

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999

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 (I.R.S. Employer Identification No.)
of incorporation or organization)

1300 POST OAK BLVD., SUITE 1500, HOUSTON, TX 77056
(Address of principal executive offices) (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (281) 556-7400

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 X No__

The number of shares of the Registrant's Class A Common Stock, \$.01 par value per share, and Class B Common Stock, \$.01 par value per share, outstanding as of July 30, 1999 was 12,358,327 and 3,549,741 respectively.

CARRIAGE SERVICES, INC.

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

	DECEMBER 31, 1998	JUNE 30, 1999
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,892	\$ 3,949
Accounts receivable --		
Trade, net of allowance for doubtful accounts		
of \$3,435 in 1998 and \$ 4,848 in 1999	17,835	20,506
Other	3,696	4,695
	-----	-----
Inventories and other current assets	21,531	25,201
	7,457	10,134
	-----	-----
Total current assets	31,880	39,284
Property, plant and equipment, at cost, net of		
accumulated depreciation of \$11,363 in 1998		
and \$14,147 in 1999	131,144	148,157
Cemetery property, at cost	63,409	66,773
Names and reputations, net of accumulated		
amortization of \$8,428 in 1998 and \$11,226		
in 1999	211,183	221,507
Deferred charges and other noncurrent assets	28,528	37,974
	-----	-----
	\$ 466,144	\$ 513,695
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,754	\$ 4,644
Accrued liabilities	9,168	11,524
Current portion of long-term debt and		
obligations under capital leases	6,394	5,191
	-----	-----
Total current liabilities	20,316	21,359
Preneed liabilities, net	11,106	10,647
Long-term debt, net of current portion	212,972	160,586
Obligations under capital leases, net of current		
portion	3,209	3,902
Deferred income taxes	16,474	16,962
	-----	-----
Total liabilities	264,077	213,456
	-----	-----
Commitments and contingencies		
Redeemable preferred stock	1,673	1,172
Company-obligated mandatorily redeemable		
convertible preferred securities of Carriage		
Services Capital Trust	--	90,300
Stockholders' equity:		
Class A Common Stock, \$.01 par value;		
40,000,000 shares authorized; 12,028,000		
and 12,337,000 issued and outstanding		
at December 31, 1998 and June 30, 1999,		
respectively	120	123
Class B Common Stock, \$.01 par value;		
10,000,000 shares authorized; 3,779,000		
and 3,547,000 issued and outstanding		
at December 31, 1998 and June 30, 1999,		
respectively	38	35
Contributed capital	194,911	197,982
Retained earnings	5,325	10,627
	-----	-----
Total stockholders' equity	200,394	208,767
	-----	-----
	\$ 466,144	\$ 513,695
	=====	=====

The accompanying notes are an integral part of these financial statements.

CARRIAGE SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED AND IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	1998	1999	1998	1999
Revenues, net				
Funeral	\$20,370	\$ 30,816	\$43,613	\$ 64,328
Cemetery	4,844	11,655	9,719	20,013
	-----	-----	-----	-----
	25,214	42,471	53,332	84,341
Costs and expenses				
Funeral	14,493	22,212	30,326	44,170
Cemetery	3,723	8,549	7,221	14,878
	-----	-----	-----	-----
	18,216	30,761	37,547	59,048
Gross profit	6,998	11,710	15,785	25,293
General and administrative expenses	1,751	2,275	3,620	4,712
	-----	-----	-----	-----
Operating income	5,247	9,435	12,165	20,581
Interest expense, net	2,044	3,494	4,151	6,960
Financing cost of company-obligated securities of Carriage Services Capital Trust	--	510	--	510
	-----	-----	-----	-----
Total interest and financing expense	2,044	4,004	4,151	7,470
Income before income taxes and extraordinary item	3,203	5,431	8,014	13,111
Provision for income taxes	1,400	2,335	3,565	5,637
	-----	-----	-----	-----
Income before extraordinary item	1,803	3,096	4,449	7,474
Extraordinary item:				
Loss on early extinguishment of debt, net of income tax benefit of \$151	--	(200)	--	(200)
	-----	-----	-----	-----
Net income	1,803	2,896	4,449	7,274
Preferred stock dividend requirements	151	28	301	56
	-----	-----	-----	-----
Net income available to common stockholders	\$ 1,652	\$ 2,868	\$ 4,148	\$ 7,218
	=====	=====	=====	=====
Basic earnings per share:				
Net income before extraordinary item	\$.13	\$ 0.19	\$.35	\$ 0.47
Extraordinary item	\$ -	\$ (0.01)	\$ --	\$ (0.01)
	-----	-----	-----	-----
Net income	\$.13	\$ 0.18	\$.35	\$ 0.46
	=====	=====	=====	=====
Diluted earnings per share:				
Net income before extraordinary item	\$.13	\$ 0.19	\$.34	\$ 0.45
Extraordinary item	\$ --	\$ (0.01)	\$ --	\$ (0.01)
	-----	-----	-----	-----
Net income	\$.13	\$ 0.18	\$.34	\$ 0.44
	=====	=====	=====	=====
Weighted average number of common and common equivalent shares outstanding:				
Basic	12,393	15,877	11,775	15,843
	=====	=====	=====	=====
Diluted	12,881	16,335	12,874	16,981
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

