dream named Carriage, there are individuals who by circumstance or luck joined the cause and over time our relationship grew deeply and meaningfully to one of mutual respect, trust, loyalty and love for each other, as was the case with Ed and Mark.

I first met Ed in mid-November 1991, a little over five months after Carriage was founded. We owned nothing and I knew little about the industry, although I had just put in writing our **Mission Statement** and **Five Guiding Principles**. I had entered an agreement to buy three funeral home businesses in the Chattanooga market from Service Corporation International, which was selling them pursuant to an FTC Consent Decree, one of which was Ed's business, Lane Coulter Funeral Home in Red Bank, Tennessee. I recall vividly sitting on a couch with Ed explaining my **Being The Best Vision** for Carriage over the next five to ten years, yet I was noticing a bit of skepticism on Ed's face, which turned out to be one of his lovable "best known for" characteristics.

Ed patiently waited for me to finish my vision pitch, after which he said, "Mr. Payne, you seem like a very nice person who really believes what you just told me, but did no one tell you that Carriage would be the fifth owner of my business in five years, and the last three before you said exactly what you just did!!!" When I asked who preceded the last three owners, Ed said, "My father-in-law Mr. Coulter, who sent Debbie and me on a nice two week vacation and sold the business while we were gone!"

I learned so much about the funeral business from Ed over the many years we were partners, especially how to leverage growing volumes and revenues over the high fixed costs of the business into almost ridiculously high Field EBITDA Margins and Field EBITDA. Ed paid for his business many times over more than two decades, quickly becoming a superstar performer in our portfolio and one of the **Best of The Best** Managing Partners I asked to create our Funeral Performance Standards in late 2003 and serve on our first Standards Council.

Karen and I went on many **Being The Best Pinnacle of Service** trips with Ed and Debbie, and I'm honored and proud to express not only my gratitude for his critical role and contribution to Carriage over the last thirty years, but my love for him. He was a unique and wonderful character who was truly my Foxhole Buddy Partner, and will be forever missed but never forgotten!

I met Mark Cooper in early 2007 when we recruited him as Managing Partner of Seaside Memorial Park and Funeral Home and Corpus Christi Funeral Home, which we had just acquired on January 1, 2007. After seven years of radical change from the 1990's, Carriage had started to grow again using our new Strategic Acquisition Model because Carriage had become a good operating company under the evolving framework of our Standards Operating Model, using our 4E Leadership Model for profiling the **Right Who** Managing Partners.

Mark had an amazing history of success with Stewart Enterprises at their largest business in Dallas, Restland Memorial Park and Funeral Home, after which he had retired. Mark came out of retirement to join Carriage, which he said many times was the smartest thing he had ever done in his life. He immediately achieved high performance in our Corpus Christi business and sustained and grew that performance over many years, and like Ed paid for the original purchase price many times over the next thirteen years. Mark became one of our **Best of The Best** Standards Council Members in only a couple of years. Karen and I likewise went on many **Being The Best Pinnacle of Service** trips over the years with Mark and Barbara, and he and I also became Foxhole Buddy Partners with a deep mutual respect and love for each other.

Mark loved to spend time at his ranch, but also loved staying involved at his wonderful business in Corpus Christi even after retiring in early 2019 after he selected his protégé, Buddy Ewing, to be his successor. Mark's health had begun to decline and resulted in several serious hospitalization episodes, so he began to spend full time at his ranch in the second half of 2020 to wait out the COVID-19 Pandemic. I got a call one evening in early January this year from Shawn Phillips, who told me he just talked to Mark but that Mark could barely talk and was having trouble breathing, and was waiting to be picked up by ambulance to be sent to Tyler, Texas for hospitalization in the Intensive Care Unit.

I called Mark's cell phone and he answered weakly and said, "Mel, I have been thinking about you all day after reading your wonderful year-end message to all employees." I said, "Mark, you need to start thinking only about fighting and beating this health crisis like others before because you and I aren't finished with our life journey together. So please, know you are my Foxhole Buddy Partner for life and I love you," to which he responded, "I love you too." Mark passed away the next morning at 5:30 AM.

Our company and all those who knew Ed and Mark and loved them, especially Karen and I, will forever remember these two wonderful men and their contribution toward making Carriage the unique company it has become today. They were always even to the end the **Right Who's** and **They Really Mattered**.

CARRIAGE 2020 PINNACLE OF SERVICE AWARD WINNERS – HIGH PERFORMANCE HEROES

I am delighted to announce that we had 41 businesses (34 funeral homes and 7 cemeteries) which earned Pinnacle Awards and **Being The Best** Standards Achievement Bonuses for the Managing Partners and employees of each business. This group of winners represented the Company's **High Performance Culture** well as their businesses contributed $89.0 million in revenue (27.0% of Total of $329.4 million), $38.9 million in Field EBITDA (27.4% of Company Total of $141.9 million) and an EBITDA Margin of 43.6% (Total Company Field EBITDA Margin of 43.1%.

The 41 Pinnacle Award winners included 34 businesses (32 funeral homes and 2 cemeteries) which averaged 70% Standards Achievement over the 3 year period 2018-2020 (6 of these businesses also achieved 100% in 2020 under the updated / rebooted Performance Standards), and 7 businesses (2 funeral homes and 5 cemeteries) which had 100% Standards Achievement in 2020.

As an important part of **High Performance Culture** tradition and language, and because we have a passionate conviction that **RECOGNITION** is the highest form of motivation, listed below are Carriage's **Being The Best Pinnacle of Service Award** winners for 2020:

2020 "Being The Best" Pinnacle Of Service Award Winners

Ken Summers	P.L. Fry & Son Funeral Home
Cyndi Hoots	Schmidt Funeral Homes
Courtney Charvet	North Brevard Funeral Home
Steve Mora	Conejo Mountain Funeral Home
Matthew Simpson	Fry Memorial Chapel
Alan Kerrick	Dakan Funeral Chapel
Brian Binion	Steen Funeral Homes
James Terry	James J. Terry Funeral Homes
Jason Cox	Lane Funeral Home – South Crest
Kristi Ah You	Franklin & Downs Funeral Homes
Lois Keller-Nelson	Cypress-Fairbanks Funeral Home
Mike Conner	Conner-Westbury Funeral Home
Ben Friberg	Heritage Funeral Home & Crematory
Jeff Hardwick	Bryan & Hardwick Funeral Home
Robert Maclary	Kent-Forest Lawn Funeral Home
Brent Harrison	Crespo & Jirrels Funeral & Cremation Services
Todd Muller	Muller-Thompson Funeral Home & Cremation Service
Andy Shemwell	Neal-Tarpley-Parchman Funeral Home
Robert Green	Schooler-Armstrong Funeral Home & Chapel
Scott Griffith	Bergin/Lyons Funeral Homes
Jeff Seaman	Dwayne R. Spence Funeral Homes
John Fitzpatrick	Donohue-Cecere Funeral Homes
Dorn Rademacher	Relyea Funeral Home
Michael Redgate	Redgate Funeral Home
Chris Duhaime	Funk Funeral Home
Ashley Vella	Deegan Funeral Chapels
Adam Mills	Glacier Memorial Gardens
Tim Hauck*	Harvey-Englehardt/Fuller Metz Funeral Homes

**Qualified for 2 Businesses*

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

Tim Hauck*	Lee County Cremation Services
James Bass*	Emerald Coast/McLaughlin Mortuary
	McLaughlin Twin Cities Funeral Home
Nicholas Welzenbach	Los Gatos Memorial Park
Jason Higginbotham	Lakeland Funeral Home
Justin Luyben	Evans-Brown Mortuaries & Crematory

**Qualified for 2 Businesses*

"Being The Best" Pinnacle 100% of Standards Award

Buddy Ewing*	Seaside Cemeteries
	Rose Hill Memorial Park
JoAnna Di Sibio	Oak View Memorial Park
Trent Nielsen	Hennessey Valley Funeral Home & Crematory
John Appel	Garden of Memories Cemetery
Michael Relyea	Conrad & Thompson Funeral Home
Michael Kelly	Resthaven Memory Gardens

**Qualified for 2 Businesses*

ANNUAL OPERATING AND FINANCIAL TREND REPORT

This table uses Non-GAAP financial measures to present the financial performance of the Company. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported operating results or cash flow from operations or any other measure of performance as determined in accordance with GAAP. We believe the Non-GAAP results are useful to investors because such results help investors compare our results to previous periods and provide insights into underlying trends in our business. In addition, the Company's presentation of these measures may not be comparable to similarly titled measures in other companies' reports. The Non-GAAP financial measures include "Funeral Field, Cemetery Field, Financial and Other EBITDA", "Total Field EBITDA", "Total Field EBITDA Margin", "Divested/Planned Divested Revenue", "Divested/Planned Divested EBITDA", "Divested/Planned Divested EBITDA Margin", "Consolidated EBITDA", "Adjusted Consolidated EBITDA", "Adjusted Consolidated EBITDA Margin", "Adjusted Net Income", "Adjusted Basic Earnings Per Share", "Adjusted Diluted Earnings Per Share" and "Special Items". A full copy of our Annual Operating and Financial Trend Report and reconciliations of the Non-GAAP financial measures to GAAP measures are provided on our website, **www.carriageservices.com**.

(in thousands, except per share amounts)	2016	2017	2018	2019	**2020**	CAGR
Same Store Contracts						
Atneed Contracts	24,306	25,147	25,297	26,037	**29,660**	
Preneed Contracts	5,709	5,850	5,702	5,692	**6,155**	
Total Same Store Funeral Contracts	30,015	30,997	30,999	31,729	**35,815**	4.5%
Acquisition Contracts						
Atneed Contracts	468	1,510	2,674	4,046	**8,291**	
Preneed Contracts	36	195	355	513	**818**	
Total Acquisition Funeral Contracts	504	1,705	3,029	4,559	**9,109**	
Total Funeral Contracts	30,519	32,702	34,028	36,288	**44,924**	10.1%
Funeral Operating Revenue						
Same Store Revenue	$ 164,521	$ 169,873	$ 168,835	$ 168,884	**$ 179,779**	2.2%
Acquisition Revenue	2,964	11,171	21,229	27,547	**46,897**	
Total Funeral Operating Revenue	$ 167,485	$ 181,044	$ 190,064	$ 196,431	**$ 226,676**	7.9%
Cemetery Operating Revenue						
Same Store Revenue	$ 43,470	$ 42,932	$ 44,805	$ 49,218	**$ 51,694**	4.4%
Acquisition Revenue	-	-	-	295	**17,583**	
Total Cemetery Operating Revenue	$ 43,470	$ 42,932	$ 44,805	$ 49,513	**$ 69,277**	12.4%
Total Financial Revenue	$ 17,089	$ 15,903	$ 15,758	$ 15,839	**$ 19,735**	3.7%
Total Other Revenue	$ -	$ -	$ -	$ 748	**$ 4,661**	
Total Divested/Planned Divested Revenue	$ 20,156	$ 18,260	$ 17,365	$ 11,576	**$ 9,099**	-18.0%
Total Revenue	$ 248,200	$ 258,139	$ 267,992	$ 274,107	**$ 329,448**	7.3%
Field EBITDA						
Same Store Funeral Field EBITDA	$ 65,943	$ 67,781	$ 64,390	$ 65,109	**$ 74,817**	3.2%
Same Store Funeral Field EBITDA Margin	*40.1%*	*39.9%*	*38.1%*	*38.6%*	***41.6%***	
Acquisition Funeral Field EBITDA	1,052	3,384	7,394	10,579	**18,617**	
Acquisition Funeral Field EBITDA Margin	*35.5%*	*30.3%*	*36.3%*	*38.4%*	***39.7%***	
Total Funeral Field EBITDA	$ 66,995	$ 71,165	$ 71,784	$ 75,688	**$ 93,434**	8.7%
Total Funeral Field EBITDA Margin	*40.0%*	*39.3%*	*37.8%*	*38.5%*	***41.2%***	
Same Store Cemetery Field EBITDA	$ 14,988	$ 13,439	$ 13,872	$ 17,118	**$ 19,469**	6.8%
Same Store Cemetery Field EBITDA Margin	*34.5%*	*31.3%*	*31.0%*	*34.8%*	***37.7%***	
Acquired Cemetery Field EBITDA	-	-	-	73	**7,128**	
Acquired Cemetery Field EBITDA Margin	*0.0%*	*0.0%*	*0.0%*	*24.7%*	***40.5%***	
Total Cemetery Field EBITDA	$ 14,926	$ 13,439	$ 13,872	$ 17,191	**$ 26,597**	15.4%
Total Cemetery Field EBITDA Margin	*34.5%*	*31.3%*	*31.0%*	*34.7%*	***38.4%***	
Total Financial EBITDA	$ 15,952	$ 14,588	$ 14,209	$ 14,235	**$ 18,404**	3.6%
Total Financial EBITDA Margin	*93.3%*	*91.7%*	*90.2%*	*89.9%*	***93.3%***	
Total Other EBITDA	$ -	$ -	$ -	$ 298	**$ 1,186**	
Other EBITDA Margin	*0.0%*	*0.0%*	*0.0%*	*39.8%*	***25.4%***	
Total Divested/Planned Divested EBITDA	$ 6,478	$ 5,320	$ 4,448	$ 2,355	**$ 2,321**	-22.6%
Total Divested/Planned Divested EBITDA Margin	*32.1%*	*29.1%*	*25.6%*	*20.3%*	***25.5%***	
Total Field EBITDA	$ 104,413	$ 104,512	$ 104,313	$ 109,767	**$ 141,942**	8.0%
Total Field EBITDA Margin	*42.1%*	*40.5%*	*38.9%*	*40.0%*	***43.1%***	
Total Overhead	$ 35,898	$ 36,430	$ 36,993	$ 37,554	**$ 40,514**	3.1%
Overhead as a percentage of Revenue	*14.5%*	*14.1%*	*13.8%*	*13.7%*	***12.3%***	
Consolidated EBITDA	$ 68,515	$ 68,082	$ 67,320	$ 72,213	**$ 101,428**	10.3%
Consolidated EBITDA Margin	*27.6%*	*26.4%*	*25.1%*	*26.3%*	***30.8%***	
Other Expenses and Interest						
Depreciation & Amortization	$ 15,421	$ 15,979	$ 17,430	$ 17,771	**$ 19,389**	
Non-Cash Stock Compensation	2,890	3,162	6,583	2,153	**3,370**	
Interest Expense	11,738	12,948	21,109	25,522	**32,515**	
Accretion of Discount on Convert. Sub. Notes	3,870	4,329	2,192	241	**216**	
Net Loss on Early Extinguishment of Debt	567	-	502	-	**6**	
(Gain) Loss on Divestitures	29	(193)	517	3,883	**6,749**	
Impairment of Goodwill and Other Intangibles	145	-	846	963	**14,693**	
Other, Net	1,614	(925)	(125)	(736)	**(152)**	
Pretax Income	$ 32,241	$ 32,782	$ 18,266	$ 22,416	**$ 24,642**	-6.5%
Net Tax Expense (Benefit)	12,660	(4,411)	6,621	7,883	**8,552**	
GAAP Net Income	$ 19,581	$ 37,193	$ 11,645	$ 14,533	**$ 16,090**	-4.8%
Total Special Items, Net of tax	$ 8,757	$ (12,444)	$ 9,921	$ 7,999	**$ 17,593**	
Adjusted Net Income	$ 28,338	$ 24,749	$ 21,566	$ 22,532	**$ 33,683**	4.4%
Adjusted Net Profit Margin	*11.4%*	*9.6%*	*8.0%*	*8.2%*	**10.2%**	
Reconciliation of Consolidated EBITDA to Adjusted Consolidated EBITDA						
Consolidated EBITDA	$ 68,515	$ 68,082	$ 67,320	$ 72,213	**$ 101,428**	10.3%
Total Special Items	$ 5,176	$ 620	$ 2,872	$ 4,374	**$ 2,822**	
Adjusted Consolidated EBITDA	$ 73,691	$ 68,702	$ 70,192	$ 76,587	**$ 104,250**	9.1%
Adjusted Consolidated EBITDA Margin	*29.7%*	*26.6%*	*26.2%*	*27.9%*	***31.6%***	
GAAP Diluted EPS	$ 1.12	$ 2.09	$ 0.63	$ 0.80	**$ 0.89**	-5.6%
Adjusted Diluted EPS	$ 1.62	$ 1.39	$ 1.17	$ 1.25	**$ 1.86**	3.5%
Average Number of Diluted Shares Outstanding	17,460	17,715	18,374	18,005	**18,077**	0.9%
GAAP Basic EPS	$ 1.18	$ 2.25	$ 0.64	$ 0.81	**$ 0.90**	-6.5%
Adjusted Basic EPS	$ 1.71	$ 1.50	$ 1.19	$ 1.26	**$ 1.88**	2.4%
Average Number of Basic Shares Outstanding	16,515	16,438	17,971	17,877	**17,872**	2.0%

Carriage Services

2020 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 year ended, December 31, 2020

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, 2020 was approximately $295.5 million based on the closing price of $18.12 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 26, 2021 was 17,994,717.

DOCUMENTS INCORPORATED BY REFERENCE

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

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CAUTIONARY NOTE

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

- our ability to find and retain skilled personnel;
- the effects of our incentive and compensation plans and programs, including such effects on our Standards Operating Model and the Company’s operational and financial performance;
- our ability to execute our growth strategy;
- the execution of our Standards Operating, 4E Leadership and Standard Acquisition Models;
- the effects of competition;
- changes in the number of deaths in our markets;
- changes in consumer preferences and our ability to adapt to or meet those changes;
- our ability to generate preneed sales, including implementing our cemetery portfolio sales strategy;
- 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 cost saving expectations related to anticipated financing activities, including our deleveraging program, forecasts and planned uses of free cash flow, expected plans and projections for refinancing our senior notes, and future capital allocation, including potential acquisitions, share repurchases, dividend increases, or debt repayment plans;
- our ability to meet the projected financial performance metrics included in our updated two-year scenario, if at all;
- the timely and full payment of death benefits related to preneed funeral contracts funded through life insurance contracts;
- the financial condition of third-party insurance companies that fund our preneed funeral contracts;
- increased or unanticipated costs, such as 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 (“COVID-19”), on customer preferences and on our business;
- effects 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 75% of our total revenue, and cemetery operations, which currently accounts for approximately 25% of our total revenue.

At December 31, 2020, we operated 178 funeral homes in 26 states and 32 cemeteries in 12 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

Acquisitions

On January 3, 2020, we acquired one funeral home and cemetery combination business in Lafayette, California.

Performance Awards

On May 19, 2020, we cancelled all the performance awards previously awarded to all individuals in 2019 and February 2020 and the Compensation Committee of the Board of Directors (the "Board") approved a new performance award agreement (the "New Agreement") for certain eligible employees. Pursuant to the New Agreement, the target share awards for each of the eligible employees will vest on December 31, 2024 if the Company's common stock reaches one of five predetermined growth targets for a sustained period beginning on the grant date of May 19, 2020 and ending on December 31, 2024.

Convertible Notes Repurchases

On September 9, 2020, we repurchased $3.76 million in aggregate principal amount 2.75% convertible subordinated notes due 2021 ("Convertible Notes") for $4.6 million in cash.

Dividends

On May 19, 2020, the Board approved an increase of $0.05 per share to our annual dividend beginning with the dividend declaration in the third quarter. On October 27, 2020, the Board approved an additional increase of $0.0125 per share for a total annual dividend of $0.40 per share beginning with the dividend declaration in the fourth quarter. During 2020, we paid $6.0 million in dividends.

Divestitures

During 2020, we divested eight funeral homes for a total of $8.4 million, at a net loss of $6.7 million.

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. Since early March 2020, the Company's senior leadership team has taken certain steps to assist our businesses in appropriately adjusting and adapting to the conditions resulting from the COVID-19 pandemic. Our businesses have been designated as essential services and, therefore, each one of the Company's business locations remains 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 has taken 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. Additionally, in many of our business locations, we have also updated staffing and service guidelines, such as reducing the number of team members present for a service, restricting the size and number of attendees and adjusting other operating procedures. The Company has 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 COVID-19 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. Changes in the macroeconomic environment as a result of the pandemic have, to this point, led to an increase in volume and may create situations where people choose to spend less on funerals by purchasing less expensive caskets, minimize the scale of services and visitations, or elect not to make a preneed funeral or cemetery arrangement. During this time, our businesses have been focused on being innovative and resourceful, providing some type of immediate service as part of the grieving process. Gathering and travel restrictions across many areas of the country have, in some cases, limited our ability to provide large, in-person memorialization services and we have seen client families elect webcasting and livestreaming services, hold services with smaller attendance or rotating visitors, outdoor services, or in some cases, choose to delay services to a future date.

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 COVID-19 pandemic is continually evolving and the ultimate impact of COVID-19 remains uncertain. Certain estimates inherently involve assumptions about future events and annual results, making reliable estimates for those matters challenging in periods of economic instability. We do not believe we are vulnerable to certain concentrations, whether by 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. 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, but given the unprecedented nature of COVID-19, we also believe, it is prudent for us to take a broad-based approach to ensuring we maintain financial flexibility throughout the expected duration of the pandemic. As part of a larger plan, we took steps to reduce overall expenses. For example, discretionary spending, such as growth capital expenditures (primarily cemetery inventory development) was tightly managed and minimized during this time. 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 Liquidity and Capital Resources within Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for additional information related to our liquidity position.