CARRIAGE SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED AND IN THOUSANDS)

	FOR THE SIX MONTHS ENDED JUNE 30,	
	1998	1999
Cash flows from operating activities:		
Net income	\$ 4,449	\$ 7,274
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,844	7,789
Loss on early extinguishment of debt, net of income taxes	--	200
Provision for losses on accounts receivable	868	2,821
Deferred income taxes	1,118	424
Other, net	(38)	--
	-----	-----
Net cash provided by operating activities before changes in assets and liabilities	11,241	18,508
Changes in assets and liabilities, net of effects from acquisitions:		
(Increase) in accounts receivables	(4,075)	(6,818)
(Increase) in inventories and other current assets ..	(378)	(2,358)
(Increase) in deferred charges and other	(2,458)	(3,025)
(Decrease) in accounts payable	(569)	(1,022)
Increase in accrued liabilities	1,061	1,984
(Decrease) in preneed liabilities	(553)	(412)
	-----	-----
Net cash provided by operating activities ..	4,269	6,857
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(24,401)	(31,908)
Capital expenditures	(8,555)	(9,351)
	-----	-----
Net cash used in investing activities	(32,956)	(41,259)
Cash flows from financing activities:		
Proceeds from long-term debt	8,200	21,970
Payments on long-term debt and obligations under capital leases	(51,938)	(77,411)
Proceeds from issuance of common stock	68,495	656
Proceeds from issuance of company-obligated mandatorily redeemable convertible preferred securities	--	90,300
Payment of preferred stock dividends	(301)	(56)
Other, net	131	--
	-----	-----
Net cash provided by financing activities ..	24,587	35,459
Net increase (decrease) in cash and cash equivalents ..	(4,100)	1,057
Cash and cash equivalents at beginning of period	6,126	2,892
	-----	-----
Cash and cash equivalents at end of period	\$ 2,026	\$ 3,949
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 4,548	\$ 9,042
	=====	=====
Cash paid for income taxes	\$ 3,195	\$ 7,132
	=====	=====
Non-cash consideration for acquisitions	\$ 3,144	\$ 1,648
	=====	=====

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

(a) The Company

Carriage Services, Inc., (the "Company") is the fourth largest publicly-traded provider of products and services in the death care industry in the United States. As of June 30, 1999, the Company owned and operated 179 funeral homes and 38 cemeteries in 31 states.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

(c) Interim Disclosures

The information for the three and six months ended June 30, 1998 and 1999 is unaudited, but in the opinion of management, reflects all adjustments which are of a normal, recurring nature necessary for a fair presentation of financial position and results of operations for the interim periods. The accompanying consolidated financial statements have been prepared consistent with the accounting policies described in the Company's report on Form 10-K for the year ended December 31, 1998, and should be read in conjunction therewith. Certain prior period amounts in the consolidated financial statements have been reclassified to conform with current period presentation.

(d) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. ACQUISITIONS

During the six months ended June 30, 1999, the Company purchased 13 funeral homes and 11 cemeteries. Eleven funeral homes and one cemetery were acquired during the six months ended June 30, 1998. These acquisitions have been accounted for by the purchase method, and their results of operations are included in the accompanying consolidated financial statements from the dates of acquisition.