We have also applied certain measures of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was enacted on March 27, 2020, which has provided a cash benefit in the form of tax payment refunds (we received the 2018 tax year refund on August 7, 2020 and anticipate a further refund for tax year 2019), tax credits related to employee retention, cash deferral for the employer portion of the Social Security tax and anticipated minimal cash taxes for 2020. Although we expect to take advantage of certain tax relief provisions of the CARES Act, we do not believe it will have a significant impact on our short-term or long-term liquidity position. See Part II, Item 8, Financial Statements and Supplementary Data, Note 1 for additional information related to the CARES Act.

The COVID-19 pandemic, and related gathering restrictions issued by state and local officials, did impact aspects of our financial results, including revenue, volume, preneed cemetery sales, and average revenue per contract. We will continue to assess these impacts and implement appropriate procedures, plans, strategy, and issue any disclosures that may be required, as the situation surrounding the pandemic and related gathering restrictions 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 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 which enhance our ability to serve our client families in a remote environment. 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 8,410 and 7,525 preneed funeral contracts, net of cancellations, during the years ended December 31, 2019 and 2020, respectively. At December 31, 2020, we had a backlog of 97,294 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 in order to focus on growth of our preneed property sales. Cemetery merchandise and services are often purchased in addition to cemetery property at the time of sale. The performance of these preneed cemetery contracts is secured by placing the funds collected in trust for the benefit of the customer, the proceeds of which will pay for such services at the time of need. General consumer confidence and discretionary income may have a significant impact on our preneed sales success rate. Cemetery revenue that originated from preneed contracts represented approximately 66% and 67% of our total cemetery revenue for 2019 and 2020, respectively. At December 31, 2020, we had a backlog of 64,820 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 which 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, 2020, 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 is in compliance 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 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 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 local Managing Partners that have the 4E Leadership skills to entrepreneurially grow the business by hiring, training and developing highly motivated and productive local teams.

Strategic Acquisition Model

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

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

Our belief in our **Mission Statement** and **Guiding Principles** 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 20% of funeral and cemetery revenue in the United States. Independent businesses, along with a few privately-owned consolidators, represent the remaining amount of industry revenue, accounting for an estimated 80% share of revenue.

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. 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.

REGULATION

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

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

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.

As of December 31, 2020, we and our subsidiaries employed 2,718 employees, of whom 1,126 were full-time and 1,592 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.

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, 2018, 2019 and 2020:

	2018	2019	2020
Preneed funeral trust funds	(6.5)%	21.2 %	13.5 %
Preneed cemetery trust funds	(8.4)%	26.0 %	15.5 %
Perpetual care trust funds	(8.0)%	25.2 %	16.8 %

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. Based on available guidance, we anticipate 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 newly enacted or revised federal tax legislation. 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. For more information related to the CARES Act, see Part II, Item 8, Financial Statements and Supplementary Data, Note 1.

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 which 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. The COVID-19 pandemic may have a future impact on our business which 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, 2020, we had $455.3 million of total debt (excluding debt issuance costs, debt discounts, debt premium and lease obligations), consisting of $5.5 million of acquisition debt (consisting of deferred purchase price and promissory notes payable to sellers of businesses we purchased), $2.6 million of our Convertible Notes, $400.0 million of our Senior Notes and $47.2 million of outstanding borrowings under our Credit Facility, with $140.7 million of availability under our Credit Facility after giving effect to $2.1 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

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. As a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our goodwill at March 31, 2020 and we recorded an impairment for goodwill of $13.6 million during the quarter ended March 31, 2020, 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 at March 31, 2020 and we recorded an impairment for certain of our tradenames of $1.1 million during the quarter ended March 31, 2020 as the carrying amount of these tradenames exceeded the fair value. In connection with the goodwill impairment recorded for the Eastern Region Reporting Unit during the quarter ended March 31, 2020, 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. Based on the results of our annual goodwill and intangible assets impairment test we performed as of August 31, 2020 and our annual review of long-lived assets and leases as of December 31, 2020, we concluded that there were no additional impairments of our goodwill, intangible assets or other long-lived assets and leases. 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.

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 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. For additional information regarding the January 2021 ransomware incident, see Part II, Item 8, Financial Statements and Supplementary Data, Note 25.

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 cyber security 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, 2020, we operated 178 funeral homes in 26 states and 32 cemeteries in 12 states. We own the real estate and buildings for 157 of our funeral homes and lease 21 facilities. We own 31 cemeteries and operate one cemetery under a long-term contract with a municipality, which we refer to as a managed property. We operate 19 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 32 cemeteries that we operate have developed cemetery property of approximately 152,000 and 155,000 units available-for-sale at December 31, 2019 and 2020, 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, 2020, 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	23	5	5	—
Connecticut	7	2	—	—
Florida	10	5	5	—
Georgia	3	—	—	—
Idaho	4	1	3	—
Illinois	2	—	1	—
Kansas	2	—	—	—
Kentucky	7	1	1	—
Louisiana	3	1	1	—
Massachusetts	12	—	—	—
Michigan	2	—	—	—
Montana	2	1	1	—
Nevada	2	—	2	1
New Jersey	4	1	—	—
New Mexico	1	—	—	—
New York	10	1	—	—
North Carolina	7	1	1	—
Ohio	5	—	—	—
Oklahoma	6	—	2	—
Pennsylvania	2	—	—	—
Rhode Island	4	—	—	—
Tennessee	4	—	—	—
Texas	24	1	8	—
Virginia	8	1	1	—
Washington	2	—	—	—
Wisconsin	1	—	—	—
Total	157	21	31	1

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

Our support center occupies approximately 48,000 square feet of leased office space in Houston, Texas. At December 31, 2020, we owned and operated 788 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,		
	2018	2019	2020
Funeral homes at beginning of period	178	182	186
Acquisitions	4	9	1
Divestitures	—	(4)	(8)
Mergers of funeral homes	—	(1)	(1)
Funeral homes at end of period	182	186	178
Cemeteries at beginning of period	32	29	31
Acquisitions	—	2	1
Divestitures	(3)	—	—
Cemeteries at end of period	29	31	32

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

MARKET INFORMATION

Our common stock is traded on the New York Stock Exchange under the symbol "CSV." As of February 26, 2021, there were 17,994,717 shares of our common stock outstanding. The shares of common stock outstanding are held by approximately 320 stockholders of record. Each share is entitled to one vote on matters requiring the vote of stockholders. We believe there are approximately 5,300 beneficial owners of our common stock.

RECENT SALES OF UNREGISTERED SECURITIES

During the year ended December 31, 2020, we did not have any sales of securities in transactions that were not registered under the Securities Act that have not been reported in a Form 8-K or Form 10-Q.

DIVIDENDS

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

EQUITY PLANS

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

PURCHASES OF EQUITY SECURITIES BY THE ISSUER

During the year ended December 31, 2018, we repurchased 1,101,969 shares of common stock for a total cost of $17.7 million at an average cost of $16.03 per share pursuant to our share repurchase program. On July 31, 2019, our Board approved an additional $25.0 million under our share repurchase program in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

During the year ended December 31, 2019, we repurchased 400,000 shares of common stock for a total cost of $7.8 million at an average cost of $19.39 per share pursuant to our share repurchase program. Our shares were purchased in the open market at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury shares.

During the year ended December 31, 2020, we did not repurchase any common shares. At December 31, 2020, we had approximately $25.6 million available for repurchase under our share repurchase program.

The following table sets forth certain information with respect to repurchases of our common stock during the quarter ended December 31, 2020:

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, 2020 - October 31, 2020	—	$ —	—	$ 25,601,446
November 1, 2020 - November 30, 2020	—	$ —	—	$ 25,601,446
December 1, 2020 - December 31, 2020	—	$ —	—	$ 25,601,446
Total for quarter ended December 31, 2020	—		—	

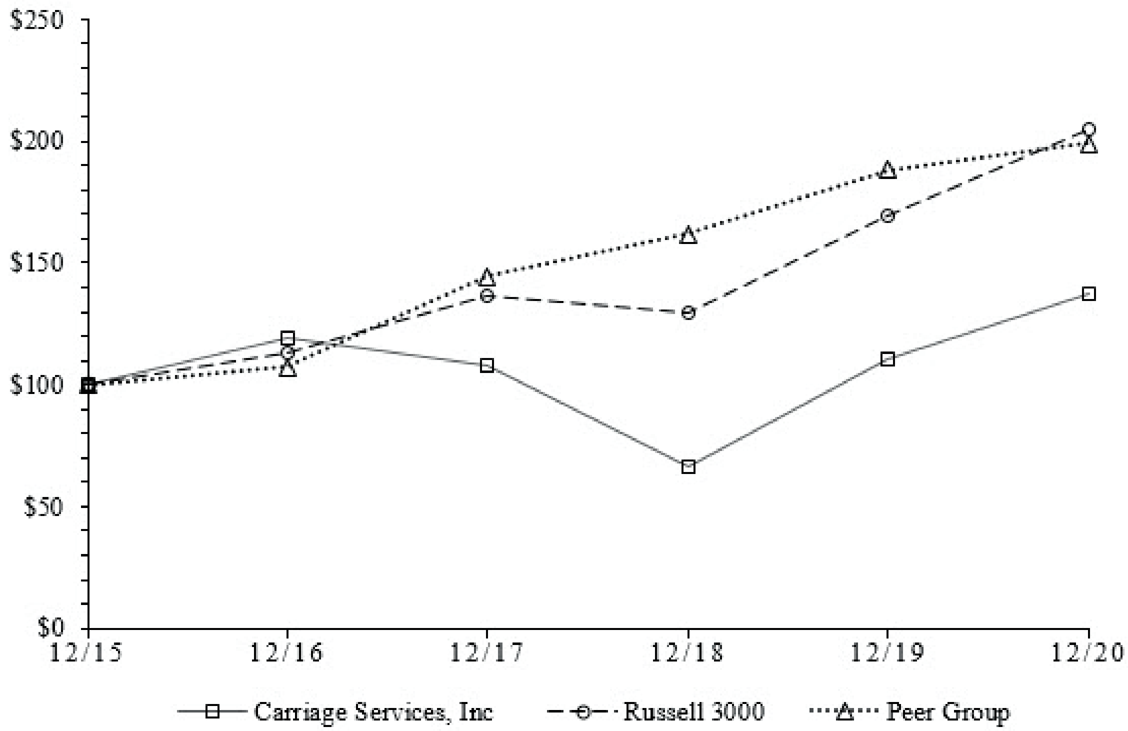
(1) See the first paragraph under the caption "Purchases of Equity Securities by the Issuer" for more information on our publicly announced share repurchase program.

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 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 2015, and that all dividends were reinvested. Performance data for Carriage, the Russell 3000 Index and the Peer Group is provided as of the last trading day of each of our last five fiscal years.

The following graph and related information shall not be deemed "soliciting material" or "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities 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



	12/15	12/16	12/17	12/18	12/19	12/20
Carriage Services, Inc.	$ 100.00	$ 119.60	$ 108.32	$ 66.18	$ 110.86	$ 137.73
Russell 3000	100.00	112.72	136.53	129.37	169.48	204.86
Peer Group	100.00	107.22	144.69	161.61	188.39	199.24

(1) Fiscal year ending December 31. $100 invested on December 31, 2015 in stock or index, including reinvestment of dividends. 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. SELECTED FINANCIAL DATA.

Omitted pursuant to amendments to Item 301 of Regulations S-K effective February 10, 2021.

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

OVERVIEW

General

We operate in two business segments: funeral home operations, which accounts for approximately 75% of our revenue, and cemetery operations, which accounts for approximately 25% 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, 2020, we operated 178 funeral homes in 26 states and 32 cemeteries in 12 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 2021, our plan is to remain focused on integrating our newly 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 and the redemption of our Convertible Notes due March 2021. However, if we were to refinance our Senior Notes when they become callable, it may provide us the ability, from a capital allocation perspective, to potentially resume strategic acquisitions, internal growth capital expenditures, share repurchases, dividend increases and further debt repayments. We also expect continued divestiture activity for the next 6-12 months, which could yield approximately $10-11 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. 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.

Cash Flows

We began 2020 with $0.7 million in cash and ended the year with $0.9 million in cash. At December 31, 2020, we had borrowings of $47.2 million outstanding on our Credit Facility compared to $83.8 million as of December 31, 2019 and $27.1 million as of December 31, 2018.

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

	Years Ended December 31,		
	2018	**2019**	**2020**
Cash at beginning of year	$ 952	$ 644	$ 716
Net cash provided by operating activities	48,994	43,216	82,915
Acquisitions	(37,970)	(140,907)	(28,011)
Deposit on pending acquisition	—	(5,000)	—
Proceeds from insurance reimbursements	—	1,433	248
Proceeds from divestiture and sale of other assets	—	967	8,541
Capital expenditures	(13,526)	(15,379)	(15,198)
Net cash used in investing activities	(51,496)	(158,886)	(34,420)
Net borrowings (payments) on our Credit Facility, acquisition debt and finance lease obligations	(194,340)	54,413	(38,345)
Payment of debt issuance costs related to long-term debt	(1,751)	(891)	—
Repurchase of Convertible Notes	(98,266)	(27)	(4,563)
Payment of transaction costs related to the repurchase of Convertible Notes	(885)	—	(12)
Proceeds from the issuance of the Senior Notes	320,125	76,688	—
Payment of debt issuance costs related to the Senior Notes	(1,367)	(980)	(66)
Dividends paid on common stock	(5,513)	(5,398)	(6,048)
Net proceeds from employee equity plans	595	1,251	881
Purchase of treasury stock	(16,266)	(9,152)	—
Other financing costs	(138)	(162)	(169)
Net cash provided by (used in) financing activities	2,194	115,742	(48,322)
Cash at end of year	$ 644	$ 716	$ 889

Operating Activities

For the year ended December 31, 2020, cash provided by operating activities was $82.9 million compared to $43.2 million for the year ended December 31, 2019 and $49.0 million for the year ended December 31, 2018. The increase of $39.7 million for the year ended December 31, 2020 compared to the year ended December 31, 2019 is a reflection of the resilient cash generating ability of our portfolio of high-quality funeral home and cemetery operations. Our operating income (excluding the non-cash impact of the divestitures and impairment charges) increased $26.4 million in addition to other favorable working capital changes.

The decrease of $5.8 million for the year ended December 31, 2019 compared to the year ended December 31, 2018 was primarily due to approximately $5.0 million in more cash interest paid in 2019 compared to 2018, as well as additional unfavorable working capital changes.

Investing Activities

Our investing activities resulted in a net cash outflow of $34.4 million for the year ended December 31, 2020 compared to $158.9 million for the year ended December 31, 2019 and $51.5 million for the year ended December 31, 2018.

Acquisition and Divestiture Activity

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.

During the year ended December 31, 2018, we acquired four funeral home businesses for an aggregate purchase price of $38.0 million.

Capital Expenditures

For the year ended December 31, 2020, our capital expenditures (comprising of growth and maintenance spend) totaled $15.2 million compared to $15.4 million for the year ended December 31, 2019, and $13.5 million for the year ended December 31, 2018.

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

	Years Ended December 31,		
	2018	**2019**	**2020**
Growth			
Cemetery development	$ 3,149	$ 4,111	$ 4,705
Construction for new funeral facilities	11	—	—
Live streaming equipment	—	42	636
Renovations at certain businesses[(1)]	1,100	2,236	953
Other	—	195	142
Total Growth	$ 4,260	$ 6,584	$ 6,436

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

	Years Ended December 31,		
	2018	**2019**	**2020**
Maintenance			
Facility repairs and improvements	$ 2,591	$ 1,820	$ 2,053
General equipment and furniture	2,247	3,032	2,892
Vehicles	2,556	1,950	1,493
Paving roads and parking lots	674	795	731
Information technology infrastructure improvements	1,172	977	949
Other	26	221	644
Total Maintenance	$ 9,266	$ 8,795	$ 8,762

Financing Activities

Our financing activities resulted in a net cash outflow of $48.3 million for the year ended December 31, 2020 compared to net cash inflow of $115.7 million for the year ended December 31, 2019 and net cash inflow of $2.2 million for the year ended December 31, 2018.

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 issuance of our Additional 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.

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

Dividends

On May 19, 2020, the Board approved an increase of $0.05 per share to our annual dividend beginning with the dividend declaration in the third quarter. On October 27, 2020, the Board approved an additional increase of $0.0125 per share for a total annual dividend of $0.40 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):

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

2018	Per Share	Dollar Value
March 1st	$ 0.0750	$ 1,207
June 1st	$ 0.0750	$ 1,433
September 1st	$ 0.0750	$ 1,436
December 1st	$ 0.0750	$ 1,430

Share Repurchases

During the year ended December 31, 2018, we repurchased 1,101,969 shares of common stock for a total cost of $17.7 million at an average cost of $16.03 per share pursuant to our share repurchase program. On July 31, 2019, our Board approved an additional $25.0 million under our share repurchase program in accordance with Rule 10b-18 of the Exchange Act. During the year ended December 31, 2019, we repurchased 400,000 shares of common stock for a total cost of $7.8 million at an average cost of $19.39 per share pursuant to our share repurchase program. Our shares were purchased in the open market at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury shares.

During the year ended December 31, 2020, we did not repurchase any common shares. At December 31, 2020, we had approximately $25.6 million available for repurchase under our share repurchase 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, 2019	December 31, 2020
Credit Facility	$ 83,800	$ 47,200
Finance leases	6,144	5,854
Operating leases	23,087	22,384
Acquisition debt	6,964	5,509
Total	$ 119,995	$ 80,947

Credit Facility

On December 19, 2019, we entered into a third amendment and commitment increase to our $150.0 million senior secured revolving credit facility ("Credit Facility") with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent (in such capacity, the "Administrative Agent") to increase our commitment to $190.0 million and incurred $0.9 million in transactions costs, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

At December 31, 2020, our 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 Credit Facility will occur on May 31, 2023.

The Company's obligations under the Credit Facility are unconditionally guaranteed on a joint and several basis by the same subsidiaries which guarantee the Senior Notes (as defined in Part II, Item 8, Financial Statements and Supplementary Data, Note 14) and certain of the Company's Credit Facility Guarantors.

The Credit Facility is secured by a first-priority perfected security interest in and lien on substantially all of the Company's personal property assets and those of the Credit Facility Guarantors. In the event the Company's actual Total Leverage Ratio is not at least 0.25 less than the required Total Leverage Ratio covenant level, at the discretion of the Administrative Agent, the Administrative Agent may unilaterally compel the Company and the Credit Facility Guarantors to grant and perfect first-priority mortgage liens on fee-owned real property assets which account for no less than 50% of funeral operations EBITDA.

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

In addition, the Credit Facility also contains customary negative covenants, including, but not limited to, covenants that restrict (subject to certain exceptions) the ability of the Company and its subsidiaries and party thereto as guarantors (the "Credit Facility Guarantors") to incur additional indebtedness, grant liens on assets, make investments, engage in mergers and acquisitions, and pay dividends and other restricted payments, and certain financial covenants. At December 31, 2020, we were subject to the following financial covenants under our Credit Facility: (A) a Total Leverage Ratio not to exceed, (i) 5.75 to 1.00 for the quarters ended March 31, 2020, June 30, 2020 and September 30, 2020 and (ii) 5.50 to 1.00 for the quarter ended December 31, 2020 and each quarter ended thereafter, (B) a Senior Secured Leverage Ratio (as defined in the Credit Facility) not to exceed 2.00 to 1.00 as of the end of any period of four consecutive fiscal quarters, and (C) a Fixed Charge Coverage Ratio (as defined in the Credit Facility) of not less than 1.20 to 1.00 as of the end of any period of four consecutive fiscal quarters. These financial maintenance covenants are calculated for the Company and its subsidiaries on a consolidated basis.

On May 18 2020, we received a limited waiver under our Credit Facility for the failure to comply with the Total Leverage Ratio covenant for the fiscal quarter ended March 31, 2020. In connection with the waiver, we also entered into a fourth amendment to the Credit Facility which increased the interest rate margin applicable to borrowings by up to 0.625% at each pricing level based on the Total Leverage Ratio. We did not incur any transaction costs related to the limited waiver and fourth amendment to the Credit Facility.

On August 7, 2020, we obtained a limited consent from the lenders under our Credit Facility in connection with our privately-negotiated repurchases of our Convertible Notes (as defined in Part II, Item 8, Financial Statements and Supplementary Data, Note 13). See Part II, Item 8, Financial Statements and Supplementary Data, Note 13 for a discussion of our privately-negotiated repurchases.

We were in compliance with the total leverage ratio, fixed charge coverage ratio and senior secured leverage ratio covenants contained in our Credit Facility at December 31, 2020.

At December 31, 2020, we had outstanding borrowings under the Credit Facility of $47.2 million. We had one letter of credit for $2.0 million issued on November 30, 2019 and outstanding under the Credit Facility, which was increased to $2.1 million on September 29, 2020. The letter of credit bears interest at 3.125% and will expire on November 26, 2021. The letter of credit automatically renews annually and secures our obligations under our various self-insured policies. Outstanding borrowings under our Credit Facility bear interest at either a prime rate or a LIBOR rate, plus an applicable margin based upon our leverage ratio. At December 31, 2020, the prime rate margin was equivalent to 1.5% and the LIBOR rate margin was 2.5%. The weighted average interest rate on our Credit Facility for the years ended December 31, 2019 and 2020 was 2.9% and 3.8%, respectively.