The effect of the above acquisitions on the Consolidated Balance Sheets was as follows:

	JUNE 30,	
	1998	1999

	(IN THOUSANDS)	
Current assets, net of cash acquired	\$ 888	\$ 6,645
Cemetery property	2,305	3,740
Property, plant and equipment	6,017	11,455
Deferred charges and other noncurrent assets	352	757
Names and reputations	18,478	13,246
Current liabilities	(255)	(1,438)
Other liabilities	(240)	(849)
	-----	-----
Total acquisitions	27,545	33,556
Consideration:		
Debt	3,144	1,648
Common stock issued	--	--
	-----	-----
Cash used for acquisitions	\$ 24,401	\$ 31,908
	=====	=====

The following table represents, on an unaudited pro forma basis, the combined operations of the Company and the above noted acquisitions, as if such acquisitions had occurred as of January 1, 1998. Appropriate adjustments have been made to reflect the accounting basis used in recording these acquisitions, however, these unaudited pro forma results are based on the acquired businesses' historical financial results and do not assume any additional profitability resulting from the application of the Company's revenue enhancement measures or cost reduction programs to the historical results of the acquired businesses. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have resulted had the combinations been in effect on the dates indicated, that have resulted since the dates of acquisition or that may result in the future.

	SIX MONTHS ENDED JUNE 30,	
	1998	1999

	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Revenues, net	\$80,218	\$88,545
Net income before income taxes	6,557	13,465
Net income available to common stockholders	3,305	7,390
Earnings per common share:		
Basic	0.28	0.47
Diluted	0.26	0.44

3. MAJOR SEGMENTS OF BUSINESS

Carriage conducts funeral and cemetery operations only in the United States.

(IN THOUSANDS)	FUNERAL	CEMETERY	CORPORATE	CONSOLIDATED
	-----	-----	-----	-----
External revenues:				
Six months ended June 30, 1999	\$ 64,328	\$ 20,013	--	\$ 84,341
Six months ended June 30, 1998	43,613	9,719	--	53,332
Profit and Loss:				
Six months ended June 30, 1999	\$ 19,812	\$ 6,092	\$(18,630)	\$ 7,274
Six months ended June 30, 1998	12,709	3,494	(11,754)	4,449
Total Assets:				
June 30, 1999	\$378,344	\$123,074	\$ 13,500	\$ 514,918
June 30, 1998	241,713	61,726	7,689	311,128

4. LONG TERM DEBT

During June 1999, the Company replaced and increased its existing credit facility with a new \$250 million line of credit. The new credit facility is unsecured, is for a term of five years and contains customary restrictive covenants, including a restriction on the payment of dividends on common stock, and requires the Company to maintain certain financial ratios. Interest under the new credit facility is provided at both LIBOR and prime rate options.

5. SUBSEQUENT EVENT

Subsequent to June 30, 1999, the Company issued \$110 million in senior debt notes and used the proceeds to reduce the amount outstanding under the Company's revolving line of credit. The notes are unsecured, mature in tranches of five, seven and nine years and bear interest at the fixed rates of 7.73%, 7.96% and 8.06%, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company is a leading provider of death care services and products in the United States. The Company's focus is on growth through acquisitions and enhancements at facilities currently owned to increase revenues and gross profit. That focus has resulted in a successful track record of internal growth from attractive acquisition opportunities; high standards of service, operational and financial performance; and an infrastructure containing measurement and management systems. The operating focus for 1999 includes institutionalized internal training, internal growth, and making quality initiatives introduced in 1998 an integral part of the culture.

Income from operations, which the Company defines as earnings before interest and income taxes, increased, as a percentage of net revenues, from 20.8% for the second quarter of 1998 to 22.8% for the second quarter of 1999. This improvement was due largely to the increased gross profits at the individual cemetery locations. Gross margins for the funeral homes decreased from 28.9% in the second quarter of 1998 to 27.9% in the second quarter of 1999, on an increase in revenue of 51%. As a percentage of cemetery net revenues, cemetery gross profit was 26.6% in the second quarter of 1999 compared to 23.1% in the second quarter in 1998. Revenues and gross profits from cemeteries increased 141% and 177%, respectively, in the second quarter of 1999 compared to the same period in 1998. A one cent per share extraordinary item included in the current year quarter resulted from the early extinguishment of the Company's bank credit facility, which was replaced and expanded during the quarter.