We have no material assets or operations independent of our subsidiaries. All assets and operations are held and conducted by subsidiaries, each of which have fully and unconditionally guaranteed our obligations under the Credit Facility.

Additionally, we do not currently have any significant restrictions on our ability to receive dividends or loans from any Credit Facility Guarantors.

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

	Years Ended December 31,		
	2018	2019	2020
Credit Facility interest expense	$ 4,351	$ 1,601	$ 3,738
Credit Facility amortization of debt issuance costs	234	229	482

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 nineteen years. Many leases include one or more options to renew, some of which include options to extend the leases for up to 26 years. We lease certain funeral homes under finance leases with original terms ranging from ten to forty years.

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
Operating lease cost	$ 3,722	$ 3,795
Short-term lease cost	277	224
Finance lease cost:		
Depreciation of leased assets	$ 498	$ 439
Interest on lease liabilities	520	496

Acquisition Debt

Acquisition debt consists of deferred purchase price and promissory notes payable to sellers. A majority of the deferred purchase price and notes bear no interest and are discounted at imputed interest rates ranging from 7.3% to 10.0%. Original maturities range from five to twenty years.

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

	Years Ended December 31,		
	2018	2019	2020
Acquisition debt imputed interest expense	$ 791	$ 622	$ 489

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 are due on March 15, 2021 and bear interest at 2.75% per year, which is payable semi-annually in arrears on March 15 and September 15 of each year.

On May 7, 2018, we completed our exchange of approximately $115.0 million in aggregate principal amount of Convertible Notes in a privately-negotiated exchange agreement with a limited number of convertible noteholders. On December 24, 2018, we completed privately-negotiated repurchases of an additional $22.4 million in aggregate principal amount of Convertible Notes. On April 4, 2019, we completed a privately-negotiated repurchase of $25,000 in aggregate principal amount of Convertible Notes then outstanding for $27,163.

On September 9, 2020, we completed privately-negotiated repurchases of $3.8 million in aggregate principal amount of our Convertible Notes for $4.6 million in cash (which included accrued interest of $0.1 million) and recorded $0.8 million for the reacquisition of the equity component. The September 2020 repurchases represented approximately 60% of the aggregate principal amount of Convertible Notes then outstanding. Following the settlement of the September 2020 repurchases, the aggregate principal amount of the Convertible Notes was reduced to approximately $2.6 million.

The fair value of the Convertible Notes, which are Level 2 measurements, was $3.7 million at December 31, 2020.

At December 31, 2020, the adjusted conversion rate of the Convertible Notes is 45.9712 shares of our common stock per $1,000 principal amount of Convertible Notes, equivalent to an adjusted conversion price of $21.75 per share of common stock.

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,		
	2018	2019	2020
Convertible Notes interest expense	$ 1,878	$ 174	$ 149
Convertible Notes accretion of debt discount	2,192	241	216
Convertible Notes amortization of debt issuance costs	245	24	20

The remaining unamortized debt discount and the remaining unamortized debt issuance costs are being amortized using the effective interest method over the remaining term of approximately two months of the Convertible Notes. The effective interest rate on the unamortized debt discount for both years ended December 31, 2019 and 2020 was 11.4%. The effective interest rate on the debt issuance costs for the years ended December 31, 2019 and 2020 was 3.2% and 3.1%, respectively.

Senior Notes due 2026

On May 31, 2018, we issued $325.0 million in aggregate principal amount of our 6.625% senior notes due 2026 (the "Initial Senior Notes") and related guarantees in a private offering under Rule 144A and Regulations S under the Securities Act. The Initial Senior Notes were issued under an indenture, dated as of May 31, 2018 (the "Indenture"), among us, certain of our existing subsidiaries (collectively, the "Subsidiary Guarantors"), as guarantors, and Wilmington Trust, National Association., as trustee.

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

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

The Senior Notes bear interest at 6.625% per year. Interest on the Senior Notes began to accrue on May 31, 2018 and is payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2018 with respect to the Initial Senior Notes and June 1, 2020 with respect to the Additional Senior Notes to holders of record on each May 15 and November 15 preceding an interest payment date. The Senior Notes mature on June 1, 2026, unless earlier redeemed or repurchased. The Senior Notes are unsecured, senior obligations and are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally, by each of the Subsidiary Guarantors.

We may redeem all or part of the Senior Notes at any time prior to June 1, 2021 at a redemption price equal to 100% of the principal amount of Senior Notes redeemed, plus a "make whole" premium, and accrued and unpaid interest, if any, to the date of redemption. We have the right to redeem the Senior Notes at any time on or after June 1, 2021 at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to the date of redemption. Additionally, at any time before June 1, 2021, we may redeem up to 40% of the aggregate principal amount of the Senior Notes issued with an amount equal to the net proceeds of certain equity offerings, at a price equal to 106.625% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to the date of redemption; provided that (1) at least 60% of the aggregate principal amount of the Senior Notes (including any additional Senior Notes) originally issued under the Indenture remain outstanding immediately after the occurrence of such redemption (excluding Senior Notes held by us); and (2) each such redemption must occur within 180 days of the date of the closing of each such equity offering.

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

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

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,		
	2018	2019	2020
Senior Notes interest expense	$ 12,620	$ 21,711	$ 26,500
Senior Notes amortization of debt discount	273	493	528
Senior Notes amortization of debt premium	—	—	221
Senior Notes amortization of debt issuance costs	77	139	280

The fair value of the Senior Notes, which are Level 2 measurements, was $427.9 million at December 31, 2020.

The debt discount, the debt premium and the debt issuance costs are being amortized using the effective interest method over the remaining term of approximately 65 months of the Senior Notes. The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Initial Senior Notes (issued in May 2018) was 6.87% and 6.69%, respectively, for the year ended December 31, 2020. The effective interest rate on the unamortized debt premium and the unamortized debt issuance costs for the Additional Senior Notes (issued in December 2019) was 6.20% and 6.90%, respectively, for year ended December 31, 2020.

CONTRACTUAL OBLIGATIONS

The following table summarizes the known future payments required for the debt on our Consolidated Balance Sheet as of December 31, 2020. Where appropriate we have indicated the footnote in Part II, Item 8, Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements where additional information is available.

		Payments Due By Period (in thousands)						
	Financial Note Reference	Total	2021	2022	2023	2024	2025	After 5 Years
Credit Facility and acquisition debt obligations	12	$ 52,709	$ 1,027	$ 503	$47,741	$ 527	$ 566	$ 2,345
Interest obligation on Credit Facility and acquisition debt [(a)]	12	6,154	1,911	1,874	931	245	207	986
Convertible Notes [(b)]	13	2,559	2,559	—	—	—	—	—
Interest on Convertible Notes	13	15	15	—	—	—	—	—
Senior Notes [(c)]	14	400,000	—	—	—	—	—	400,000
Interest on Senior Notes	14	143,542	26,500	26,500	26,500	26,500	26,500	11,042
Finance lease obligations, including interest	15	9,638	836	860	860	791	736	5,555
Operating lease obligations, including interest	15	33,153	3,794	3,422	3,301	3,292	3,156	16,188
Total contractual obligations		$647,770	$36,642	$33,159	$79,333	$ 31,355	$31,165	$ 436,116

(a) Based on interest rates in effect at December 31, 2020.

(b) Matures March 15, 2021.

(c) Matures June 1, 2026.

OFF-BALANCE SHEET ARRANGEMENTS

The following table summarizes our off-balance sheet arrangements as of December 31, 2020. Where appropriate, we have indicated the footnote in Part II, Item 8, Financial Statements and Supplementary Data, Notes to the Consolidated Financial Statements where additional information is available. We have various non-compete agreements with former owners and employees of businesses we have acquired. These agreements are generally for one to ten years and provide for periodic payments over the term of the agreements. We have various consulting agreements with former owners of businesses we have acquired. Payments for such agreements are generally not made in advance. These agreements are generally for one to five years and provide for bi-weekly or monthly payments. We have employment agreements with our executive officers and certain senior leadership. These agreements are generally for three to five years and provide for participation in various incentive compensation arrangements. These agreements generally renew automatically on an annual basis after their initial term has expired.

		Payments Due By Period (in thousands)						
	Financial Note Reference	Total	2021	2022	2023	2024	2025	After 5 Years
Non-compete agreements	16	$ 6,296	$ 2,103	$ 1,569	$ 1,063	$ 691	$ 431	$ 439
Consulting agreements	16	1,847	879	537	266	114	51	—
Employment agreements [(a)]	16	12,078	3,729	3,456	1,181	900	900	1,912
Total contractual cash obligations		$20,221	$ 6,711	$ 5,562	$ 2,510	$ 1,705	$ 1,382	$ 2,351

(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. See Part II, Item 8, Financial Statements and Supplementary Data, Note 16 for additional information regarding Mr. Payne's employment agreement.

The obligations related to our off-balance sheet arrangements are significant to our future liquidity; however, although we can provide no assurances, we anticipate that these obligations will be funded from cash provided from our operating activities. If we are not able to meet these obligations with cash provided by our operating activities, we may be required to access the capital markets or draw down on our Credit Facility, both of which may be more difficult to access.

FINANCIAL HIGHLIGHTS

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

	Years Ended December 31,		
	2018	2019	2020
Revenue	$ 267,992	$ 274,107	$ 329,448
Funeral contracts	36,816	38,940	47,190
Average revenue per funeral contract	$ 5,674	$ 5,499	$ 5,145
Preneed interment rights (property) sold	7,063	7,205	9,503
Average price per interment right sold	$ 3,472	$ 3,653	$ 4,033
Gross profit	$ 75,947	$ 79,585	$ 105,923
Net income	$ 11,645	$ 14,533	$ 16,090

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.

Revenue in 2019 increased $6.1 million compared to 2018, as we experienced a 5.8% increase in total funeral contracts, offset by a decrease in the average revenue per funeral contract of 3.1%. In addition, the average price per interment right (property) sold increased 5.2% and we experienced an increase of 2.0% in the number of preneed interment rights sold. Further discussion of Revenue for our funeral home and cemetery segments is presented herein under “Results of Operations.”

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 disciplined expense and cost management by leaders at each business.

Gross profit in 2019 increased $3.6 million compared to 2018, primarily due to an increase in revenue from our funeral home segment due to the acquisitions made in the fourth quarter of 2019 and the second half of 2018. Further discussion of the components of Gross profit for our funeral home and cemetery segments, is presented herein under “Results of Operations.”

Net income in 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.

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

Further discussion of General, administrative and other expenses, Home office depreciation and amortization expense, Interest expense, Income taxes and other components of income and expenses are presented herein under “Other Financial Statement Items.”

REPORTING AND NON-GAAP FINANCIAL MEASURES

We also present our financial performance in our “Operating and Financial Trend Report” (“Trend Report”) as reported in our earnings release for the year ending December 31, 2020, dated February 17, 2021 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,		
	2018	2019	2020
Net income	$ 11,645	$ 14,533	$ 16,090
Special items, net of tax except for items noted by(1)			
Acquisition and divestiture expenses	—	1,646	(9)
Severance and separation costs	1,134	951	445
Performance awards cancellation and exchange	2,594	—	224
Accretion of discount on Convertible Notes(1)	2,192	241	216
Net loss on early extinguishment of debt	397	—	—
Net loss on divestitures and other costs(2)	439	3,331	4,562
Net impact of impairment of goodwill and other intangibles(2)	805	761	9,932
Litigation reserve	790	592	213
Tax expense related to divested business(1)	—	911	—
Gain on insurance reimbursements	—	(699)	—
Natural disaster and pandemic costs	345	—	1,286
Other special items	—	265	324
Tax adjustment related to certain discrete items(1)	1,225	—	400
Adjusted net income(3)	$ 21,566	$ 22,532	$ 33,683

(1) Special items are defined as charges or credits included in our GAAP financial statements that can vary from period to period and are not reflective of costs incurred in the ordinary course of our operations. Special items are taxed at the federal statutory rate of 21.0% for the years ended December 31, 2018, 2019 and 2020, except for the Accretion of the discount on the Convertible Notes and the Tax adjustment related to certain discrete items and the Tax expense related to divested business, as these are non-tax deductible items and the Net impact of impairment of goodwill and other intangibles and the Net loss on divestitures and other costs (described below).

(2) The Net loss on divestitures and other costs and the Net impact of impairment of goodwill and other intangibles special items are net of the federal statutory rate of 21.0% in 2018 and 2019 and are net of the operating tax rate of 32.4% in 2020.

(3) 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,		
	2018	2019	2020
Gross profit	$ 75,947	$ 79,585	$ 105,923
Cemetery property amortization	3,602	3,985	4,956
Field depreciation expense	12,015	12,370	13,006
Regional and unallocated funeral and cemetery costs	12,749	13,827	18,057
Operating profit[(1)]	$ 104,313	$ 109,767	$ 141,942

(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,		
	2018	2019	2020
Funeral Home	$ 82,154	$ 85,737	$ 104,998
Cemetery	22,159	24,030	36,944
Operating profit	$ 104,313	$ 109,767	$ 141,942
Operating profit margin[(1)]	38.9%	40.0%	43.1%

(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, 2020 COMPARED TO YEAR ENDED DECEMBER 31, 2019

Results of Operations

The following is a discussion of our results of operations for the year ended December 31, 2020 compared to the year ended December 31, 2019.

The term "same store" refers to funeral homes and cemeteries acquired prior to January 1, 2016 and owned and operated for the entirety of each period being presented, excluding certain funeral homes and cemeteries that we intend to divest in the near future.

The term "acquired" refers to funeral homes and cemeteries purchased after December 31, 2015, excluding any funeral homes and cemeteries 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" refers to the eight funeral homes we sold in 2020 and three funeral homes whose building leases expired, one funeral home we sold and a funeral home we merged with a funeral home in an existing market in 2019. "Planned divested" refers to funeral homes and cemeteries that we intend to divest in the near future.

"Ancillary" 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, 2019	2020
Revenue:		
Same store operating revenue	$ 168,884	$ 179,779
Acquired operating revenue	27,547	46,897
Divested/planned divested revenue	11,263	8,705
Ancillary funeral services revenue	748	4,661
Preneed funeral insurance commissions	1,475	1,349
Preneed funeral trust and insurance	6,951	7,747
Total	$ 216,868	$ 249,138
Operating profit:		
Same store operating profit	$ 65,109	$ 74,817
Acquired operating profit	10,579	18,617
Divested/planned divested operating profit	2,342	2,192
Ancillary funeral services operating profit	298	1,186
Preneed funeral insurance commissions	631	565
Preneed funeral trust and insurance	6,778	7,621
Total	$ 85,737	$ 104,998

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

	Years Ended December 31, 2019	2020
Same store:		
Contract volume	31,729	35,815
Average revenue per contract, excluding preneed funeral trust earnings	$ 5,323	$ 5,020
Average revenue per contract, including preneed funeral trust earnings	$ 5,511	$ 5,207
Burial rate	38.1%	36.3%
Cremation rate	54.1%	56.7%
Acquired:		
Contract volume	4,559	9,109
Average revenue per contract, excluding preneed funeral trust earnings	$ 6,042	$ 5,148
Average revenue per contract, including preneed funeral trust earnings	$ 6,144	$ 5,226
Burial rate	45.4%	40.5%
Cremation rate	47.9%	54.3%

Funeral home same store operating revenue for the year ended December 31, 2020 increased $10.9 million, compared to the year ended December 31, 2019. The increase in operating revenue is due to a 12.9% same store contract volume increase which is due to broad market share gains and increased deaths related to the COVID-19 pandemic. This increase was offset by a 5.7% decrease in average revenue per contract, excluding preneed interest, due to a 180 basis point decrease in the burial rate along with a decrease of both burial and cremation contracts with services.

Beginning in the latter half of March 2020, we saw a decrease in services performed due to the restrictions placed on gatherings mandated by state and local governments as the COVID-19 pandemic became more prominent and individuals began to practice social distancing to comply with applicable shelter in place and related orders. Although social distancing restrictions were gradually eased in certain jurisdictions during the latter half of 2020, these restrictions contributed to the overall decrease in the average revenue per contract in the current year. Our Managing Partners continued to show innovation by creating high value, uniquely customized personal services and sales amid challenging restrictions in local environments.

Same store operating profit for the year ended December 31, 2020 increased $9.7 million when compared to the year ended December 31, 2019 and the comparable operating profit margin increased 300 basis points to 41.6%. The increase in operating margin is primarily due to the increase in same store operating revenue along with disciplined expense and cost management by leaders at each business. Although same store operating expenses increased $1.2 million primarily due to an increase of $1.0 million in group health care costs related to higher claims experience during the current year, we experienced decreases in the majority of our other operating costs as a percentage of operating revenue for the year ended December 31, 2020 compared to the same period in 2019.

Funeral home acquired operating revenue for the year ended December 31, 2020 increased $19.4 million, as our funeral home acquired portfolio for the year ended December 31, 2020 included nine funeral home businesses added in the fourth quarter of 2019 and one business added in the first quarter of 2020 not fully present in the year ended December 31, 2019.

Acquired operating profit for the year ended December 31, 2020 increased $8.0 million when compared to the year ended December 31, 2019 and the comparable operating profit margin increased 130 basis points to 39.7%. The increase is primarily due to the increase in acquired operating revenue along with disciplined expense and cost management by leaders at each business.

Ancillary funeral services revenue, which is recorded in *Other revenue*, represents revenue from our flower shop, pet cremation business and online cremation business, which were acquired in the fourth quarter of 2019. Operating profit from our ancillary funeral service businesses for the year ended December 31, 2020, increased $0.9 million when compared to the year ended December 31, 2019, with an operating profit margin of 25.4%.

Preneed funeral insurance commissions and preneed funeral trust and insurance, also recorded in *Other revenue*, on a combined basis, increased $0.7 million or 8.0% for the year ended December 31, 2020 compared to the same period in 2019. The increase is primarily due to an 11.5% increase in preneed contracts maturing to atneed during the year ended December 31, 2020 compared to the same period in 2019, which triggers the recognition of trust earnings on the matured contracts. Operating profit for preneed funeral insurance commissions and preneed trust and insurance, on a combined basis, increased $0.8 million or 10.5% for the same comparative period in 2019, primarily due to the increase in revenue and reduction of preneed trust and insurance expenses.

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,	
	2019	**2020**
Revenue:		
Same store operating revenue	$ 49,218	$ 51,694
Acquired operating revenue	295	17,583
Planned divested revenue	313	394
Preneed cemetery trust earnings	5,960	9,722
Preneed cemetery finance charges	1,453	917
Total	$ 57,239	$ 80,310
Operating profit:		
Same store operating profit	$ 17,118	$ 19,469
Acquired operating profit	73	7,128
Planned divested operating profit	13	129
Preneed cemetery trust operating profit	5,373	9,301
Preneed cemetery finance charges	1,453	917
Total	$ 24,030	$ 36,944

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

	Years Ended December 31,	
	2019	2020
Same store:		
Preneed revenue as a percentage of operating revenue	61 %	61 %
Preneed revenue (in thousands)	$ 30,170	$ 31,393
Number of preneed interment rights sold	7,130	7,096
Atneed revenue (in thousands)	$ 19,048	$ 20,302
Acquired:		
Preneed revenue as a percentage of operating revenue	65 %	66 %
Preneed revenue (in thousands)	$ 192	$ 11,551
Number of preneed interment rights sold	60	2,353
Atneed revenue (in thousands)	$ 103	$ 6,032

Cemetery same store operating revenue increased $2.5 million for the year ended December 31, 2020 compared to the year ended December 31, 2019. We experienced a $0.4 million or 1.6% increase in preneed property revenue as a result of a 3.1% increase in the average price per interment right sold, slightly offset by a 0.5% decrease in the number of interment rights sold. The decrease in the number of preneed interment rights sold was primarily due to the COVID-19 pandemic as individuals practiced social distancing to comply with applicable shelter in place and related orders in certain areas of the country, which limited our preneed sales employees from meeting with families in person. This was most evident in the second quarter of 2020 as these restrictions affected our ability to host certain annual events such as the Ching Ming festival during April and Memorial Day festivities during May. We also experienced an $0.8 million increase in preneed merchandise and service revenue due to a 22.9% increase in the deliveries of merchandise and service contracts during the year ended December 31, 2020. Cemetery same store atneed revenue, which represents 39% of our same store operating revenue, increased $1.3 million as we experienced a 10.2% increase in the number of atneed contracts due to the increased deaths related to the COVID-19 pandemic, offset by a 3.3% decrease in the average sales per contract.

Cemetery same store operating profit for the year ended December 31, 2020 increased $2.4 million compared to the year ended December 31, 2019. The comparable operating profit margin increased 290 basis points to 37.7%, primarily because of disciplined expense and cost management by leaders at each business throughout the year. Operating expense as a percentage of operating revenue decreased in categories such as promotional expense, general and administrative expenses and maintenance salary expenses in the year ended December 31, 2020 compared to the same period in 2019. We saw increases in two categories as a percentage of operating revenue, allowance for credit losses due to slower payments on financed receivables particularly in the states most affected by COVID-19 and atneed commissions due to the introduction of performance-based rewards and sales incentives in the current year.

Our acquired cemetery portfolio includes two cemeteries added during the fourth quarter of 2019 and one cemetery added during the first quarter of 2020. These three cemeteries contributed $17.6 million in revenue and $7.1 million in operating profit for the year ended December 31, 2020.

Preneed cemetery trust earnings and preneed cemetery finance charges, which are recorded in *Other revenue*, on a combined basis, increased $3.2 million for the year ended December 31, 2020 compared to the same period in 2019. The increase was primarily due to a $3.7 million increase in perpetual care trust fund earnings of which (1) $2.2 million was from our acquired cemeteries; (2) $0.9 million increase in earnings as a result of the execution of our trust fund repositioning strategy beginning at the height of the COVID-19 market crisis in March 2020; and (3) $0.6 million increase in realized gains. These increases were partially offset by a $0.5 million decrease in finance charge revenue. The decrease in finance charge revenue is primarily due to our enhanced preneed cemetery property sales strategy of reducing interest rates on preneed contracts.

Operating profit for the two categories of *Other revenue*, on a combined basis, increased $3.4 million for the year ended December 31, 2020 compared to the same period in 2019, primarily due to the increase in our perpetual care trust fund earnings discussed above.

Cemetery property amortization. Cemetery property amortization totaled $5.0 million for the year ended December 31, 2020, an increase of $1.0 million compared to the year ended December 31, 2019. The increase in property sold due to our recently acquired cemeteries, resulted in a $1.1 million increase in amortization expense for the year ended December 31, 2020, while the amortization expense for our same store businesses decreased $0.1 million due to a decrease in property sales in the period.

Field depreciation. Depreciation expense for our field businesses totaled $13.0 million for the year ended December 31, 2020, an increase of $0.6 million compared to the year ended December 31, 2019. The increase was primarily due to additional depreciation expense from assets added as a result of our acquisitions during the fourth quarter of 2019 and first quarter of 2020.

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 $18.1 million for the year ended December 31, 2020, an increase of $4.2 million 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 $1.0 million increase in health and safety expenses due to the COVID-19 pandemic; and (3) a $0.7 million increase in salaries and benefits; offset by (4) a $1.1 million decrease in severance expense.

Other Financial Statement Items

General, administrative and other. General, administrative and other expenses totaled $25.8 million for the year ended December 31, 2020, a decrease of $0.1 million primarily due to the following: (1) a $2.0 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; and (2) a $0.2 million increase in salaries and benefits; offset by (3) a $2.3 million decrease in acquisition costs.

Home office depreciation and amortization. Home office depreciation and amortization expense remained flat at $1.4 million for both the years ended December 31, 2020 and 2019, primarily due to machinery and equipment at the home office becoming fully depreciated in the latter half of 2019, offset by additional software assets purchased during the fourth quarter of 2019.

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

	Years Ended December 31,	
	2019	**2020**
Goodwill impairment	$ (742)	$ (13,632)
Tradenames impairment	(221)	(1,061)
Net loss on divestitures	(3,883)	(6,749)
Total	$ (4,846)	$ (21,442)

As a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our goodwill and tradenames at March 31, 2020. We recorded an impairment for goodwill of $13.6 million as the carrying amount of our funeral homes in the Eastern Region Reporting Unit exceeded the fair value 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 at a net loss of $6.7 million.

During 2019, we recorded a goodwill impairment of $0.7 million related to two funeral homes that we divested. During 2019, we recorded an impairment to tradenames of $0.2 million as a result of our 2019 annual impairment test as the carrying amount of certain tradenames exceeded the fair value. In addition, we divested three funeral homes whose building leases expired and sold a funeral home at a net loss of $3.9 million.

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

	Years Ended December 31,	
	2019	**2020**
Senior Notes	$ 22,343	$ 27,087
Credit Facility	1,830	4,220
Convertible Notes	198	169
Finance leases	520	496
Acquisition debt	622	489
Other	9	54
Total	$ 25,522	$ 32,515

Accretion of discount on convertible subordinated notes. We recognized accretion of the discount on our Convertible Notes of $0.2 million for both years ended December 31, 2020, and 2019.

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

	Years Ended December 31,	
	2019	**2020**
Gain on insurance reimbursements related to Hurricane Michael	$ 885	$ 97
Other income (expense)	(149)	58
Other loss	—	(3)
Total	$ 736	$ 152

Income taxes. Our income tax provision was $8.6 million for the year ended December 31, 2020, compared to our income tax provision of $7.9 million for the year ended December 31, 2019. Our operating tax rate before discrete items was 32.4% and 33.0% for the years ended December 31, 2020 and 2019, respectively.

During the year ended December 31, 2020, we recorded tax expense of $0.8 million related to divested businesses. We also recorded discrete tax expense of $0.6 million and $0.5 million for the years ended December 31, 2020 and 2019, respectively. Discrete tax expense for the year ended December 31, 2020 includes expense related to equity compensation and other adjustments including return to provision analysis and state legislative changes. Our effective tax rate was 34.7% and 35.1% for years ended December 31, 2020 and 2019, respectively.

In connection with the CARES Act, we filed a claim for a refund on June 30, 2020, to carryback the net operating losses ("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. An additional carryback claim for a refund of $1.2 million was filed on November 3, 2020 for the tax year ended December 31, 2019. The refund from this filing has not yet been received. The majority of the NOLs generated in tax year 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. Due to the uncertainty of the timing of receiving Internal Revenue Service approval of the method change applications, a reserve has been recorded against the net cash tax benefit derived from carrying back the NOLs generated to tax years in which the enacted federal rate was 35%. The Company's unrecognized tax benefit reserve for the years ended December 31, 2020 and 2019 were $3.7 million and $0.7 million, respectively.

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

OVERVIEW OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, we evaluate estimates and judgments, including those related to revenue recognition, realization of accounts receivable, inventories, goodwill, other intangible assets, property and equipment and deferred tax assets and liabilities. We base our estimates on historical experience, third party data and assumptions that we believe to be reasonable under the circumstances. The results of these considerations form the basis for making judgments about the amount and timing of revenue and expenses, the carrying value of assets and the recorded amounts of liabilities. Actual results may differ from these estimates and such estimates may change if the underlying conditions or assumptions change. Historical performance should not be viewed as indicative of future performance because there can be no assurance the margins, operating income and net earnings, as a percentage of revenue, will be consistent from year to year.

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

Revenue Recognition

Funeral 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. Sales taxes collected are recognized on a net basis on our Consolidated Financial Statements. On our atneed contracts, we generally deliver the merchandise and perform the services at the time of need.

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 on our Consolidated Financial Statements.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 21 for additional information related to revenue.

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.

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.

As a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our goodwill at March 31, 2020 and we recorded an impairment to goodwill of $13.6 million during the quarter ended March 31, 2020, 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. We concluded that it is more-likely-than not that the fair value of our reporting units is greater than their carrying value and thus there was no additional impairment to goodwill.

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. 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.

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

Intangible Assets

Our intangible assets include tradenames resulting from acquisitions and are included in *Intangible and other non-current assets, net* on our Consolidated Balance Sheet. Our tradenames are considered to have an indefinite life and are not subject to amortization. As such, we test our intangible assets for impairment on an annual basis 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.

Our quantitative intangible asset impairment test involves estimates and management judgment. Our quantitative analysis is performed using the relief from royalty method, which measures the tradenames by determining the value of the royalties that we are relieved from paying due to our ownership of the asset. We determine the fair value of the asset by discounting the cash flows that represent a savings in lieu of paying a royalty fee for use of the tradename. In accordance with the guidance, if the fair value of the tradename is less than its carrying amount, then an impairment charge is recorded in an amount equal to the difference.

As a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our tradenames at March 31, 2020 and we recorded an impairment to tradenames for certain of our funeral homes of $1.1 million during the quarter ended March 31, 2020 as the carrying amount of these tradenames exceeded the fair value. 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.

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. We concluded that it is more-likely-than not that the fair value of our intangible assets is greater than its carrying value and thus there was no additional impairment to our intangible assets.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 11 for additional information related to intangible assets.

Funeral and Cemetery Receivables

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

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* and subsequent amendments collectively known as ("Topic 326"). Topic 326 applies to all entities holding financial assets measured at amortized cost, including loans, trade and financed receivables and other financial instruments. The guidance introduces a new credit reserving model known as Current Expected Credit Loss ("CECL"), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL model requires all expected credit losses to be measured based on historical experience, current conditions and reasonable and supportable forecasts about collectability. Prior to adoption of Topic 326, we provided allowances for bad debt and contract cancellations on our receivables based on an analysis of historical trends of collection activity.

For both funeral and cemetery receivables, 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 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 Part II, Item 8, Financial Statements and Supplementary Data, Note 6 for additional information related to funeral and cemetery receivables.

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.

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.

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 a set is not a business if substantially all of the fair value of the gross assets sold resides in a single asset or group of similar assets. If the screen is not met then we evaluate 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 ASC 350 – Intangibles – Goodwill and Other to determine the accounting treatment of goodwill for that set (see discussion of Goodwill below). Goodwill is not allocated to the sale if the set is not considered to be a business.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 5 for additional information related to divestitures.

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 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 trust 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.

Topic 326 made changes to the accounting for fixed income securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on fixed income securities management does not intend to sell or believes that it is more likely than not will be required to sell.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 7 for additional related disclosures related to preneed and perpetual 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 the Fair Value Measurements Topic of the ASC. This guidance defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

- Level 2 — inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement. We currently do not have any assets that have fair values determined by Level 3 inputs and no liabilities measured at fair value.

See Part II, Item 8, Financial Statements and Supplementary Data, Notes 7 and 10 for additional information related to fair value measurements.

Long-Lived Assets

Long-lived assets, such as property, plant and equipment and right-of-use assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with ASC 360 – Property, Plant and Equipment. This guidance requires that long-lived assets to be held and used are reported at the lower of their carrying amount or fair value. We assess long-lived assets for impairment whenever events or circumstances indicate that the carrying value may be greater than the fair value. We evaluate our long-lived assets for impairment when a funeral home or cemetery business has negative earnings before interest, taxes, depreciation and amortization ("EBITDA") for four consecutive years and if there has been a decline in EBITDA in that same period. We review our long-lived assets deemed held-for-sale to the point of recoverability. Assets to be disposed of and assets not expected to provide any future service potential are recorded at the lower of their carrying amount or fair value less estimated cost to sell. If we determine that the carrying value is not recoverable from the proceeds of the sale, we record an impairment at that time.

In connection with the goodwill impairment recorded for the Eastern Region Reporting Unit during the quarter ended March 31, 2020, we also evaluated the long-lived assets of our funeral homes in the Eastern Region Reporting Unit 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 our 2020 annual impairment test, no impairment was identified on our long-lived assets at December 31, 2020.

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

Income Taxes

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS, ACCOUNTING CHANGES AND OTHER REGULATIONS

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

SEASONALITY

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

INFLATION

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

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

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

The following quantitative and qualitative information is provided about financial instruments to which we are a party at December 31, 2020 and from which we may incur future gains or losses from changes in market conditions. We do not enter into derivative or other financial instruments for speculative or trading purposes.

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

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

In connection with our preneed funeral operations and preneed cemetery merchandise and service sales, the related funeral and cemetery trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices. Cost and market values of such investments as of December 31, 2020 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 1.45% 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, 2020, we had outstanding borrowings under the Credit Facility of $47.2 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, 2020, the prime rate margin was equivalent to 1.50% and the LIBOR rate margin was 2.50%. Assuming the outstanding balance remains unchanged, a change of 100 basis points in our borrowing rate would result in a change in income before taxes of $0.5 million. We have not entered into interest rate hedging arrangements in the past. Management continually evaluates the cost and potential benefits of interest rate hedging arrangements.

Our Convertible Notes bear interest at the fixed annual rate of 2.75%. The Convertible Notes do not contain a call feature. At December 31, 2020, the carrying value of the Convertible Notes on our Consolidated Balance Sheet was $2.5 million and the fair value of the Convertible Notes was $3.7 million based on the last traded or broker quoted price, as reported by the Financial Industry Regulatory Authority, Inc. ("FINRA)." Increases in market interest rates may cause the value of the Convertible Notes to decrease, but such changes will not affect our interest costs.

Our Senior Notes bear interest at the fixed annual rate of 6.625%. We may redeem all or part of the Senior Notes at any time prior to June 1, 2021 at a redemption price equal to 100% of the principal amount of Senior Notes redeemed, plus a "make whole" premium, and accrued and unpaid interest, if any, to the date of redemption. We have the right to redeem the Senior Notes at any time on or after June 1, 2021 at the redemption prices described in the Indenture governing the Senior Notes, plus accrued and unpaid interest, if any, to the date of redemption. At December 31, 2020, the carrying value of the Senior Notes on our Consolidated Balance Sheet was $396.0 million and the fair value of the Senior Notes was $427.9 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, 2020 and 2019, the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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, 2020, 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, 2021 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 matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill and Tradename quantitative impairment assessment

As described further in Note 1 to the financial statements, the Company is required to evaluate goodwill and intangible assets for impairment annually or whenever events or changes in circumstances indicate that the carrying value of a reporting unit or the intangible asset may be greater than fair value. The Company first assesses qualitative factors to determine whether it is more-likely-than not that the fair value of a reporting unit or the tradenames is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test. The Company determined that as a result of the economic conditions caused by the response to COVID-19, a quantitative impairment assessment was necessary for each of the Company’s reporting units as well as the Company’s tradenames. As a result of the analysis, the Company determined that the Company’s Eastern Region Reporting Unit exceeded the fair value, as well as certain of the Company’s tradenames were impaired, and an impairment charge was recorded. We identified the Goodwill and Tradenames quantitative impairment assessment as a critical audit matter.

The principal consideration for our determination that the Goodwill and Tradenames quantitative impairment assessment is a critical audit matter is that the assessment includes a high degree of estimation uncertainty due to significant management judgments in regards to assumptions used within the assessment, including the long-term growth rate, royalty rate, discount rate and forecasted reporting unit cash flow, for which management also utilized an independent valuations specialist (referred to as “management’s specialists”). In turn, auditing management’s assumptions involved significant auditor judgment and subjectivity.

Our audit procedures related to the Goodwill and Tradenames quantitative impairment assessment included the following, among others.

- We tested the design and operating effectiveness of controls relating to the Company’s quantitative impairment analysis processes, including controls related to the forecasted reporting unit cash flow and management’s review of the key assumptions which were prepared by managements specialists.
- We evaluated the level of knowledge, skill, and ability of management’s specialists and their relationship to the Company.
- We compared the Company’s reporting unit cash flows used in the forecast model to historical actual results.
- With the assistance of internal valuation specialists, we performed audit procedures over the data, methods and assumptions utilized in performing the quantitative impairment assessment, which included reviewing supporting documents and assessing reasonableness by comparing to historical trends and industry expectations. Certain key inputs/assumptions tested by us included the following:
    - Long-term growth rate
    - Discount rates
    - Royalty rates

/s/ GRANT THORNTON LLP

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

Dallas, Texas
March 2, 2021

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, 2020, 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, 2020, 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, 2020, and our report dated March 2, 2021 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, 2021

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

	December 31, 2019	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 716	$ 889
Accounts receivable, net	21,478	25,103
Inventories	6,989	7,259
Prepaid and other current assets	10,667	2,076
Total current assets	39,850	35,327
Preneed cemetery trust investments	72,382	86,604
Preneed funeral trust investments	96,335	101,235
Preneed cemetery receivables, net	20,173	21,081
Receivables from preneed trusts, net	18,024	16,844
Property, plant and equipment, net	279,200	269,051
Cemetery property, net	87,032	101,134
Goodwill	398,292	392,978
Intangible and other non-current assets, net	32,116	29,542
Operating lease right-of-use assets	22,304	21,201
Cemetery perpetual care trust investments	64,047	70,828
Total assets	$ 1,129,755	$ 1,145,825
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and lease obligations	$ 3,150	$ 3,432
Accounts payable	8,413	11,259
Accrued and other liabilities	24,026	31,138
Convertible subordinated notes due 2021	—	2,538
Total current liabilities	35,589	48,367
Acquisition debt, net of current portion	5,658	4,482
Credit facility	82,182	46,064
Convertible subordinated notes due 2021	5,971	—
Senior notes due 2026	395,447	395,968
Obligations under finance leases, net of current portion	5,854	5,531
Obligations under operating leases, net of current portion	21,533	20,302
Deferred preneed cemetery revenue	46,569	47,846
Deferred preneed funeral revenue	29,145	27,992
Deferred tax liability	41,368	46,477
Other long-term liabilities	1,737	4,748
Deferred preneed cemetery receipts held in trust	72,382	86,604
Deferred preneed funeral receipts held in trust	96,335	101,235
Care trusts' corpus	63,416	69,707
Total liabilities	903,186	905,323
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 80,000,000 shares authorized and 25,880,362 and 26,020,494 shares issued, respectively and 17,855,023 and 17,995,155 shares outstanding, respectively	259	260
Additional paid-in capital	242,147	239,989
Retained earnings	86,213	102,303
Treasury stock, at cost; 8,025,339 shares at both December 31, 2019 and 2020	(102,050)	(102,050)
Total stockholders' equity	226,569	240,502
Total liabilities and stockholders' equity	$ 1,129,755	$ 1,145,825

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

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

	Years Ended December 31, 2018	2019	2020
Revenue:			
Service revenue	$ 138,604	$ 142,554	$ 164,984
Property and merchandise revenue	112,253	114,514	139,630
Other revenue	17,135	17,039	24,834
	267,992	274,107	329,448
Field costs and expenses:			
Cost of service	72,123	72,991	79,634
Cost of merchandise	90,008	89,294	103,064
Cemetery property amortization	3,602	3,985	4,956
Field depreciation expense	12,015	12,370	13,006
Regional and unallocated funeral and cemetery costs	12,749	13,827	18,057
Other expenses	1,548	2,055	4,808
	192,045	194,522	223,525
Gross profit	75,947	79,585	105,923
Corporate costs and expenses:			
General, administrative and other	30,827	25,880	25,827
Home office depreciation and amortization	1,813	1,416	1,427
Net loss on divestitures and impairment charges	1,195	4,846	21,442
Operating income	42,112	47,443	57,227
Interest expense	(21,109)	(25,522)	(32,515)
Accretion of discount on convertible subordinated notes	(2,192)	(241)	(216)
Net loss on early extinguishment of debt	(502)	—	(6)
Other, net	(43)	736	152
Income before income taxes	18,266	22,416	24,642
Expense for income taxes	(5,754)	(7,395)	(7,985)
Tax adjustment related to discrete items	(867)	(488)	(567)
Total expense for income taxes	$ (6,621)	$ (7,883)	$ (8,552)
Net income	$ 11,645	$ 14,533	$ 16,090
Basic earnings per common share	$ 0.64	$ 0.81	$ 0.90
Diluted earnings per common share	$ 0.63	$ 0.80	$ 0.89
Dividends declared per share	$ 0.3000	$ 0.3000	$ 0.3375
Weighted average number of common and common equivalent shares outstanding:			
Basic	17,971	17,877	17,872
Diluted	18,374	18,005	18,077

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

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

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance – December 31, 2017	16,098	$ 226	$ 216,158	$ 57,904	$ (76,632)	$ 197,656
Effect of adoption of topic 606	—	—	—	2,131	—	2,131
Balance – January 1, 2018	16,098	$ 226	$ 216,158	$ 60,035	$ (76,632)	$ 199,787
Net Income – 2018	—	—	—	11,645	—	11,645
Issuance of common stock	62	1	1,199	—	—	1,200
Exercise of stock options	140	1	(34)	—	—	(33)
Issuance of restricted common stock	87	1	24	—	—	25
Cancellation and surrender of restricted common stock and stock options	(30)	—	(398)	—	—	(398)
Stock-based compensation expense	—	—	6,531	—	—	6,531
Dividends on common stock	—	—	(5,514)	—	—	(5,514)
Convertible notes exchange	2,823	28	25,883	—	—	25,911
Treasury stock acquired	(1,102)	—	—	—	(17,662)	(17,662)
Balance – December 31, 2018	18,078	$ 257	$ 243,849	$ 71,680	$ (94,294)	$ 221,492
Net Income – 2019	—	—	—	14,533	—	14,533
Issuance of common stock	81	1	971	—	—	972
Exercise of stock options	76	1	471	—	—	472
Issuance of restricted common stock	26	—	—	—	—	—
Cancellation and surrender of restricted common stock and stock options	(21)	—	(194)	—	—	(194)
Stock-based compensation expense	—	—	2,153	—	—	2,153
Dividends on common stock	—	—	(5,398)	—	—	(5,398)
Treasury stock acquired	(400)	—	—	—	(7,756)	(7,756)
Other	15	—	295	—	—	295
Balance – December 31, 2019	17,855	$ 259	$ 242,147	$ 86,213	$ (102,050)	$ 226,569
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	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