The Company has experienced significant growth through acquisitions. Forty-four funeral homes and ten cemeteries were acquired during 1997 for approximately \$118 million. During 1998, the Company acquired 48 funeral homes and seven cemeteries for an aggregate consideration of approximately \$159 million. These acquisitions were funded through cash flow from operations, additional borrowings under the Company's credit facilities and issuance of preferred and common stock. In addition, as of July 30, 1999, the Company has either acquired or has letters of intent to acquire 18 funeral homes and 14 cemeteries for an aggregate consideration of approximately \$46 million. The Company believes its increased recognition in the death care industry as an established operator and purchaser of funeral homes and cemeteries, as well as favorable conditions in the acquisition marketplace, has improved its ability to attract potential acquisitions that are larger, strategic and accretive.

RESULTS OF OPERATIONS

The following is a discussion of the Company's results of operations for the three and six month periods ended June 30, 1998 and 1999. For purposes of this discussion, funeral homes and cemeteries owned and operated for the entirety of each period being compared are referred to as "existing operations." Operations acquired or opened during either period being compared are referred to as "acquired operations."

FUNERAL HOME SEGMENT. The following table sets forth certain information regarding the net revenues and gross profit of the Company from its funeral home operations for the three and six months ended June 30, 1998 compared to the three and six months ended June 30, 1999.

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THREE MONTHS ENDED JUNE 30, 1999.

	THREE MONTHS ENDED JUNE 30,		CHANGE	
	1998	1999	AMOUNT	PERCENT
(DOLLARS IN THOUSANDS)				
Net revenues:				
Existing operations	\$19,332	\$21,003	\$ 1,671	8.6%
Acquired operations	1,038	9,813	8,775	*
Total net revenues ..	\$20,370	\$30,816	\$10,446	51.3%
Gross profit:				
Existing operations	\$ 5,326	\$ 5,850	\$ 524	9.8%
Acquired operations	551	2,754	2,203	*
Total gross profit ..	\$ 5,877	\$ 8,604	\$ 2,727	46.4%

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1999.

	SIX MONTHS ENDED JUNE 30,		CHANGE	
	1998	1999	AMOUNT	PERCENT
(DOLLARS IN THOUSANDS)				
Net revenues:				
Existing operations	\$41,098	\$43,820	\$ 2,722	6.6%
Acquired operations	2,515	20,508	17,993	*
Total net revenues ..	\$43,613	\$64,328	\$20,715	47.5%
Gross profit:				
Existing operations	\$12,085	\$13,632	\$ 1,547	12.8%
Acquired operations	1,202	6,526	5,324	*
Total gross profit ..	\$13,287	\$20,158	\$ 6,871	51.7%

* Not meaningful.

Due to the rapid growth of the Company, existing operations represented 68% of the total funeral revenues and the total funeral gross profit for the three months ended June 30, 1999, as well as 68% of the total funeral revenues and the total funeral gross profit for the six months ended June 30, 1999. Total funeral net revenues for the three months ended June 30, 1999 increased \$10.4 million or 51.3% over the three months ended June 30, 1998. The higher net revenues reflect an increase of \$8.8 million in net revenues from acquired operations and an increase in net revenues of \$1.7 million from existing operations. Total funeral net revenues for the six months ended June 30, 1999 increased \$20.7 million or 47.5% over the six months ended June 30, 1998. The higher net revenues reflect an increase of \$18 million in net revenues from acquired operations and an increase in net revenues of \$2.7 million from existing operations.

Total funeral gross profit for the three months ended June 30, 1999 increased \$2.7 million or 46.4% over the comparable three months of 1998. The higher total gross profit reflected an increase of \$2.2 million from acquired operations and an increase of \$ 0.5 million from existing operations. Total funeral gross profit for the six months ended June 30, 1999 increased \$6.9 million or 51.7% over the comparable six months of 1998. The higher total gross profit reflected an increase of \$5.3 million from acquired

operations and an increase of \$1.5 million from existing operations. Gross profit for existing operations increased for both periods due to the efficiencies gained by consolidation, cost savings, improved collections experience and the increasing effectiveness of the Company's training initiatives. Total gross margin decreased from 28.9% for the second quarter of 1998 to 27.9% for the second quarter of 1999 and increased from 30.5% for the first six months of 1998 to 31.3% for the first six months of 1999.

CEMETERY SEGMENT. The following table sets forth certain information regarding the net revenues and gross profit of the Company from its cemetery operations for the three and six months ended June 30, 1998 compared to the three and six months ended June 30, 1999.

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THREE MONTHS ENDED JUNE 30, 1999.