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,		
	2018	2019	2020
Cash flows from operating activities:			
Net income	$ 11,645	$ 14,533	$ 16,090
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,430	17,771	19,389
Provision for bad debt and credit losses	1,841	1,618	2,318
Stock-based compensation expense	6,583	2,153	3,370
Deferred income tax expense	3,823	10,117	4,597
Amortization of deferred financing costs	532	392	782
Amortization of capitalized commissions and non-compete agreements	1,219	1,231	1,299
Accretion of discount on convertible subordinated notes	2,192	241	216
Accretion of debt discount, net of debt premium on senior notes	272	492	307
Net loss on extinguishment of debt	502	—	6
Net loss on divestitures and impairment charges	1,195	4,846	21,442
Net loss on sale of other assets	876	213	251
Gain on insurance reimbursements	—	(879)	(97)
Other	—	121	19
Changes in operating assets and liabilities that provided (required) cash:			
Accounts and preneed receivables	(5,061)	(5,801)	(4,279)
Inventories, prepaid and other current assets	(159)	(2,762)	3,516
Intangible and other non-current assets	(1,010)	(924)	(1,015)
Preneed funeral and cemetery trust investments	488	(6,500)	(5,043)
Accounts payable	2,044	(580)	2,702
Accrued and other liabilities	3,990	1,271	10,784
Deferred preneed funeral and cemetery revenue	6,546	168	528
Deferred preneed funeral and cemetery receipts held in trust	(5,954)	5,495	5,733
Net cash provided by operating activities	48,994	43,216	82,915
Cash flows from investing activities:			
Acquisitions	(37,970)	(140,907)	(28,011)
Deposit on pending acquisition	—	(5,000)	—
Proceeds from insurance reimbursements	—	1,433	248
Proceeds from divestitures and sale of other assets	—	967	8,541
Capital expenditures	(13,526)	(15,379)	(15,198)
Net cash used in investing activities	(51,496)	(158,886)	(34,420)
Cash flows from financing activities:			
Payments against the term loan	(127,500)	—	—
Borrowings from the credit facility	124,500	174,961	109,500
Payments against the credit facility	(189,400)	(118,261)	(146,100)
Payment of debt issuance costs related to the credit facility	(1,751)	(891)	—
Repurchase of the convertible subordinated notes due 2021	(98,266)	(27)	(4,563)
Payment of transaction costs related to the repurchase of the convertible subordinated notes due 2021	(885)	—	(12)
Proceeds from the issuance of the senior notes due 2026	320,125	76,688	—
Payment of debt issuance costs related to the senior notes due 2026	(1,367)	(980)	(66)
Payments on acquisition debt and obligations under finance leases	(1,940)	(2,287)	(1,745)
Payments on contingent consideration recorded at acquisition date	(138)	(162)	(169)
Proceeds from the exercise of stock options and employee stock purchase plan contributions	1,246	1,445	1,229
Taxes paid on restricted stock vestings and exercise of stock options	(651)	(194)	(348)
Dividends paid on common stock	(5,513)	(5,398)	(6,048)
Purchase of treasury stock	(16,266)	(9,152)	—
Net cash provided by (used in) financing activities	2,194	115,742	(48,322)
Net increase (decrease) in cash and cash equivalents	(308)	72	173
Cash and cash equivalents at beginning of year	952	644	716
Cash and cash equivalents at end of year	$ 644	$ 716	$ 889

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Carriage Services, Inc. ("Carriage," the "Company," "we," "us," or "our") is a leading provider of funeral and cemetery services and merchandise in the United States. At December 31, 2020, we operated 178 funeral homes in 26 states and 32 cemeteries in 12 states. Our operations are reported in two business segments: Funeral Home Operations, which currently accounts for approximately 75% of our revenue and Cemetery Operations, which currently accounts for approximately 25% of our revenue.

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 to conform to the current period financial statement presentation. Impairments and net loss on divestitures, which were previously reported in *Other, net,* have been reclassed to *Net loss on divestitures and impairment charges* within operating income on our Consolidated Statements of Operations with no effect on our previously reported net income, Consolidated Balance Sheet and Consolidated Statements of Cash Flows.

Use of Estimates

The preparation of our Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses. On an ongoing basis, we evaluate our significant estimates and judgments, which include those related to the realization of our accounts receivable, valuation of goodwill, intangible assets, deferred tax assets and liabilities and depreciation of property and equipment. We base our estimates on historical experience, third-party data and assumptions that we believe to be reasonable under the circumstances. The results of these considerations form the basis for making judgments about the amount and timing of revenue and expenses, the carrying value of assets and the recorded amounts of liabilities. Actual results may differ from these estimates and such estimates may change if the underlying conditions or assumptions change. Historical performance should not be viewed as indicative of future performance, as there can be no assurance that our results of operations will be consistent from year to year.

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.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* and subsequent amendments collectively known as ("Topic 326"). Topic 326 applies to all entities holding financial assets measured at amortized cost, including loans, trade and financed receivables and other financial instruments. The guidance introduces a new credit reserving model known as Current Expected Credit Loss ("CECL"), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL model requires all expected credit losses to be measured based on historical experience, current conditions and reasonable and supportable forecasts about collectability. Prior to adoption of Topic 326, we provided allowances for bad debt and contract cancellations on our receivables based on an analysis of historical trends of collection activity.

For both funeral and cemetery receivables, 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. During 2020, we increased our allowance for credit losses on our funeral and cemetery receivables as a result of the economic impact of the COVID-19 pandemic (COVID-19).

See Notes 2 and 6 to the Consolidated Financial Statements herein for additional information related to 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.

On January 3, 2020, we acquired one funeral home and cemetery combination business in Lafayette, California.

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

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 ASC 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 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. During 2018, our management agreement with a Florida municipality expired and as a result, we divested three of our cemeteries. The operating results of these divested funeral homes and cemeteries are reflected on our Consolidated Statements of Operations through the divested date. We continually review our businesses to optimize the sustainable earning power and return on our invested capital.

See Notes 4, 5 and 11 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.

As a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our goodwill at March 31, 2020 and we recorded an impairment to goodwill of $13.6 million during the quarter ended March 31, 2020, 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. We concluded that it is more-likely-than not that the fair value of our reporting units is greater than their carrying value and thus there was no additional impairment to goodwill.

For our 2019 quantitative assessment, there was no impairment to goodwill as the fair value of our reporting units was greater than the carrying value, however, we recorded a goodwill impairment of $0.7 million during 2019 related to two funeral homes that we divested. We recorded a goodwill impairment of $0.8 million during 2018 related to a funeral home 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 values of the business being divested and the portion of the reporting unit that will be retained. Additionally, after each divestiture, we 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 year ended December 31, 2020, we concluded that it is more-likely-than not that the fair value of our reporting units is greater than their carrying value and thus there was no additional 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.

As a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our tradenames at March 31, 2020 and we recorded an impairment to tradenames for certain of our funeral homes of $1.1 million during the quarter ended March 31, 2020 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. We concluded that it is more-likely-than not that the fair value of our intangible assets is greater than its carrying value and thus there was no additional impairment to our intangible assets.

For our 2019 quantitative assessment, we recorded an impairment for tradenames of $0.2 million during the year ended December 31, 2019 as the carrying amount of certain tradenames exceeded the fair value. No impairments were recorded to our intangible assets during the year ended December 31, 2018.

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

Topic 326 made changes to the accounting for fixed income securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on fixed income securities management does not intend to sell or believes that it is more likely than not will be required to sell.

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

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

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

In August 2018, the FASB amended "Fair Value Measurements" to modify the disclosure requirements related to fair value. The amendment removes requirements to disclose (1) the amount of and reasons for transfers between Levels 1 and 2 of the fair value hierarchy, (2) our policy related to the timing of transfers between levels, and (3) the valuation processes used in Level 3 measurements. It clarifies that the narrative disclosure of the effect of changes in Level 3 inputs should be based on changes that could occur at the reporting date. The amendment adds a requirement to disclose the range and weighted average of the significant unobservable inputs used in Level 3 measurements. We adopted the new standard as of January 1, 2020 and it had no impact on our consolidated results of operations, consolidated financial position, and cash flows.

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 the Fair Value Measurements Topic of the ASC. This guidance defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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 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, 2018, 2019 and 2020.

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 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, 2019	December 31, 2020
Land	$ 84,608	$ 82,615
Buildings and improvements	242,641	240,567
Furniture, equipment and automobiles	88,046	91,302
Property, plant and equipment, at cost	415,295	414,484
Less: accumulated depreciation	(136,095)	(145,433)
Property, plant and equipment, net	$ 279,200	$ 269,051

During 2020, we acquired $1.7 million of property, plant and equipment related to our acquisition that closed on January 3, 2020, 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 and impairment charges* on our Consolidated Statements of Operations, described in Note 5 to the Consolidated Financial Statements included herein.

During 2019, we acquired $21.7 million of property, plant and equipment in connection with the funeral home and cemetery businesses we acquired during 2019. In addition, we ceased to operate three funeral homes whose building leases expired, sold a funeral home and merged a funeral home in an existing market that had a carrying value of property, plant and equipment of $0.6 million.

Our capital expenditures totaled $15.4 million and $15.2 million for the years ended December 31, 2019 and 2020, for property, plant, equipment and cemetery development. We recorded depreciation expense of $13.8 million, $13.8 million and $14.4 million for the years ended December 31, 2018, 2019 and 2020, respectively.

Long-lived assets, such as property, plant and equipment and right-of-use assets (see leases discussion below) are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with ASC 360 – Property, Plant and Equipment. This guidance requires that long-lived assets to be held and used are reported at the lower of their carrying amount or fair value. We 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. Assets to be disposed of and assets not expected to provide any future service potential are recorded at the lower of their carrying amount or fair value less estimated cost to sell. If we determine that the carrying value is not recoverable from the proceeds of the sale, we record an impairment at that time.

In connection with the goodwill impairment recorded for the Eastern Region Reporting Unit during the quarter ended March 31, 2020 we also evaluated the long-lived assets of our funeral homes in the Eastern Region Reporting Unit 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 our 2020 annual impairment test, no impairment was identified on our long-lived assets at December 31, 2020.

For the year ended December 31, 2019, no impairment was identified on our long-lived assets. For the year ended December 31, 2018, we recorded an impairment of $0.2 million related to the real property of a funeral home that we divested, as the carrying value exceeded fair value.

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, 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.

Cemetery property was $87.0 million and $101.1 million, net of accumulated amortization of $41.7 million and $46.6 million at December 31, 2019 and December 31, 2020, 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. We recorded amortization expense for cemetery interment rights of $3.6 million, $4.0 million and $5.0 million for the years ended December 31, 2018, 2019 and 2020, respectively.

Leases

We have operating and finance leases. We lease certain office facilities, certain funeral homes and equipment under operating leases with original terms ranging from one to nineteen years. Many leases include one or more options to renew, some of which include options to extend the leases for up to 26 years. We lease certain funeral homes under finance leases with original terms ranging from ten to forty years 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 accelerated interest method of recognition. Variable lease payment amounts that cannot be determined at the commencement of the lease such as increases in lease payments based on changes in index rates or usage, are not included in the ROU assets or liabilities. These are expensed as incurred and recorded as variable lease expense. We have real estate lease agreements which require payments for lease and non-lease components and account for these as a single lease component. Leases with an initial term of 12 months or less, that do not include an option to renew the underlying asset, are not recorded on our Consolidated Balance Sheet and expense is recognized on a straight-line basis over the lease term.

Operating lease ROU assets are included in *Operating lease right-of-use assets* and operating lease liabilities are included in *Current portion of operating lease 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 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 stock awards is determined using the stock price on the grant date. The fair value of stock options is determined using the Black-Scholes valuation model. The fair value of the performance awards related to market performance conditions is determined using a 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, 2018, 2019 and 2020, the excess tax deficiency related to share-based payments was approximately $0.8 million, $0.4 million and $0.1 million, respectively, recorded within *Tax adjustment related to discrete items* on our Consolidated Statements of Operations. Excess tax benefits or deficiencies related to share-based payments are included in operating cash flows on the Consolidated Statements of Cash Flows.

See Note 18 to the Consolidated Financial Statements included herein for additional information related to 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. Sales taxes collected are recognized on a net basis on our Consolidated Financial Statements. 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 on 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 in Texas.

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, 2020, 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 $8.9 million and $8.2 million at December 31, 2019 and December 31, 2020, 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 was $4.8 million and $7.9 million at December 31, 2019 and December 31, 2020, 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 and combined or unitary income tax returns in 14 states. We record deferred taxes for temporary differences between the tax basis and financial reporting basis of assets and liabilities. We classify our deferred tax liabilities and assets as non-current on our Consolidated Balance Sheet.

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

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

The recently passed Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) has certain provisions that are applicable to the Company as follows:

(i) allowing net operating losses (“NOLs”) arising in 2018, 2019 and 2020 to be carried back five years;

(ii) increasing the taxable income threshold on the interest deduction from 30% to 50% for tax years beginning in 2019 and 2020;

(iii) suspending payment requirements for the 6.2% employer portion of Social Security taxes from the date of enactment through the end of 2020, with half the balance due by the end of 2021, and the other half due by the end of 2022; and

(iv) our ability to receive employee retention credits up to $5,000 for paying wages to employees who are unable to work, while business operations are suspended.

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 from the 2018 tax year was received on August 7, 2020. An additional carryback claim for a refund was filed on November 3, 2020 for the tax year ended December 31, 2019. The refund from this filing 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 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 the result of filing non-automatic accounting method changes relating to the recognition of revenue from our cemetery property and merchandise and services sales. Due to the uncertainty of the timing of receiving Internal Revenue Service (“IRS”) approval of the method change applications, a reserve has been recorded against the net cash tax benefit derived from carrying back the NOLs generated to tax years in which the enacted federal rate was 35%. The Company's unrecognized tax benefit reserve for the years ended December 31, 2019 and 2020 was $0.7 million and $3.7 million, respectively. There was no reserve recorded at December 31, 2018.

Additional benefits stemming from the CARES Act are the deferral of approximately $3.5 million of the 6.2% employer portion of Social Security taxes and approximately $0.4 million employer retention credits for qualifying wages paid to employees unable to work due to governmental restrictions.

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 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 stock awards to our employees are considered participating securities, and we have prepared our earnings per share calculations attributable to common stockholders to exclude earnings allocated to unvested restricted stock awards, using the two-class method, in both the basic and diluted weighted average shares outstanding calculation.

The fully diluted weighted average shares outstanding for the years ended December 31, 2018, 2019 and 2020, and the corresponding calculation of fully diluted earnings per share, included 337,000, 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.

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

Correction of Immaterial Error

During the fourth quarter of 2020, we corrected an immaterial error related to the net unrealized gains and losses associated with our trust investments. We previously recognized the net unrealized gains and losses associated with our trust investments in *Accumulated other comprehensive income* ("OCI"). In accordance with ASC 810, the fair value of our trust fund assets are accounted for as CFEs. We have determined the fair value of the financial assets of the trust is 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. As such, we have made the adjustment to reflect changes in unrealized gains and losses related to our trust securities in *Other, net* on our Consolidated Statements of Operations.

The net unrealized gains and losses in our *Preneed cemetery trust investments*, *Preneed funeral trust investments* and *Cemetery perpetual care trust investments* are equally offset by the net unrealized gains and losses in our *Deferred preneed funeral and cemetery receipts held in trust and Care trusts' corpus*, which results in a net impact of zero.

Management evaluated the effect of the adjustment on previously issued interim and annual Consolidated Financial Statements and concluded that it was immaterial to the interim and annual periods. This adjustment had no impact on our Consolidated Balance Sheet, Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2019.

Subsequent Events

We have evaluated events and transactions during the period subsequent to December 31, 2020 through the date the financial statements were issued for potential recognition or disclosure in the accompanying financial statements covered by this report.

See Note 25 to the Consolidated Financial Statements included herein for additional information related to subsequent events.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Fair Value Measurements

In August 2018, the FASB issued ASU, *Fair Value Measurements* ("Topic 820") to modify the disclosure requirements related to fair value. The amendment removes requirements to disclose (1) the amount of and reasons for transfers between levels 1 and 2 of the fair value hierarchy, (2) our policy related to the timing of transfers between levels, and (3) the valuation processes used in level 3 measurements. It clarifies that, for investments measured at net asset value, disclosure of liquidation timing is only required if the investee has communicated the timing either to us or publicly. It also clarifies that the narrative disclosure of the effect of changes in level 3 inputs should be based on changes that could occur at the reporting date. The amendment adds a requirement to disclose the range and weighted average of the significant unobservable inputs used in level 3 measurements. On January 1, 2020, we adopted the new standard and the impact was not material our Consolidated Financial Statements.

Financial Instruments - Credit Losses

On January 1, 2020, we adopted Topic 326 using the modified retrospective method and the impact was not material to our Consolidated Financial Statements. See Notes 6 and 7 to the Consolidated Financial Statements herein for additional disclosures required by Topic 326.

Income Taxes

In December 2019, the FASB issued ASU, *Income Taxes* ("Topic 740"). The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions such as (1) exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income) and (2) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

In addition, the ASU allows for the following (1) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, (2) requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction, (3) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date and (4) making minor codification improvements for income taxes related to employee stock ownership plans accounted for using the equity method. On January 1, 2020, we early adopted the provisions of this ASU using the prospective method and the impact was not material to our Consolidated Financial Statements.

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. The Company did not utilize the optional expedients and exceptions provided by this ASU during the year ended December 31, 2020.

3. ACQUISITIONS

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 have adjusted our purchase price allocation based on additional information which 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. As of December 31, 2020, our accounting for our 2020 acquisition is complete.

On October 9, 2019, we acquired four funeral home businesses in Buffalo, New York for $15.3 million in cash. On October 28, 2020, we acquired one funeral home and cemetery combination business, three funeral home businesses and three ancillary service businesses, which consist of a flower shop, a pet cremation business and an online cremation business, in the Rockwall, Texas area for $23.6 million in cash.

On December 31, 2019, pursuant to the Transactions Agreement dated November 25, 2019 with Calvary Memorial Park, Inc. and Fairfax Memorial Funeral Home, LLC, all of the outstanding equity interests of one funeral and cemetery combination business in Fairfax, Virginia were acquired for $102.0 million in cash.

The following table summarizes the fair value of the assets acquired for our 2020 acquisition (in thousands):

Acquisition Date	Type of Business	Market	Assets Acquired (Excluding Goodwill)	Goodwill Recorded	Liabilities and Debt Assumed
January 3, 2020	One Funeral Home and Cemetery Combination	Lafayette, CA	$ 30,292	$ 13,416	$ (10,708)

We recorded adjustments to the purchase price allocation for our 2019 acquisitions during the year ended December 31, 2020. The following table summarizes the breakdown of the purchase price allocation for these businesses and the subsequent adjustments made based on additional information which became available subsequent to the acquisitions (in thousands):

	Initial Purchase Price Allocation	Adjustments	Adjusted Purchase Price Allocation
Current assets	$ 1,482	$ 204	$ 1,686
Trust investments	15,891	—	15,891
Property, plant & equipment	21,680	—	21,680
Cemetery property	11,994	(45)	11,949
Goodwill	99,344	638	99,982
Intangible and other non-current assets	8,269	(1,480)	6,789
Assumed liabilities	(657)	(145)	(802)
Trust liabilities	(15,463)	—	(15,463)
Deferred revenue	(1,633)	992	(641)
Purchase price	$ 140,907	$ 164	$ 141,071

During the year ended December 31, 2020, we paid an additional $164,000 for our acquisition of the cemetery business in Fairfax, Virginia to reimburse the sellers for certain incremental taxes resulting from the 338(h)(10) election under the Internal Revenue Code. We also received $153,000 in cash related to the closing of all operating bank accounts in place prior to the acquisition. The goodwill recorded for our 2019 acquisitions is expected to be deductible for tax purposes. As of December 31, 2020, our accounting for our 2019 acquisitions is complete.

The following table summarizes the fair value of the assets acquired for our 2019 acquisitions based on our final purchase price allocation (in thousands):

Acquisition Date	Type of Business	Market	Assets Acquired (Excluding Goodwill)	Goodwill Recorded	Liabilities and Debt Assumed
October 9, 2019	Four Funeral Homes	Buffalo, NY	$ 7,942	$ 7,340	$ —
October 28, 2019	One Funeral Home and Cemetery Combination, Three Funeral Homes and Three Ancillary Businesses	Rockwall, TX	$ 15,878	$ 14,226	$ (6,479)
December 31, 2019	One Funeral Home and Cemetery Combination	Fairfax, VA	$ 34,175	$ 78,416	$ (10,427)

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.

As a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our goodwill at March 31, 2020 and we recorded an impairment to goodwill of $13.6 million during the quarter ended March 31, 2020 recorded in *Net loss on divestitures and impairment charges*, 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 as the fair value of our reporting units was greater than the carrying value.

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

	December 31, 2019	December 31, 2020
Goodwill at the beginning of year	$ 303,887	$ 398,292
Net increase in goodwill related to acquisitions	99,344	14,054
Decrease in goodwill related to divestitures	(4,197)	(5,736)
Decrease in goodwill related to impairments	(742)	(13,632)
Goodwill at the end of the year	$ 398,292	$ 392,978

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 and impairment charges*. 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, 2019, we recognized $99.3 million in goodwill related to our acquisitions; $36.9 million was allocated to our cemetery segment and $62.4 million was allocated to our funeral home segment.

In addition, we allocated $4.2 million of goodwill to the sale of a funeral home for a loss recorded in *Net loss on divestitures and impairment charges.* We also recorded a goodwill impairment of $0.7 million during 2019 related to two funeral homes that we divested which was recorded as a loss in *Net loss on divestitures 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 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. During 2018, our management agreement with a Florida municipality expired and as a result, we divested three of our cemeteries.

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,		
	2018	2019	2020
Revenue	$ 4,712	$ 805	$ 2,643
Operating income (loss)	1,130	(569)	159
Net loss on divestitures(1)	(349)	(3,883)	(6,749)
Income tax benefit (expense)	(246)	1,288	2,135
Net income (loss) from divested operations, after tax	$ 535	$ (3,164)	$ (4,455)

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

6. RECEIVABLES

Accounts Receivable

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

	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

	December 31, 2019			
	Funeral	Cemetery	Corporate	Total
Trade and financed receivables	$ 10,046	$ 10,508	$ —	$ 20,554
Other receivables	935	157	681	1,773
Allowance for bad debt	(223)	(626)	—	(849)
Accounts receivable, net	$ 10,758	$ 10,039	$ 681	$ 21,478

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, 2020 (in thousands):

	January 1, 2020	Provision for Credit Losses	Allowance Recorded at Acquisition	Write Offs	Recoveries	December 31, 2020
Trade and financed receivables:						
Funeral	$ (223)	$ (1,142)	$ —	$ 2,115	$ (1,077)	$ (327)
Cemetery	(626)	(475)	(193)	334	—	(960)
Total allowance for credit losses on Trade and financed receivables	$ (849)	$ (1,617)	$ (193)	$ 2,449	$ (1,077)	$ (1,287)

As noted in Note 3, we acquired preneed cemetery receivables in connection with the funeral home and cemetery combination business in Lafayette, California acquired on January 3, 2020. We recorded an allowance for credit losses of $0.4 million on these acquired receivables ($0.2 million current portion shown above in *Accounts receivable, net* and $0.2 million non-current portion shown below in *Preneed cemetery receivables, net* as noted in the respective allowance rollforward tables under Allowance Recorded at Acquisition). We accounted for the allowance for credit losses on these purchased financed assets using specific identification as these assets have a unique set of risk characteristics. For these specifically identified receivables, we determined the allowance to be 60% of the face value.

Bad debt expense for accounts receivable totaled $1.1 million for both the years ended December 31, 2018 and 2019.

Preneed Cemetery Receivables

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

	December 31, 2019	December 31, 2020
Cemetery interment rights	$ 31,366	$ 36,696
Cemetery merchandise and services	9,950	10,526
Cemetery financed receivables	$ 41,316	$ 47,222

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

	December 31, 2019	December 31, 2020
Preneed cemetery receivables	$ 41,316	$ 47,222
Less: unearned finance charges	(4,522)	(4,348)
Preneed cemetery receivables, at amortized cost	$ 36,794	$ 42,874
Less: allowance for bad debt and credit losses	(1,916)	(2,604)
Less: balances due on undelivered cemetery preneed contracts	(4,823)	(7,919)
Less: amounts in accounts receivable	(9,882)	(11,270)
Preneed cemetery receivables, net	$ 20,173	$ 21,081

The following table summarizes the activity in our allowance for credit losses for *Preneed cemetery receivables, net* for the year ended December 31, 2020 (in thousands):

	January 1, 2020	Provision for Credit Losses	Allowance Recorded at Acquisition	Write Offs	December 31, 2020
Total allowance for credit losses on *Preneed cemetery receivables, net*	$ (1,290)	$ (701)	$ (171)	$ 518	$ (1,644)

Bad debt expense for our preneed receivables totaled $0.7 million and $0.5 million for the years ended December 31, 2018 and 2019, respectively.

The amortized cost basis of our preneed cemetery receivables by year of origination as of December 31, 2020 is as follows (in thousands):

	2020	2019	2018	2017	2016	Prior	Total
Total preneed cemetery receivables, at amortized cost	$ 20,056	$ 10,593	$ 5,820	$ 3,387	$ 1,431	$ 1,587	$ 42,874

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

The aging of past due preneed cemetery receivables as of December 31, 2019 is as follows (in thousands):

	31-60 Past Due	61-90 Past Due	91-120 Past Due	>120 Past Due	Total Past Due	Current	Total Financing Receivables
Recognized revenue	$ 745	$ 392	$ 148	$ 1,209	$ 2,494	$ 28,382	$ 30,876
Deferred revenue	219	121	147	302	789	9,651	10,440
Total contracts	$ 964	$ 513	$ 295	$ 1,511	$ 3,283	$ 38,033	$ 41,316

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 the *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 which 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. Any unrealized loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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, 2019	December 31, 2020
Preneed cemetery trust investments, at market value	$ 74,572	$ 89,081
Less: allowance for contract cancellation	(2,190)	(2,477)
Preneed cemetery trust investments	$ 72,382	$ 86,604

The cost and fair 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 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	11,727
Due in five to ten years	9,810
Thereafter	24,758
Total fixed income securities	$ 46,295

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

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

The 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)

The following table summarized our fixed income securities within our preneed cemetery trust investments in an unrealized loss position at December 31, 2019, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 2019					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses
Fixed income securities:						
Foreign debt	$ 268	$ (42)	$ 758	$ (201)	$ 1,026	$ (243)
Corporate debt	1,368	(168)	4,520	(481)	5,888	(649)
Preferred stock	4,135	(164)	—	—	4,135	(164)
Mortgage-backed securities	—	—	402	(114)	402	(114)
Total fixed income securities with an unrealized loss	$ 5,771	$ (374)	$ 5,680	$ (796)	$ 11,451	$ (1,170)

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,		
	2018	2019	2020
Investment income	$ 1,596	$ 1,743	$ 2,175
Realized gains	4,546	6,353	8,922
Realized losses	(5,817)	(4,677)	(5,090)
Unrealized gains (losses), net	(6,610)	826	5,515
Expenses and taxes	(907)	(1,313)	(1,354)
Net change in deferred preneed cemetery receipts held in trust	7,192	(2,932)	(10,168)
	$ —	$ —	$ —

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

	Years ended December 31,		
	2018	2019	2020
Purchases	$ (27,006)	$ (40,984)	$ (48,824)
Sales	39,180	29,635	41,178

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, 2019	December 31, 2020
Preneed funeral trust investments, at market value	$ 99,246	$ 104,166
Less: allowance for contract cancellation	(2,911)	(2,931)
Preneed funeral trust investments	$ 96,335	$ 101,235

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

Due in one year or less	$	825
Due in one to five years		11,103
Due in five to ten years		8,615
Thereafter		23,115
Total fixed income securities	$	43,658

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

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

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)

The following table summarized our fixed income securities within our preneed funeral trust investment in an unrealized loss position at December 31, 2019, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 2019					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses
Fixed income securities:						
Foreign debt	$ 274	$ (43)	$ 723	$ (189)	$ 997	$ (232)
Corporate debt	1,403	(172)	4,433	(474)	5,836	(646)
Preferred stock	4,412	(198)	—	—	4,412	(198)
Mortgage-backed securities	—	—	439	(117)	439	(117)
Total fixed income securities with an unrealized loss	$ 6,089	$ (413)	$ 5,595	$ (780)	$ 11,684	$ (1,193)

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,		
	2018	2019	2020
Investment income	$ 1,623	$ 1,753	$ 1,907
Realized gains	6,662	6,214	9,441
Realized losses	(5,882)	(4,612)	(4,677)
Unrealized gains (losses), net	(6,727)	1,499	5,555
Expenses and taxes	(885)	(1,129)	(878)
Net change in deferred preneed funeral receipts held in trust	5,209	(3,725)	(11,348)
	$ —	$ —	$ —

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

	Years ended December 31,		
	2018	2019	2020
Purchases	$ (28,264)	$ (38,984)	$ (47,315)
Sales	39,955	29,983	43,270

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, 2019	December 31, 2020
Cemetery perpetual care trust investments, at market value	$ 64,047	$ 70,828
Obligations due from trust	(631)	(1,121)
Care trusts' corpus	$ 63,416	$ 69,707

The following table reflects the cost and fair 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 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	8,819
Due in five to ten years	7,789
Thereafter	20,933
Total fixed income securities	$ 37,541

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

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

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, 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)

The following table summarized our fixed income securities within our perpetual care trust investment in an unrealized loss position at December 31, 2019, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands):

	December 31, 2019					
	In Loss Position Less than 12 months		In Loss Position Greater than 12 months		Total	
	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses	Fair market value	Unrealized Losses
Fixed income securities:						
Foreign debt	$ 168	$ (26)	$ 549	$ (149)	$ 717	$ (175)
Corporate debt	1,057	(196)	3,253	(338)	4,310	(534)
Preferred stock	2,989	(106)	—	—	2,989	(106)
Mortgage-backed securities	—	—	252	(71)	252	(71)
Total fixed income securities with an unrealized loss	$ 4,214	$ (328)	$ 4,054	$ (558)	$ 8,268	$ (886)

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,		
	2018	2019	2020
Realized gains	$ 1,364	$ 1,663	$ 2,602
Realized losses	(1,896)	(1,258)	(1,695)
Unrealized gains (losses), net	(4,405)	2,964	4,355
Net change in Care trusts' corpus	4,937	(3,369)	(5,262)
Total	$ —	$ —	$ —

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

	Years ended December 31,		
	2018	2019	2020
Investment income	$ 5,934	$ 4,500	$ 8,461
Realized losses	(1,355)	(377)	(387)
Total	$ 4,579	$ 4,123	$ 8,074

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

	Years ended December 31,		
	2018	2019	2020
Purchases	$ (17,313)	$ (26,573)	$ (38,168)
Sales	25,786	17,588	34,316

8. RECEIVABLES FROM PRENEED TRUSTS

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

	December 31, 2019	December 31, 2020
Preneed trust funds, at cost	$ 18,581	$ 17,365
Less: allowance for contract cancellation	(557)	(521)
Receivables from preneed trusts, net	$ 18,024	$ 16,844

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, 2019 and 2020. 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, 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

The composition of the preneed trust funds at December 31, 2019 is as follows (in thousands):

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

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*, as noted in our table of disaggregated revenue in Note 21 to the Consolidated Financial Statements included herein, when the commission is no longer subject to refund, which is typically one year after the policy is issued. All selling costs incurred pursuant to the sale of the insurance funded preneed contracts are expensed as incurred.

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 $408.8 million and $395.4 million at December 31, 2019 and 2020, 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), Convertible Notes (as defined in Note 13) and Senior Notes (as defined in Note 14) are classified within Level 2 of the Fair Value Measurements hierarchy.

At December 31, 2020, the carrying value and fair value of our Credit Facility was $47.2 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, 2020, the carrying value of our acquisition debt was $5.5 million, which approximated its fair value. The fair value of our Convertible Notes was approximately $3.7 million at December 31, 2020 based on the last traded or broker quoted price. The fair value of our Senior Notes was approximately $427.9 million at December 31, 2020 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 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, 2019 and 2020, 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 additional information on the fair value hierarchy levels of our trust investments and receivables from preneed trusts, respectively.

11. INTANGIBLE AND OTHER NON-CURRENT ASSETS

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

	December 31, 2019	December 31, 2020
Tradenames	$ 25,233	$ 23,565
Prepaid agreements not-to-compete, net of accumulated amortization of $7,195 and $3,193, respectively	3,915	2,785
Capitalized commissions on preneed contracts, net of accumulated amortization of $1,127 and $1,594, respectively	2,818	3,141
Other	150	51
Intangible and other non-current assets, net	$ 32,116	$ 29,542

Tradenames

Our tradenames have indefinite lives and therefore are not amortized. During the years ended December 31, 2019 and 2020, we increased tradenames by $7.8 million and $0.4 million, respectively, related to our 2019 and 2020 acquisitions described in Note 3 to the Consolidated Financial Statements included herein.

As a result of economic conditions caused by COVID-19, we performed a quantitative assessment of our tradenames at March 31, 2020 and we recorded an impairment to tradenames for certain of our funeral homes of $1.1 million during the quarter ended March 31, 2020 recorded in *Net loss on divestitures and impairment charges,* as the carrying amount of these tradenames exceeded the fair value.

During the year ended December 31, 2020, we divested four funeral homes that had a carrying value of tradenames of $1.0 million, which was included in the gain or loss on the sale of divestitures and recorded in *Net loss on divestitures and impairment charges* on our Consolidated Statements of Operations. During 2019, we recorded an impairment to tradenames of $0.2 million as a result of our 2019 annual impairment test as the carrying amount of certain tradenames exceeded the fair value. 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 approximately $0.6 million, $0.7 million and $0.7 million for the years ended December 31, 2018, 2019 and 2020, 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 $0.5 million, which was included in the gain or loss on the sale of divestitures and recorded in *Net loss on divestitures 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.

During the year ended December 31, 2019, we increased prepaid agreements not-to-compete by $0.4 million related to our 2019 acquisitions described in Note 3 to the Consolidated Financial Statements included herein.

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 totaled $0.6 million for both the years ended December 31, 2019 and 2020.

The aggregate amortization expense for our non-compete agreements and capitalized commissions as of December 31, 2020 is as follows (in thousands):

	Non-Compete Agreements	Capitalized Commissions
Years ending December 31,		
2021	$ 618	$ 589
2022	481	543
2023	434	488
2024	380	425
2025	373	359
Thereafter	499	737
Total amortization expense	$ 2,785	$ 3,141

12. CREDIT FACILITY AND ACQUISITION DEBT

On December 19, 2019, we entered into a third amendment and commitment increase to our $150.0 million senior secured revolving credit facility (“Credit Facility”) with the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent (in such capacity, the “Administrative Agent”) to increase our commitment to $190.0 million and incurred $0.9 million in transactions costs, which were capitalized and will be amortized over the remaining term of the related debt using the straight-line method.

At December 31, 2020, our 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 Credit Facility will occur on May 31, 2023.

The Company's obligations under the Credit Facility are unconditionally guaranteed on a joint and several basis by the same subsidiaries which guarantee the Senior Notes (as defined in Note 14) and certain of the Company's Credit Facility Guarantors.

The Credit Facility is secured by a first-priority perfected security interest in and lien on substantially all of the Company's personal property assets and those of the Credit Facility Guarantors (as defined below). In the event the Company's actual Total Leverage Ratio is not at least 0.25 less than the required Total Leverage Ratio covenant level, at the discretion of the Administrative Agent, the Administrative Agent may unilaterally compel the Company and the Credit Facility Guarantors to grant and perfect first-priority mortgage liens on fee-owned real property assets which account for no less than 50% of funeral operations EBITDA.

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

In addition, the Credit Facility also contains customary negative covenants, including, but not limited to, covenants that restrict (subject to certain exceptions) the ability of the Company and its subsidiaries and party thereto as guarantors (the "Credit Facility Guarantors") to incur additional indebtedness, grant liens on assets, make investments, engage in mergers and acquisitions, and pay dividends and other restricted payments, and certain financial covenants. At December 31, 2020, we were subject to the following financial covenants under our Credit Facility: (A) a Total Leverage Ratio not to exceed, (i) 5.75 to 1.00 for the quarters ended March 31, 2020, June 30, 2020 and September 30, 2020 and (ii) 5.50 to 1.00 for the quarter ended December 31, 2020 and each quarter ended thereafter, (B) a Senior Secured Leverage Ratio (as defined in the Credit Facility) not to exceed 2.00 to 1.00 as of the end of any period of four consecutive fiscal quarters, and (C) a Fixed Charge Coverage Ratio (as defined in the Credit Facility) of not less than 1.20 to 1.00 as of the end of any period of four consecutive fiscal quarters. These financial maintenance covenants are calculated for the Company and its subsidiaries on a consolidated basis.

On May 18, 2020, we received a limited waiver under our Credit Facility for the failure to comply with the Total Leverage Ratio covenant for the fiscal quarter ended March 31, 2020. In connection with the waiver, we also entered into a fourth amendment to the Credit Facility which increased the interest rate margin applicable to borrowings by up to 0.625% at each pricing level based on the Total Leverage Ratio. We did not incur any transaction costs related to the limited waiver and fourth amendment to the Credit Facility.

On August 7, 2020, we obtained a limited consent from the lenders under our Credit Facility in connection with our privately-negotiated repurchases of our Convertible Notes (as defined in Note 13). See Note 13 to the Consolidated Financial Statements included herein, for a discussion of our privately-negotiated repurchases.

We were in compliance with the total leverage ratio, fixed charge coverage ratio and senior secured leverage ratio covenants contained in our Credit Facility at December 31, 2020.

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

	December 31, 2019	December 31, 2020
Credit Facility	$ 83,800	$ 47,200
Debt issuance costs, net of accumulated amortization of $337 and $819, respectively	(1,618)	(1,136)
Total Credit Facility	$ 82,182	$ 46,064
Acquisition debt	$ 6,964	$ 5,509
Less: current portion	(1,306)	(1,027)
Total acquisition debt, net of current portion	$ 5,658	$ 4,482

At December 31, 2020, we had outstanding borrowings under the Credit Facility of $47.2 million. We had one letter of credit for $2.0 million issued on November 30, 2019 and outstanding under the Credit Facility, which was increased to $2.1 million on September 29, 2020. The letter of credit bears interest at 3.125% and will expire on November 26, 2021. The letter of credit automatically renews annually and secures our obligations under our various self-insured policies. At December 31, 2020, we had $140.7 million of availability under the Credit Facility after giving affect to the $2.1 million of the outstanding letter of credit.

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, 2020, the prime rate margin was equivalent to 1.5% and the LIBOR rate margin was 2.5%. The weighted average interest rate on our Credit Facility for the years ended December 31, 2019 and 2020 was 2.9% and 3.8%, respectively.

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

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

	Years ended December 31,		
	2018	2019	2020
Credit Facility interest expense	$ 4,351	$ 1,601	$ 3,738
Credit Facility amortization of debt issuance costs	234	229	482

Acquisition debt consists of deferred purchase price and promissory notes payable to sellers. A majority of the deferred purchase price and notes bear no interest and are discounted at imputed interest rates ranging from 7.3% to 10.0%. Original maturities range from five to twenty years.

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

	Years ended December 31,		
	2018	2019	2020
Acquisition debt imputed interest expense	$ 791	$ 622	$ 489

The aggregate maturities of our Credit Facility and acquisition debt for the next five years subsequent to December 31, 2020 and thereafter, excluding debt issuance costs, are as follows (in thousands):

	Credit Facility	Acquisition Debt
Years ending December 31,		
2021	$ —	$ 1,386
2022	—	825
2023	47,200	825
2024	—	772
2025	—	772
Thereafter	—	3,332
Total Credit Facility and acquisition debt	$ 47,200	$ 7,912
Less: Interest	—	(2,403)
Present value of Credit Facility and acquisition debt	$ 47,200	$ 5,509

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 are due on March 15, 2021 and bear interest at 2.75% per year, which is payable semi-annually in arrears on March 15 and September 15 of each year.

On May 7, 2018, we completed our exchange of approximately $115.0 million in aggregate principal amount of Convertible Notes in a privately-negotiated exchange agreement with a limited number of convertible noteholders. On December 24, 2018, we completed privately-negotiated repurchases of an additional $22.4 million in aggregate principal amount of Convertible Notes. On April 4, 2019, we completed a privately-negotiated repurchase of $25,000 in aggregate principal amount of Convertible Notes then outstanding for $27,163.

On September 9, 2020, we completed privately-negotiated repurchases of $3.8 million in aggregate principal amount of our Convertible Notes for $4.6 million in cash (including accrued interest of $0.1 million) and recorded $0.8 million for the reacquisition of the equity component. The September 2020 repurchases represented approximately 60% of the aggregate principal amount of Convertible Notes then outstanding. Following the settlement of the September 2020 repurchases, the aggregate principal amount of the Convertible Notes was reduced to approximately $2.6 million.

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, 2019	December 31, 2020
Long-term liabilities:		
Principal amount	$ 6,319	$ 2,559
Unamortized discount of liability component	(319)	(20)
Convertible Notes issuance costs, net of accumulated amortization of $130 and $63, respectively	(29)	(1)
Carrying value of the liability component	$ 5,971	$ 2,538
Carrying value of the equity component	$ 789	$ 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, 2019 and 2020.

The fair value of the Convertible Notes, which are Level 2 measurements, was $3.7 million at December 31, 2020.

At December 31, 2020, the adjusted conversion rate of the Convertible Notes is 45.9712 shares of our common stock per $1,000 principal amount of Convertible Notes, equivalent to an adjusted conversion price of $21.75 per share of common stock.

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,		
	2018	2019	2020
Convertible Notes interest expense	$ 1,878	$ 174	$ 149
Convertible Notes accretion of debt discount	$ 2,192	$ 241	$ 216
Convertible Notes amortization of debt issuance costs	$ 245	$ 24	$ 20

The remaining unamortized debt discount and the remaining unamortized debt issuance costs are being amortized using the effective interest method over the remaining term of approximately two months of the Convertible Notes. The effective interest rate on the unamortized debt discount for both years ended December 31, 2019 and 2020 was 11.4%. The effective interest rate on the debt issuance costs for the years ended December 31, 2019 and 2020 was 3.2% and 3.1%, respectively.