	THREE MONTHS ENDED JUNE 30,		CHANGE	
	1998	1999	AMOUNT	PERCENT
(DOLLARS IN THOUSANDS)				
Net revenues:				
Existing operations	\$4,844	\$ 5,608	\$ 764	15.8%
Acquired operations	--	6,047	6,047	*
Total net revenues ...	\$4,844	\$11,655	\$ 6,811	140.6%
Gross profit:				
Existing operations	\$1,121	\$ 1,327	\$ 206	18.4%
Acquired operations	--	1,779	1,779	*
Total gross profit ..	\$1,121	\$ 3,106	\$ 1,985	177.1%

- - - - -
* Not meaningful.

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1999.

	SIX MONTHS ENDED JUNE 30,		CHANGE	
	1998	1999	AMOUNT	PERCENT
(DOLLARS IN THOUSANDS)				
Net revenues:				
Existing operations	\$9,425	\$10,298	\$ 873	9.3%
Acquired operations	294	9,715	9,421	*
Total net revenues ..	\$9,719	\$20,013	\$ 10,294	105.9%
Gross profit:				
Existing operations	\$2,421	\$ 2,413	\$ (8)	(0.3)%
Acquired operations	77	2,722	2,645	*
Total gross profit ..	\$2,498	\$ 5,135	\$ 2,637	105.6%

- - - - -
* Not meaningful.

Due to the acquisition of relatively significant cemetery properties during the third quarter of 1998 and at the end of the first quarter of 1999, existing operations represented only 48% of cemetery revenues and only 43% of cemetery gross profit for the three months ended June 30, 1999 and only 51% of cemetery revenues and 47% of cemetery gross profit for the six months ended June 30, 1999.

Total cemetery net revenues for the three months ended June 30, 1999 increased \$6.8 million over the three months ended June 30, 1998 and total cemetery gross profit increased \$2.0 million over the comparable three months of 1998. The higher net revenues reflect an increase of \$6.0 million in net revenues from acquired operations and an increase of \$0.8 million in revenues from existing operations. Total cemetery net revenues for the six months ended June 30, 1999 increased \$10.3 million over the six months ended June 30, 1998, and total cemetery gross profit increased \$2.6 million over the comparable six months of 1998. Total gross margin increased from 23.1% for the three months ended June 30, 1998 to 26.6% for the three months ended June 30, 1999. These increases were due primarily to the Company's recently acquired cemeteries, as well as increased preneed marketing efforts. Total gross margin remained constant at 25.7% for the six months ended June 30, 1999 and for the six months ended June 30, 1998.

OTHER.

General and administrative expenses for the six months ended June 30, 1999 increased \$1.1 million or 30.2% over the first six months of 1998 due primarily to the increased personnel expense necessary to support the Company's growth and acquisition activity. However, as a percentage of net revenues, these expenses decreased from 6.8% for the six months ended June 30, 1998, to 5.6% for the six months ended June 30, 1999, as the expenses were spread over a larger volume of revenue.

Interest expense and other financing costs for the six months ended June 30, 1999, increased \$3.3 million over the first six months of 1998, principally due to increased borrowings for acquisitions.

Preferred stock dividends of \$56,000 were subtracted from the \$7.3 million of net income in computing the net income available to common stockholders of \$7.2 million for the six months ended June 30, 1999. The reduction in preferred stock dividends from 1998 to 1999 was due to conversions of the preferred stock to common stock.

For the six months ended June 30, 1999, the Company provided for income taxes on income before income taxes at a combined state and federal rate of 43% compared with 44.5% for the same period in 1998.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled \$3.9 million at June 30, 1999, representing an increase of \$1.1 million from December 31, 1998. For the six months ended June 30, 1999, cash provided by operations was \$6.9 million as compared to cash provided by operations of \$4.3 million for the six months ended June 30, 1998. The increase in net cash provided by operating activities was principally due to the increases in net income as adjusted for non-cash charges, which was partially offset by a net increase in the working capital accounts. The net increase in the working capital accounts was primarily related to working capital requirements of recent acquisitions. Cash used in investing activities was \$41.3 million for the six months ended June 30, 1999 compared to \$33.0 million for the first six months of 1998, due primarily to an increase in amounts paid in connection with acquisitions.

In the first six months of 1999, cash flow provided by financing activities amounted to approximately \$35.5 million, primarily due to the net proceeds generated from the Company's sale of mandatorily redeemable convertible preferred securities and repayments of long-term debt, during the second quarter of 1999. On June 3, 1999, the Company's subsidiary, Carriage Services Capital Trust, completed the sale of 1,875,000 units of 7% convertible preferred securities, resulting in approximately \$90 million in net proceeds to the Company, of which \$77.4 million was used to repay outstanding indebtedness under the

Company's credit facility, with the remaining \$12.6 million used general corporate purposes. The convertible preferred securities have a liquidation amount of \$50 per unit, are convertible into the Company's Class A Common Stock at the equivalent conversion price of \$20.4375 per share of Class A Common Stock, mature in 2029, and are guaranteed, on a subordinated basis, by the Company. Distributions are payable quarterly, but may be deferred at the Company's option.

Historically, the Company has financed its acquisitions with proceeds from debt and the issuance of common and preferred stock. As of June 30, 1998, the Company had 1,682,500 shares of Series D Preferred Stock issued and outstanding. The Series D Preferred Stock is convertible into Class B Common Stock. The holders of Series D Preferred Stock are entitled to receive cash dividends at an annual rate of \$.06-\$.07 per share depending upon the date such shares were issued. The Company may, at its option, redeem all or any portion of the shares of Series D Preferred Stock outstanding at a redemption price of \$1.00 per share, together with all accrued and unpaid dividends. Such redemption is subject to the right of each holder of Series D Preferred Stock to convert such holder's shares into shares of Class B Common Stock. On December 31, 2001, the Company must redeem all shares of Series D Preferred Stock then outstanding at a redemption price of \$1.00 per share, together with all accrued and unpaid dividends. During the six months ended June 30, 1999, holders of Series D Preferred Stock converted a total of 500,000 shares into 35,238 shares of Class B Common Stock, and then converted those Class B shares into 35,238 shares of Class A Common Stock

As of June 30, 1998, the Company had 12,278,285 shares of Series F Preferred Stock issued and outstanding. The Series F Preferred Stock paid cash dividends at the annual rate of \$.042 per share. On December 31, 1998, all of the Series F Preferred Stock was converted into an aggregate of 722,250 shares of Class A Common Stock at the exercise price of \$17 per share.

As of June 30, 1998, the Company had a credit facility with a group of banks for a \$150 million revolving line of credit. During September 1998, the Company increased the bank credit facility to \$225 million. During June 1999, the Company entered into a new credit facility for a \$250 million revolving line of credit. The credit facility has a five year term, is unsecured and contains customary restrictive covenants, including a restriction on the payment of dividends on common stock, and requires the Company to maintain certain financial ratios. Interest under the credit facility is provided at both LIBOR and prime rate options. The Company has the ability under the credit facility to increase its total debt outstanding to as much as 60 percent of its total capitalization. As of June 30, 1999, \$140.5 million was outstanding under the credit facility and the Company's debt to total capitalization was 36 percent.

The Company expects to continue to aggressively pursue additional acquisitions of funeral homes and cemeteries to take advantage of the trend toward consolidation occurring in the industry which will require significant levels of funding from various sources. During the six months ended June 30, 1999, the Company incurred approximately \$9.4 million in capital expenditures, primarily related to funeral home improvements. In addition, the Company currently expects to incur capitalizable costs in the range of \$5 million to \$7 million during the second half of 1999 related to upgrading funeral home facilities. The Company believes that cash flow from operations, borrowings under the new credit facility and its ability to issue additional debt and equity securities should be sufficient to fund acquisitions and its anticipated capital expenditures and other operating requirements. In March 1997, the Company filed a shelf registration statement relating to 2,000,000 shares of Class A Common Stock to be used to fund acquisitions of which approximately 1,057,000 shares remain available at June 30, 1999. The Company has recently revised its estimate for acquisition spending for 1999 from \$155 million to \$115 million. As of July 30, 1999, the Company has spent \$33 million and has signed non-binding letters of intent for acquisitions totaling \$13 million. Because future cash flows and the availability of financing are subject to a number of variables, such as the number and size of acquisitions made by the Company, there can be

no assurance that the Company's capital resources will be sufficient to fund its capital needs. Additional debt and equity financings may be required to continue the Company's acquisition program. The availability and terms of these capital sources will depend on prevailing market conditions and interest rates and the then-existing financial condition of the Company.