The aggregate maturities of our Convertible Notes for the next five years subsequent to December 31, 2020 and thereafter are as follows (in thousands):

	Principal Maturity	Discount Amortization	Present Value
Years ending December 31,			
2021	$ 2,559	$ (20)	$ 2,539
2022	—	—	—
2023	—	—	—
2024	—	—	—
2025	—	—	—
Thereafter	—	—	—
Total	$ 2,559	$ (20)	$ 2,539

14. SENIOR NOTES

On May 31, 2018, we issued $325.0 million in aggregate principal amount of our 6.625% senior notes due 2026 (the "Initial Senior Notes") and related guarantees in a private offering under Rule 144A and Regulations S under the Securities Act. The Initial Senior Notes were issued under an indenture, dated as of May 31, 2018 (the "Indenture"), among us, certain of our existing subsidiaries (collectively, the "Subsidiary Guarantors"), as guarantors, and Wilmington Trust, National Association., as trustee.

On December 19, 2019, we issued an additional $75.0 million in aggregate principal amount of our Initial Senior Notes (the "Additional Senior Notes" and, together with the Initial Senior Notes, the "Senior Notes") and related guarantees by the

Subsidiary Guarantors in a private offering under Rule 144A and Regulation S of the Securities Act. The Additional Senior Notes were issued as additional securities under the Indenture.

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

The Senior Notes bear interest at 6.625% per year. Interest on the Senior Notes began to accrue on May 31, 2018 and is payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2018 with respect to the Initial Senior Notes and June 1, 2020 with respect to the Additional Senior Notes to holders of record on each May 15 and November 15 preceding an interest payment date. The Senior Notes mature on June 1, 2026, unless earlier redeemed or repurchased. The Senior Notes are unsecured, senior obligations and are fully and unconditionally guaranteed on a senior unsecured basis, jointly and severally, by each of the Subsidiary Guarantors.

We may redeem all or part of the Senior Notes at any time prior to June 1, 2021 at a redemption price equal to 100% of the principal amount of Senior Notes redeemed, plus a "make whole" premium, and accrued and unpaid interest, if any, to the date of redemption. We have the right to redeem the Senior Notes at any time on or after June 1, 2021 at the redemption prices described in the Indenture, plus accrued and unpaid interest, if any, to the date of redemption. Additionally, at any time before June 1, 2021, we may redeem up to 40% of the aggregate principal amount of the Senior Notes issued with an amount equal to the net proceeds of certain equity offerings, at a price equal to 106.625% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to the date of redemption; provided that (1) at least 60% of the aggregate principal amount of the Senior Notes (including any additional Senior Notes) originally issued under the Indenture remain outstanding immediately after the occurrence of such redemption (excluding Senior Notes held by us); and (2) each such redemption must occur within 180 days of the date of the closing of each such equity offering.

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

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

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

	December 31, 2019	December 31, 2020
Long-term liabilities:		
Principal amount	$ 400,000	$ 400,000
Debt premium, net of accumulated amortization of $0 and $221, respectively	1,688	1,467
Debt discount, net of accumulated amortization of $492 and $1,020, respectively	(4,110)	(3,582)
Debt issuance costs, net of accumulated amortization of $216 and $496, respectively	(2,131)	(1,917)
Carrying value of the Senior Notes	$ 395,447	$ 395,968

The fair value of the Senior Notes, which are Level 2 measurements, was $427.9 million at December 31, 2020.

The debt discount, the debt premium and the debt issuance costs are being amortized using the effective interest method over the remaining term of approximately 65 months of the Senior Notes. The effective interest rate on the unamortized debt discount and the unamortized debt issuance costs for the Initial Senior Notes, which were issued in May 2018, for the year ended December 31, 2020 was 6.87% and 6.69%, respectively. The effective interest rate on the unamortized debt premium and the unamortized debt issuance costs for the Additional Senior Notes, which were issued in December 2019, for year ended December 31, 2020 was 6.20% and 6.90%, respectively.

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,		
	2018	2019	2020
Senior Notes interest expense	$ 12,620	$ 21,711	$ 26,500
Senior Notes amortization of debt discount	273	493	528
Senior Notes amortization of debt premium	—	—	221
Senior Notes amortization of debt issuance costs	77	139	280

The aggregate maturities of our Senior Notes for the next five years subsequent to December 31, 2020 and thereafter are as follows (in thousands):

	Principal Maturity	Discount Amortization	Premium Amortization	Present Value
Years ending December 31,				
2021	$ —	$ (565)	$ 235	$ (330)
2022	—	(605)	250	(355)
2023	—	(648)	266	(382)
2024	—	(694)	283	(411)
2025	—	(744)	301	(443)
Thereafter	400,000	(326)	132	399,806
Total	$ 400,000	$ (3,582)	$ 1,467	$ 397,885

15. LEASES

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

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):

		Years Ended December 31,	
	Income Statement Classification	2019	2020
Operating lease cost	Facilities and grounds expense(1)	$ 3,722	$ 3,795
Short-term lease cost	Facilities and grounds expense(1)	277	224
Finance lease cost:			
Depreciation of leased assets	Depreciation and amortization(2)	$ 498	$ 439
Interest on lease liabilities	*Interest expense*	520	496
Total finance lease cost		1,018	935
Total lease cost		$ 5,017	$ 4,954

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

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

Variable lease expense was immaterial for the years ended December 31, 2019 and 2020.

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

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

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

	Years Ended December 31,	
	2019	2020
Right-of-use assets obtained in exchange for new operating lease liabilities[(1)]	$ 8,175	$ 782
Right-of-use assets obtained in exchange for new finance lease liabilities	—	—

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

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

Lease Type	Balance Sheet Classification	December 31, 2019	December 31, 2020
Operating lease right-of-use assets	*Operating lease right-of-use assets*	$ 22,304	$ 21,201
Finance lease right-of-use assets	*Property, plant and equipment, net*	6,770	6,770
Accumulated depreciation	*Property, plant and equipment, net*	(1,566)	(2,005)
Finance lease right-of-use assets, net		$ 5,204	$ 4,765
Operating lease current liabilities	*Current portion of operating lease obligations*	$ 1,554	$ 2,082
Finance lease current liabilities	*Current portion of finance lease obligations*	290	323
Total current lease liabilities		$ 1,844	$ 2,405
Operating lease non-current liabilities	*Obligations under operating leases, net of current portion*	$ 21,533	$ 20,302
Finance lease non-current liabilities	*Obligations under finance leases, net of current portion*	5,854	5,531
Total non-current lease liabilities		$ 27,387	$ 25,833
Total lease liabilities		$ 29,231	$ 28,238

The average lease terms and discount rates as of December 31, 2020 are as follows:

	Weighted-average remaining lease term (years)	Weighted-average discount rate
Operating leases	10.7	8.1 %
Finance leases	5.9	8.2 %

The aggregate future lease payments for operating and finance leases as of December 31, 2020 are as follows (in thousands):

	Operating	Finance
Lease payments due:		
2021	$ 3,794	$ 836
2022	3,422	860
2023	3,301	860
2024	3,292	791
2025	3,156	736
Thereafter	16,188	5,555
Total lease payments	$ 33,153	$ 9,638
Less: Interest	(10,769)	(3,784)
Present value of lease liabilities	$ 22,384	$ 5,854

As of December 31, 2020, 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.

At December 31, 2020, 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,				
2021	$ 2,103	$ 879	$ 3,729	$ 6,711
2022	1,569	537	3,456	5,562
2023	1,063	266	1,181	2,510
2024	691	114	900	1,705
2025	431	51	900	1,382
Thereafter	439	—	1,912	2,351
Total	$ 6,296	$ 1,847	$ 12,078	$ 20,221

(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. See Note 25 to the Consolidated Financial Statements included herein for additional information regarding Mr. Payne's employment agreement.

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 $2.1 million, $2.0 million and $2.3 million during the years ended December 31, 2018, 2019 and 2020, respectively. We do not offer any post-retirement or post-employment benefits.

Litigation

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

Faria, et al. v. Carriage Funeral Holdings, Inc., Superior Court of California, Contra Costa County, Case No. MSC18-00606. On March 26, 2018, six Plaintiffs filed a putative class action against Carriage Funeral Holdings, Inc., our subsidiary, their alleged employer, on behalf of themselves and all similarly situated current and former employees. Plaintiffs seek monetary damages and claim that Carriage Funeral Holdings, Inc. failed to pay minimum wages, provide meal and rest breaks, provide accurately itemized wage statements, reimburse employees for required expenses, and provide wages when due. Plaintiffs also claim that Carriage Funeral Holdings, Inc. violated California Business and Professions Code §17200 et seq. On June 5, 2018, Plaintiffs filed a First Amended Complaint to add a claim under the California Private Attorney General Act. On October 23, 2018, the parties mediated this matter and executed a Memorandum of Understanding for class settlement. In February 2019, a Class Action Settlement Agreement was fully executed and was approved by the Court in October 2019. We paid $0.7 million under the settlement agreement in November 2019. This case was formally closed on May 25, 2020.

17. INCOME TAXES

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

	Years Ended December 31,		
	2018	2019	2020
Current:			
U. S. federal provision (benefit)	$ 1,489	$ (2,039)	$ 1,778
State provision (benefit)	1,309	(195)	2,177
Total current provision (benefit)	$ 2,798	$ (2,234)	$ 3,955
Deferred:			
U. S. federal provision	$ 2,831	$ 8,056	$ 3,994
State provision	992	2,061	603
Total deferred provision	$ 3,823	$ 10,117	$ 4,597
Total income tax provision	$ 6,621	$ 7,883	$ 8,552

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,					
	2018		2019		2020	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal statutory rate	$ 3,834	21.0 %	$ 4,707	21.0 %	$ 5,175	21.0 %
Effect of state income taxes, net of federal benefit	1,776	9.7	1,352	6.0	2,080	8.4
Effect of non-deductible expenses and other, net	1,451	7.9	947	4.2	460	1.9
Effect of divestitures and impairment of businesses	—	—	911	4.10	846	3.4
Change in valuation allowance	26	0.1	(34)	(0.2)	(9)	—
Re-measurement of deferred taxes due to tax reform	(466)	(2.5)	—	—	—	—
Total	$ 6,621	36.2 %	$ 7,883	35.1 %	$ 8,552	34.7 %

Discrete tax expense for the year ended December 31, 2020 includes $0.1 million expense related to stock based compensation and $0.5 million primarily related to return to provision adjustments, state legislative changes and other discrete items.

We are subject to taxation in the United States and various states. As of December 31, 2020, tax years 2013 to 2019 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 approximately $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.

In connection with the 2019 stock acquisition of Calvary Memorial Park cemetery in Fairfax, Virginia, a 338(h)(10) election was filed April 24, 2020, which allowed the basis in the acquired assets to be stepped up to fair market value.

On June 30, 2020, Carriage 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. On November 3, 2020, Carriage filed a carryback claim for refund for the tax year ended December 31, 2019, for $1.2 million. The requested refund for tax year 2019 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 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 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,	
	2019	2020
Deferred income tax assets:		
Net operating loss carryforwards	$ 3,602	$ 1,570
Interest expense limitation	4,190	18
Tax credit carryforwards	100	100
State depreciation	1,124	1,264
Accrued and other liabilities	5,124	6,313
Amortization of non-compete agreements	1,104	1,117
Prepaid and other assets	—	741
Total deferred income tax assets	15,244	11,123
Less valuation allowance	(234)	(222)
Total deferred income tax assets	$ 15,010	$ 10,901
Deferred income tax liabilities:		
Depreciation and amortization	$ (49,568)	$ (50,946)
Preneed liabilities	(6,446)	(6,427)
Convertible subordinated notes due 2021	(75)	(5)
Prepaid and other assets	(289)	—
Total deferred income tax liabilities	(56,378)	(57,378)
Total net deferred tax liabilities	$ (41,368)	$ (46,477)

Our deferred tax assets and liabilities, along with related valuation allowances, are classified as non-current on our Consolidated Balance Sheet at December 31, 2019 and 2020.

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.

For state reporting purposes, we have $32.7 million of net operating loss carryforwards that will expire between 2021 and 2039, 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, 2020 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, 2020, the Company's unrecognized tax benefits reserve for uncertain tax positions primarily relates to losses generated from pending accounting method changes filed for the tax year ended December 31, 2018, being carried back 5 years, under the CARES Act. In 2018, we filed two Form 3115s, Application for Change in Accounting Method, to request consent to change the method of accounting for deferred revenue for our cemetery property and cemetery merchandise and service operations beginning January 1, 2018. These method changes are still under review. Therefore, the unrecognized tax benefit reserve for the years ended December 31, 2019 and 2020 was $0.7 million and $3.7 million, respectively. There was no reserve recorded at December 31, 2018.

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

	Years Ended December 31,		
	2018	2019	2020
Unrecognized tax benefit at beginning of year	$ —	$ —	$ 691
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
Unrecognized tax benefit at end of year	$ —	$ 691	$ 3,656

Included in balance of unrecognized tax benefit for the years ended December 31, 2019 and 2020 were $0.7 million and $3.7 million, respectively, of tax benefits that, if recognized, would affect the effective tax rate. At December 31, 2020, we expect that the $3.7 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, 2020, we accrued an immaterial amount 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 25,880,362 and 26,020,494 shares issued and outstanding, net of 8,025,339 shares held in treasury at par, at December 31, 2019 and 2020, respectively.

Stock Based Compensation Plans

During the year ended December 31, 2020, we had two stock benefits plans in effect under which stock, restricted stock, stock options and performance awards have been granted or remain outstanding: the Second Amended and Restated 2006 Long-Term Incentive Plan (the "Amended and Restated 2006 Plan") and the 2017 Omnibus Incentive Plan (the "2017 Plan"). The Amended and Restated 2006 Plan was terminated upon the approval of the 2017 Plan at the annual shareholders meeting on May 17, 2017. The 2017 Plan expires on May 17, 2027. All stock-based plans are administered by the Compensation Committee appointed by our Board of Directors (the "Board").

At December 31, 2020, we had 1,782,824 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

During the year ended December 31, 2020, we issued restricted stock to certain employees totaling 10,200 shares that vest over a three year period and had an aggregate grant date market value of $0.3 million at a weighted average stock price of $25.00. In 2019, a total of 25,550 shares of restricted stock were awarded with a grant date market value of $0.5 million. In 2018, a total of 86,260 shares of restricted stock were awarded with a grant date market value of $2.2 million.

A summary of the status of unvested restricted stock as of December 31, 2020, and changes during 2020, is presented below:

Restricted stock awards	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2020	69,745	$ 23.56
Granted	10,200	25.00
Vested	(34,815)	24.26
Cancelled	—	—
Unvested at December 31, 2020	45,130	$ 23.34

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 $0.8 million, $0.8 million and $0.7 million the years ended December 31, 2018, 2019 and 2020, respectively.

At December 31, 2020, we had $1.1 million of total unrecognized compensation costs related to unvested restricted stock awards, which are expected to be recognized over a weighted average period of approximately 0.9 years.

Stock Options

During the year ended December 31, 2020, we granted 20,000 options to a certain key employee at a weighted average price of $18.02. These options will vest in one-third increments over a three-year period and have a ten-year term. The fair value of these options was $0.1 million. On June 26, 2020, we cancelled 100,000 options in connection with the resignation of our President and Chief Operating Officer.

In 2019, a total of 100,000 stock options were awarded, the fair value of which was $0.6 million. In 2018, a total of 212,940 stock options were awarded, the fair value of which was $1.4 million.

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 utilize the Black-Scholes option valuation model for estimating the fair value of our stock options. This model allows the use of a range of assumptions related to volatility, risk-free interest rate, expected holding period and dividend yield. The expected volatility utilized in the valuation model is based on the historical volatility of our stock price. The dividend yield and expected holding period are based on historical experience and management's estimate of future events. The risk-free interest rate is derived from the U.S. Treasury yield curve based on the expected life of the option in effect at the time of grant.

The fair values of our stock options were calculated using the following weighted average assumptions, based on the methods described above:

	Years Ended December 31,		
	2018	2019	2020
Dividend yield	1.18 %	1.23 %	1.67 %
Expected volatility	27.08 %	27.45 %	38.54 %
Risk-free interest rate	2.65 %	1.65 %	0.25 %
Expected holding period (years)	5.0	5.0	3.7
Black-Scholes value	$6.38	$5.70	$4.61

A summary of the stock options at and changes during the three years ended December 31, 2020 is presented in the table and narrative below (shares in thousands):

	Years Ended December 31,					
	2018		2019		2020	
	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price
Outstanding at January 1, 2020	1,934	$ 20.85	1,523	$ 21.95	1,078	$ 23.22
Granted	213	$ 25.43	100	$ 24.35	20	$ 18.02
Exercised (1)	(459)	$ 17.73	(247)	$ 17.37	(40)	$ 13.72
Cancelled or expired	(165)	$ 25.34	(298)	$ 21.96	(146)	$ 23.97
Outstanding at December 31, 2020	1,523	$ 21.95	1,078	$ 23.22	912	$ 23.40
Exercisable at December 31, 2020	1,001	$ 20.29	643	$ 22.02	668	$ 22.90

(1) For the year ended December 31, 2020, 20,000 options were surrendered by employees to pay the option price and taxes related to the option exercises.

The aggregate intrinsic value of the outstanding and exercisable stock options was $7.2 million and $5.6 million at December 31, 2020. The total intrinsic value of options exercised during the years ended December 31, 2018, 2019 and 2020 totaled $3.9 million, $1.2 million and $0.5 million, respectively.

The total fair value of stock options vested during 2018, 2019 and 2020 totaled $1.5 million, $0.9 million and $0.7 million, respectively. 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 of $1.0 million, $0.7 million and $0.7 million for the years ended December 31, 2018, 2019 and 2020, respectively.

At December 31, 2020, there was $0.8 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 1.53 years.

The following table further describes our outstanding stock options at December 31, 2020:

	Options Outstanding			Options Exercisable		
Actual Ranges of Exercise Prices	**Number Outstanding at 12/31/20**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Number Exercisable at 12/31/20**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**
$5.94 - $5.94	22,674	1.18	$ 5.94	22,674	1.18	$ 5.94
$18.02 - $22.58	461,472	2.41	$ 21.68	415,432	2.14	$ 21.96
$25.43 - $26.54	427,590	6.50	$ 26.19	229,776	6.43	$ 26.28
$5.94 - $26.54	911,736	4.30	$ 23.40	667,882	3.58	$ 22.90

Performance Awards

On February 19, 2020, we granted 237,500 performance awards to our leadership team and certain key employees, payable in shares. The fair value of these performance awards was $2.8 million and was determined by using the Monte-Carlo simulation pricing model. On May 19, 2020, we cancelled all performance award agreements previously awarded to all individuals during 2019 and the February 19, 2020 award.

Concurrently with the cancellation, the Compensation Committee of the Board approved a new performance award ("new performance award") to be issued to certain employees. These awards will vest (if at all) on December 31, 2024 provided that the Company's common stock reaches one of five predetermined growth targets for a sustained period beginning on the grant date of May 19, 2020 and ending on December 31, 2024. The new performance award was treated as a modification of the cancelled awards and resulted in an additional $1.7 million of incremental compensation costs. At December 31, 2020, there was $5.0 million of unrecognized compensation cost related to performance awards expected to be recognized over a weighted average period of 4.0 years.

A summary of the new performance award and changes during the year ended December 31, 2020 is presented in the table and below:

Performance Awards	**Shares**	**Weighted Average Grant Date Fair Value**
At January 1, 2020	—	—
Granted	399,664	$10.79
Vested	—	—
Cancelled	(33,538)	$9.69
At December 31, 2020	366,126	$10.89

The following table reflects the new performance awards granted during the year ended December 31, 2020, their respective fair values and the assumptions utilized in the Monte-Carlo simulation pricing model:

Grant date	May 19, 2020	June 25, 2020	July 30, 2020	August 31, 2020	October 30, 2020
Performance period	May 19, 2020 - December 31, 2024	June 25, 2020 - December 31, 2024	July 30, 2020 - December 31, 2024	August 31, 2020 - December 31, 2024	October 30, 2020 - December 31, 2024
Awards granted	368,921	13,974	2,795	6,987	6,987
Fair value (in millions) (1)	$3.6	$0.2	$0.1	$0.2	$0.3
Simulation period (years)	4.62	4.52	4.42	4.33	4.17
Share price at grant date	$15.79	$18.02	$23.10	$22.14	$25.81
Expected volatility	34.54 %	36.24 %	37.43 %	37.71 %	38.72 %
Risk-free interest rate	0.33 %	0.29 %	0.20 %	0.24 %	0.30 %

(1) The total fair value of the new performance awards granted is $4.3 million.

During 2019, we granted 306,623 performance awards to our leadership team and certain key employees, payable in shares. The fair value of these performance awards was $1.6 million and was determined by using the Monte-Carlo simulation pricing model. These performance awards were cancelled on May 19, 2020.

During 2018, we granted 113,320 performance awards to our leadership team and certain key employees, payable in shares. The fair value of these performance awards was approximately $2.9 million and was determined by using the weighted average stock price on the grant date of $25.43. These performance awards were cancelled on November 29, 2019.

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 $4.4 million, $0.2 million and $0.9 million during the years ended December 31, 2018, 2019 and 2020, 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). In 2020, employees purchased a total of 71,908 shares at a weighted average price of $16.71 per share. In 2019, employees purchased a total of 73,731 shares at a weighted average price of $13.18 per share. In 2018, employees purchased a total of 49,938 shares at a weighted average price of $18.56 per share.