SEASONALITY

The Company's business can be affected by seasonal fluctuations in the death rate. Generally, death rates are higher during the winter months. In addition the quarterly results of the Company may fluctuate depending on the magnitude and timing of acquisitions.

INFLATION

Inflation has not had a significant impact on the results of operations of the Company.

YEAR 2000

Our information systems management group is continually reviewing the management and accounting software packages for internal accounting and information requirements to keep pace with our continued growth and to achieve Year 2000 compliance. To address the Year 2000 issue, our program which encompasses performing an inventory of our information technology and non-information technology systems, assessing the potential problem areas, testing the systems for year 2000 readiness, and modifying systems that are not Year 2000 ready.

To date, inventory and assessment have been completed for all of our core systems that are essential for business operations. All of these core systems are believed to be Year 2000 compliant except for a portion of the record-keeping system for certain cemetery operations, for which the modifications have been completed, tested and certified as Year 2000 compliant. As of June 30, 1999, management estimated that we had completed more than ninety percent of the work involved in modifying, replacing and testing the non-compliant hardware and software. The inventory and assessment phases for newly acquired businesses is performed during the acquisition process as part of our due diligence analysis.

We are also communicating with vendors, trustees and other third parties with which we conduct business to determine the extent to which those companies are addressing their Year 2000 compliance. To date, no significant third parties have informed us that any Year 2000 issue exists which will have a material effect on us.

Although we expect to be ready to continue our business activities without interruption by a Year 2000 problem, we recognize the general uncertainty inherent in the Year 2000 issue, in part because of the uncertainty about the Year 2000 readiness of third parties. Under a "most likely worst case Year 2000 scenario," it may be necessary for us to replace some suppliers, rearrange some work plans or even temporarily interrupt some normal business activities or operations. We believe that such circumstances would be isolated and would not result in a material adverse impact to our operations or pose a material financial risk to us. We have begun, but not yet completed, developing a contingency plan to deal with the "most likely worst case Year 2000 scenario." The contingency plan is expected to be completed during the third quarter of 1999.

Based on the current assessment, our total costs of becoming Year 2000 compliant are not expected to be significant to our financial position, results of operations or cash flows. As of June 30, 1999, we have

spent approximately \$70,000 related to Year 2000 compliance. The total remaining costs for addressing the Year 2000 issue are presently estimated to be less than \$80,000.

The estimated costs of the projects are forward-looking statements based on our best estimates, which were derived utilizing numerous assumptions of future events. While we believe all necessary work will be completed in a timely fashion, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated. Some of the factors that might cause such material differences include failure by third parties to adequately solve Year 2000 problems, the cooperation of third parties and the ability to identify and correct potential problems.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISK

There has been no material change in the Company's position regarding quantitative and qualitative disclosures of market risk from that disclosed in the Company's 1998 Form 10-K.

PART II -- OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's 1999 annual meeting of shareholders was held on May 11, 1999. All director nominees were elected. The voting tabulation was as follows:

NAME OF NOMINEE	NUMBER OF VOTES FOR	NUMBER OF VOTES WITHHELD
Stuart W. Stedman	43,398,361	103,498
Ronald A. Erickson	43,391,124	110,735
Mark F. Wilson	43,398,361	103,498

The terms of the following other directors continue after the meeting: Mark W. Duffey, Barry K. Fingerhut, Greg M. Brudnicki, Melvin C. Payne, Robert D. Larrabee, and C. Byron Snyder.

Other matters voted upon at the meeting were as follows:

	NUMBER OF VOTES FOR	NUMBER OF VOTES AGAINST	NUMBER OF VOTES ABSTAINING
Amendment to 1995 Stock Incentive Plan ...	38,549,176	2,525,104	185,937
Amendment to 1996 Stock Option Plan	39,840,394	1,217,240	202,683
Amendments to 1996 Directors' Stock Option Plan	39,943,685	906,847	409,685
Selection of Arthur Andersen LLP as auditors for 1999	43,460,705	2,636	38,518

ITEM 5. OTHER INFORMATION

FORWARD-LOOKING STATEMENTS

Certain statements made herein or elsewhere by, or on behalf of, the Company that are not historical facts are intended to be forward-looking statements within the meaning of 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 could cause the Company's actual results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by, or on behalf of, the Company.

CAUTIONARY STATEMENTS

The Company cautions readers that the following important factors, among others, in some cases have affected, and in the future could affect, the Company's actual consolidated results and could cause the Company's actual consolidated results in the future to differ materially from the goals and expectations expressed herein and in any other forward-looking statements made by or on behalf of the Company.