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 approximately $0.2 million, $0.3 million and $0.4 million during the years ended December 31, 2018, 2019 and 2020, 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,		
	2018	2019	2020
Dividend yield	1.4 %	1.4 %	1.5 %
Expected volatility	20.9 %	36.1 %	48.6 %
Risk-free interest rate	1.44%, 1.61%, 1.72%, 1.83%	2.42%, 2.51%, 2.56%, 2.60%	1.54%, 1.57%, 1.57%, 1.56%
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

On February 19, 2020, we issued 17,991 shares of our common stock to certain employees, which were valued at approximately $0.4 million 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 approximately $0.3 million at a grant date stock price of $19.92.

During 2018, we issued 5,712 shares of our common stock to certain employees, which were valued at approximately $0.1 million at a grant date stock price of $25.43.

Director (Non-Employee) Compensation Plans

On February 19, 2020, our Board revised the Director Compensation Policy to provide 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 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 April 23, 2020, as part of our broad-based effort to respond to COVID-19, the Board approved a temporary reduction of the quarterly retainer for our non-employee directors from $35,000 per quarter to $29,750 per quarter (or 15%) effective April 19, 2020. On June 26, 2020, the Board voted to reinstate the quarterly retainer back to 100% effective as of June 28, 2020.

On July 30, 2020, the Board elected Dr. Achille Messac to serve as a Class II Director until the 2022 annual meeting of shareholders. Mr. Messac was appointed to serve on the Audit, Compensation and Corporate Governance Committees.

Pursuant to the revised Director Compensation Policy described above, for the year ended December 31, 2020, we granted 30,883 shares of our common stock to six Directors, which were valued at $0.7 million at a weighted average stock price of $21.16. For the year ended December 31, 2019, we granted 7,458 shares of our common stock to two Directors, which were valued at $0.2 million at a weighted average stock price of $20.78. For the year ended December 31, 2018, we granted 7,403 shares of our common stock to three Directors, which were valued at $0.2 million at a weighted average stock price of $20.52.

We recorded compensation expense, which is included in *General, administrative and other* expenses, related to annual retainers, including the value of stock granted to Directors above, of $0.5 million, $0.5 million and $0.9 million during the years ended December 31, 2018, 2019 and 2020, respectively.

Cash Dividends

On May 19, 2020, the Board approved an increase of $0.05 per share to our annual dividend beginning with the dividend declaration in the third quarter. On October 27, 2020, the Board approved an additional increase of $0.0125 per share for a total annual dividend of $0.40 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):

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

19. SHARE REPURCHASE PROGRAM

During the year ended December 31, 2018, we repurchased 1,101,969 shares of common stock for a total cost of $17.7 million at an average cost of $16.03 per share pursuant to our share repurchase program. On July 31, 2019, our Board approved an additional $25.0 million under our share repurchase program in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended. During the year ended December 31, 2019, we repurchased 400,000 shares of common stock for a total cost of $7.8 million at an average cost of $19.39 per share pursuant to our share repurchase program. Our shares were purchased in the open market at times and in amounts as management determined appropriate based on factors such as market conditions, legal requirements and other business considerations. Shares purchased pursuant to the repurchase program are currently held as treasury shares.

During the year ended December 31, 2020, we did not repurchase any common shares. At December 31, 2020, we had approximately $25.6 million available for repurchase under our share repurchase program.

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,		
	2018	2019	2020
Numerator for basic and diluted earnings per share:			
Net income	$ 11,645	$ 14,533	$ 16,090
Less: Earnings allocated to unvested restricted stock	(57)	(62)	(46)
Income attributable to common stockholders	$ 11,588	$ 14,471	$ 16,044
Denominator:			
Denominator for basic earnings per common share - weighted average shares outstanding	17,971	17,877	17,872
Effect of dilutive securities:			
Stock options	66	118	196
Convertible Notes	337	10	9
Denominator for diluted earnings per common share - weighted average shares outstanding	18,374	18,005	18,077
Basic earnings per common share	$ 0.64	$ 0.81	$ 0.90
Diluted earnings per common share	$ 0.63	$ 0.80	$ 0.89

The fully diluted weighted average shares outstanding for the years ended December 31, 2018, 2019 and 2020, and the corresponding calculation of fully diluted earnings per share, included approximately 337,000, 10,000 and 9,000 shares that would have been issued upon the conversion of our convertible subordinated notes as a result of the application of the if-converted method prescribed by the FASB ASC 260.

During the year ended December 31, 2020, no stock options were excluded from the computation of diluted earnings per share. For the years ended December 31, 2018 and 2019, there were 1,660,919 and 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.

21. SEGMENT REPORTING

We conduct funeral and cemetery operations only in the United States. Revenue, disaggregated by major source for each of our reportable segments was as follows (in thousands):

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

Year Ended, December 31, 2018

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

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, capital expenditures and number of operating locations by segment (in thousands, except number of operating locations):

	Funeral	Cemetery	Corporate	Consolidated
Operating income (loss):				
2020	$ 57,622	$ 26,859	$ (27,254)	$ 57,227
2019	58,756	15,983	(27,296)	47,443
2018	60,035	14,717	(32,640)	42,112
Income (loss) before income taxes:				
2020	$ 56,875	$ 27,087	$ (59,320)	$ 24,642
2019	58,844	16,025	(52,453)	22,416
2018	58,896	15,108	(55,738)	18,266
Depreciation and amortization:				
2020	$ 11,586	$ 6,376	$ 1,427	$ 19,389
2019	11,128	5,227	1,416	17,771
2018	10,726	4,891	1,813	17,430
Interest expense:				
2020	$ 1,004	$ 13	$ 31,498	$ 32,515
2019	1,142	—	24,380	25,522
2018	1,339	—	19,770	21,109
Income tax expense (benefit):				
2020	$ 19,738	$ 9,401	$ (20,587)	$ 8,552
2019	20,694	5,635	(18,446)	7,883
2018	21,349	5,476	(20,204)	6,621
Total assets:				
2020	$ 764,535	$ 366,964	$ 14,326	$ 1,145,825
2019	790,459	314,413	24,883	1,129,755
2018	686,470	226,475	4,557	917,502
Long-lived assets:				
2020	$ 619,588	$ 172,122	$ 995	$ 792,705
2019	650,179	145,158	1,303	796,640
2018	572,916	89,654	1,538	664,108
Capital expenditures:				
2020	$ 6,997	$ 7,025	$ 1,176	$ 15,198
2019	8,403	5,772	1,204	15,379
2018	8,296	3,989	1,241	13,526
Number of operating locations at year end:				
2020	178	32	—	210
2019	186	31	—	217
2018	182	29	—	211

22. SUPPLEMENTARY DATA

Balance Sheet

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

	December 31, 2019	December 31, 2020
Prepaids and other current assets:		
Prepaid expenses	$ 1,596	$ 1,919
Deposit on pending acquisition	5,000	—
Federal income tax receivable	2,973	—
State income tax receivable	986	—
Other current assets	112	157
Total other current assets	$ 10,667	$ 2,076
Current portion of debt and lease obligations:		
Current portion of acquisition debt	$ 1,306	$ 1,027
Current portion of finance lease obligations	290	323
Current portion of operating lease obligations	1,554	2,082
Total current portion of debt and lease obligations	$ 3,150	$ 3,432
Accrued and other liabilities:		
Accrued salaries and wages	$ 4,323	$ 1,392
Accrued incentive compensation	9,199	11,139
Accrued vacation	2,880	3,271
Accrued insurance	2,329	3,016
Accrued interest	2,299	2,291
Accrued ad valorem and franchise taxes	678	435
Employer payroll tax deferral	—	1,773
Accrued commissions	560	634
Perpetual care trust taxes payable	401	908
Income tax payable	—	798
Other accrued liabilities	1,357	1,825
Unrecognized tax benefit	—	3,656
Total accrued and other liabilities	$ 24,026	$ 31,138
Other long-term liabilities:		
Incentive compensation	$ 1,267	$ 2,975
Contingent consideration	470	—
Employer payroll tax deferral	—	1,773
Total other long-term liabilities	$ 1,737	$ 4,748

23. QUARTERLY FINANCIAL DATA (UNAUDITED)

The tables below set forth consolidated operating results by fiscal quarter (in thousands, except earnings per share):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2020				
Revenue	$ 77,490	$ 77,477	$ 84,393	$ 90,088
Gross profit	23,171	25,160	27,874	29,718
Net income (loss)	$ (4,197)	$ 6,397	$ 5,525	$ 8,365
Basic earnings (loss) per common share: (a)	$ (0.23)	$ 0.36	$ 0.31	$ 0.47
Diluted earnings (loss) per common share: (a)	$ (0.23)	$ 0.36	$ 0.31	$ 0.46
2019				
Revenue	$ 69,081	$ 67,752	$ 66,125	$ 71,149
Gross profit	21,600	19,250	18,056	20,679
Net income	$ 6,525	$ 4,862	$ 577	$ 2,569
Basic earnings per common share: (a)	$ 0.36	$ 0.27	$ 0.03	$ 0.14
Diluted earnings per common share: (a)	$ 0.36	$ 0.27	$ 0.03	$ 0.14

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

24. 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,		
	2018	2019	2020
Cash paid for interest and financing costs	$ 18,858	$ 23,870	$ 30,935
Cash paid for taxes	$ 3,543	$ 378	$ 2,555
Cash refund received for taxes	$ —	$ —	$ 7,012

25. SUBSEQUENT EVENTS

On January 25, 2021, the Company detected that its information technology ("IT") system was affected by a ransomware incident. Upon learning of the incident, the Company undertook immediate steps to address the incident, including engaging IT security and forensics experts and working diligently with these experts to assess the impact on the Company's IT systems, implementing additional security measures to help prevent a similar incident in the future, and to restore any of its IT systems that were impacted by the incident. We have insurance coverage to protect against this type of ransomware attack and therefore the Company expects that recovery of the losses related to the incident is likely after a deductible. As of February 11, 2021, the restoration of any impacted systems was complete.

While we are taking all appropriate measures to safeguard the integrity of our IT infrastructure, data, and employee, customer and vendor information and prevent such an event from reoccurring, we cannot provide reasonable assurance that similar incidents may occur in the future. Refer to Part I, Item 1A. *Risk Factors* for risks related to our business.

On January 28, 2021, we received a conversion notice from a holder of our Convertible Notes exercising their right to convert. Following receipt of the conversion notice, in accordance with the terms of the Indenture, we provided notice to settle such conversion in cash, which will settle on the third business day immediately following the applicable 25-day period observation period, as more fully described in the Indenture.

On February 17, 2021, the Company entered into an amendment to the employment agreement of Melvin C. Payne, the Company's Chief Executive Officer and Chairman of the Board (the "Amendment"), to extend the term of his employment to February 17, 2028. The Amendment also increases the minimum amount for Mr. Payne's base salary to $900,000 and includes consideration paid by the Company to Mr. Payne in the form of Company stock options that only vest if the price of the Company's stock reaches predetermined price targets.

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, 2018:				
Allowance for bad debts, current portion	$ 835	$ 1,111	$ 1,177	$ 769
Allowance for bad debts of preneed cemetery receivables, non-current portion	$ 2,278	$ 730	$ 1,781	$ 1,227
Employee severance accruals	$ —	$ 1,649	$ 508	$ 1,141
Valuation allowance of the deferred tax asset	$ 244	$ 32	$ —	$ 276
Year ended December 31, 2019:				
Allowance for bad debts, current portion	$ 769	$ 1,088	$ 1,008	$ 849
Allowance for 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

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, 2020 (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, 2020 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, 2020.

The Company's internal control over financial reporting as of December 31, 2020 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, 2020, as stated in their report which is presented in this Annual Report.

/s/ Melvin C. Payne

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

/s/ Viki K. Blinderman

Viki K. Blinderman
Senior Vice President and Chief Accounting Officer
(Principal Financial Officer)

March 2, 2021

Changes in Internal Control Over Financial Reporting

During the three months ended December 31, 2020, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Code of Ethics

We have adopted a 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, 2020.

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, 2020.

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, 2020.

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, 2020.

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	911,736	$ 23.40	1,782,824
Equity compensation plans not approved by security holders	—	—	—
Total	911,736	$ 23.40	1,782,824

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, 2020.

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, 2020.

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 2021 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.
3.2	Certificate of Amendment dated May 7, 1997. Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997.
3.3	Certificate of Amendment dated May 7, 2002. Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended June 30, 2002.

3.4	Amended and Restated Bylaws of the Company. Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1/A (File No. 333-05545) filed on July 18, 1996.
3.5	Amendments to the Bylaws of the Company effective December 18, 2000. Incorporated by reference to Exhibit 3.8 to the Company's Annual Report on Form 10-K for its year ended December 31, 2000.
3.6	Amendments to the Bylaws of the Company effective May 20, 2008. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 28, 2008.
3.7	Second Amendment to the Amended and Restated Bylaws of Carriage Services, Inc. Incorporated by reference to Exhibit 3.1 to the Company's Current report on Form 8-K filed March 8, 2019.
4.1	Indenture, dated as of March 19, 2014, by and among Carriage Services, Inc. and Wilmington Trust, National Association, as Trustee. Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 19, 2014.
4.2	Indenture, dated as of May 31, 2018, among the Company, the Guarantors and Wilmington Trust, National Association, as Trustee. Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 31, 2018.
4.3	Form of 6.625% Senior Notes due 2026. Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 31, 2018.
4.4	Second Amended and Restated 2006 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended June 30, 2012. †
4.5	First Amendment to Carriage Services, Inc. Second Amended and Restated 2006 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K filed March 5, 2014. †
4.6	Amended and Restated Carriage Services, Inc. 2007 Employee Stock Purchase Plan. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended September 30, 2013. †
4.7	Amended and Restated Carriage Services, Inc. 2007 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on April 4, 2018).
4.8	First Amendment to the Amended and Restated Carriage Services, Inc. 2007 Employee Stock Purchase Plan (incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed on April 4, 2018).
4.9	Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Appendix A of the Proxy Statement on Schedule 14A filed on April 5, 2017. †
4.10	Summary of Securities Registered under Section 12. Incorporated by reference to Exhibit 4.10 to the Company's Annual Report on Form 10-K filed on February 28, 2020.
10.1	Credit Agreement dated August 30, 2012, among Carriage Services, Inc. as the Borrower, and Bank of America, N.A. as the Administrative Agent and Sole Lender. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 4, 2012.
10.2	First Amendment to Credit Agreement dated November 29, 2012, among Carriage Services, Inc. as the Borrower, and Bank of American N.A. as the Administrative Agent and Sole Lender. Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2012.

10.3	Second Amendment to Credit Agreement dated February 14, 2013, among Carriage Services, Inc. as the Borrower, and Bank of America, N.A. as the Administrative Agent and Sole Lender. Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2012.
10.4	Third Amendment and Commitment Increase dated April 23, 2013 among Carriage Services, Inc., the Lenders and Bank of America, N.A. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 25, 2013.
10.5	Fourth Amendment to Credit Agreement, dated as of February 27, 2014, by and among Carriage Services, Inc., the banks listed on the signature page thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 5, 2014.
10.6	Fifth Amendment to Credit Agreement, dated as of April 14, 2014, by and among Carriage Services, Inc., the banks listed on the signature page thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 16, 2014.
10.7	Sixth Amendment to Credit Agreement, dated May 20, 2015, by and among the Company, Bank of America, N.A., as Administrative Agent, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 22, 2015.
10.8	Seventh Amendment to Credit Agreement, dated February 9, 2016, by and among the Company, Bank of America, N.A., as Administrative Agent, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 9, 2016.
10.9	Eighth Amendment and Commitment Increase to Credit Agreement, dated April 25. 2018, by and among the Company, Bank of America, N.A., as Administrative Agent, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 27, 2018.
10.10	Credit Agreement, dated May 31, 2018, among the Company, the financial institutions party thereto, as lenders and Bank of America, N.A., as Administrative Agent. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 31, 2018.
10.11	First Amendment to Credit Agreement dated as of November 8, 2018, among Carriage Services, Inc., the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 9, 2018.
10.12	Second Amendment to Credit Agreement dated as of July 31, 2019, among Carriage Services, Inc., the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 31, 2019.
10.13	Third Amendment to Credit Agreement dated as of December 19, 2019, among Carriage Services, Inc., the financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 19, 2019.
10.14	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. †
10.15	Employment Agreement with Mark R. Bruce dated January 4, 2011. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended March 31, 2013. †
10.16	Employment Letter with Mark R. Bruce dated March 14, 2012. Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for its quarter ended March 31, 2013. †
10.17	Director Compensation Policy dated March 5, 2012. Incorporated by reference to Exhibit 10.24 to Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2011. †

10.18	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. †
10.19	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. †
10.20	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. †
10.21	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. †
10.22	Form of Employee Performance Share Unit Award Agreement under Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2017. †
10.23	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. †
10.24	Release and Separation Agreement by and between Carriage Services, Inc. and Mark R. Bruce, dated effective November 1, 2018. Incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2018. †
10.25	Form of Performance Award Agreement under Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 26, 2019. †
10.26	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. †
10.27	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. †
10.28	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. †
10.29	Employment Agreement dated November 5, 2019, by and between the Company and Paul Elliot. Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 8, 2019. †
10.30	Employment Agreement dated November 5, 2019, by and between the Company and Viki K. Blinderman. Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on November 8, 2019. †
10.31	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. †
10.32	Employment Agreement dated December 1, 2019, by and between Carriage Services, Inc. and William W. Goetz. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 2, 2019. †

10.33	Form of Performance Award Agreement under Carriage Services, Inc. 2017 Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 25, 2020. †
10.34	Transaction Agreement dated as of November 25, 2019 by and among Carriage Funeral Holdings, Inc., Carriage Holdings Virginia, Inc., Carriage Services of Virginia LLC, Calvary Memorial Park, Inc., Fairfax Memorial Funeral Home, L.L.C., Holder Representative and Carriage Services, Inc. Incorporated by reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K filed on February 28, 2020. ++
10.35	Amendment to the Transaction Agreement dated as of December 30, 2019 by and among Carriage Funeral Holdings, Inc., Carriage Holdings Virginia, Inc., Carriage Services of Virginia LLC, Calvary Memorial Park, Inc., Fairfax Memorial Funeral Home, L.L.C., Holder Representative and Carriage Services, Inc. Incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K filed on February 28, 2020.
10.36	Limited Waiver and Fourth Amendment to Credit Agreement, dated as of May 18, 2020, by and among Carriage Services, Inc., the financial institutions party thereto, as lenders, and Bank of America, 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 May 22, 2020.
10.37	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.
10.38	Limited Consent to Credit Agreement, dated as of August 7, 2020, by and 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 Quarterly Report on Form 10-Q for the Quarterly Period Ending September 30, 2020.
10.39	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.
*10.40	Release and Separation Agreement by and between Carriage Services, Inc. and Viki K. Blinderman, dated February 2, 2021 and effective March 31, 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 Viki K. Blinderman in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
**32	Certification of Periodic Financial Reports by Melvin C. Payne and Viki K. Blinderman in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. Section 1350.
*101	Interactive Data Files.

(*) Filed herewith.

(**) Furnished herewith.

(†) Management contract or compensatory plan or arrangement.

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

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 2, 2021.

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, 2021
/s/ Viki K. Blinderman **Viki K. Blinderman**	Senior Vice President and Chief Accounting Officer (Principal Financial Officer)	March 2, 2021
/s/ Adeola Olaniyan **Adeola Olaniyan**	Corporate Controller and Principal Accounting Officer	March 2, 2021
/s/ Donald D. Patteson Jr. **Donald D. Patteson Jr.**	Director	March 2, 2021
/s/ James R. Schenck **James R. Schenck**	Director	March 2, 2021
/s/ Barry K. Fingerhut **Barry K. Fingerhut**	Director	March 2, 2021
/s/ Bryan D. Leibman **Bryan D. Leibman**	Director	March 2, 2021
/s/ Douglas Meehan **Douglas Meehan**	Director	March 2, 2021
/s/ Achille Messac **Achille Messac**	Director	March 2, 2021

Corporate Information

Carriage Services is a leading provider of funeral and cemetery services and merchandise in the United States. As of December 31, 2020, Carriage operated 178 funeral homes in 26 states and 32 cemeteries in 12 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.

James R. Schenck
President and Chief Executive Officer,
PenFed Credit Union

Advisor to the Board of Directors

Gregory R. Brudnicki
Mayor of Panama City, Florida

Independent Public Accountants
Grant Thornton LLP, Dallas, Texas

Form 10-K Availability
The Company's Annual Report on Form 10-K for the year ended December 31, 2020 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

C. Benjamin Brink
Senior Vice President, Chief Financial Officer
and Treasurer

Paul D. Elliott
Senior Vice President and Regional Partner

Christopher Manceaux
Senior Vice President and Regional Partner

Steven D. Metzger
Senior Vice President, General Counsel
and Secretary

Shawn R. Phillips
Senior Vice President, Regional Partner and Head
of Strategic and Corporate Development

Carlos Quezada
Senior Vice President of Sales and Marketing

Peggy Schappaugh
Vice President of Operations and
Acquisitions Analysis

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 Statements" in the Company's Form 10-K for the year ended December 31, 2020, 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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CARRIAGE
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CARRIAGE SERVICES, INC. 2020 Annual Report