(1) Achieving revenue growth depends in part upon sustaining the level of acquisition activity experienced by the Company in the last three fiscal years. Higher levels of acquisition activity will

increase anticipated revenues, and lower levels will decrease anticipated revenues. The level of acquisition activity depends not only on the number of properties acquired, but also on the size of the acquisitions; for example, one large acquisition could increase substantially the level of acquisition activity and, consequently, revenues. Several important factors, among others, affect the Company's ability to consummate acquisitions:

- (a) The Company may be unable to find a sufficient number of businesses for sale at prices that are favorable to the Company and the Company is willing to pay.
- (b) In most of its existing markets and in certain new markets that the Company desires to enter, the Company competes for acquisitions with other publicly-traded and privately owned death care firms. These competitors, and others, may be willing to pay higher prices for businesses than the Company or may cause the Company to pay more to acquire a business than the Company would otherwise have pay in the absence of such competition. Thus, the aggressiveness of the Company's competitors in pricing acquisitions affects the Company's ability to complete acquisitions at prices it finds attractive.

(2) Achieving the Company's revenue goals also is affected by the volume and prices of the properties, products and services sold. The annual sales targets set by the Company are aggressive, and the inability of the Company to achieve planned increases in volume or prices could cause the Company not to meet anticipated levels of revenue. The ability of the Company to achieve volume or price increases at any location depends on numerous factors, including the local economy, the local death rate and competition.

(3) Future revenue also is affected by the level of prearranged sales in prior periods. The level of prearranged sales may be adversely affected by numerous factors, including deterioration in the economy, which causes individual to have less discretionary income.

(4) In addition to the factors discussed above, earnings per share may be affected by other important factors, including the following:

- (a) The ability of the Company to successfully integrate acquisitions into the Company's business and to realize expected revenue projections and cost savings in connection with the acquisitions.
- (b) Whether acquired businesses perform at pro forma levels used by management in the valuation process and whether, and the rate at which management is able to increase the profitability of acquired businesses.
- (c) The ability of the Company to manage its growth in terms of implementing internal controls and information gathering systems, and retaining or attracting key personnel, among other things.
- (d) The amount and rate of growth in the Company's general and administrative expenses.
- (e) Changes in interest rates, which can increase or decrease the amount the Company pays on borrowings with variable rates of interest.
- (f) The Company's debt-to-equity ratio, the number of shares of common stock outstanding and the portion of the Company's debt that has fixed or variable interest rates.
- (g) The impact on the Company's financial statements of nonrecurring accounting charges that may result from the Company's ongoing evaluation of its business strategies, asset valuations and organizational structures.
- (h) Changes in government regulation, including tax rates and their effects on corporate structure.
- (i) Changes in inflation and other general economic conditions domestically, affecting financial markets (e.g. marketable security values).

- (j) Unanticipated legal proceedings and unanticipated outcomes of legal proceedings.
- (k) Changes in accounting policies and practices adopted voluntarily or required to be adopted by generally accepted accounting principles, such as amortization periods for long-lived intangible assets.
- (l) The ability of the Company and its significant vendors, financial institutions and insurers to achieve Year 2000 compliance on a timely basis.

The Company also cautions readers that it assumes no obligation to update or publicly release any revisions to forward-looking statements made herein or any other forward-looking statements made by, or on behalf of, the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- *4.1 - Certificate of Elimination of Series F Preferred Stock
- +4.2 - Certificate of Trust of Carriage Services Capital Trust. (4.6)
- +4.3 - Amended and Restated Declaration of Trust of Carriage Services Capital Trust, dated as of June 3, 1999, among Carriage Services, Inc. as Sponsor, Wilmington Trust Company as Property Trustee, Wilmington Trust Company as Delaware Trustee, and Mark W. Duffey, Thomas C. Livengood and Terry E. Sanford as Administrative Trustees. (4.7)
- +4.4 - Indenture for the Convertible Junior Subordinated Debentures due 2029, dated as of June 3, 1999, amount Carriage Services, Inc. as Issuer, and Wilmington Trust Company as Indenture Trustee. (4.8)
- +4.5 - Form of Carriage Services Capital Trust 7% Convertible Preferred Securities. (4.10)
- +4.6 - Form of Carriage Services, Inc., Convertible Junior Subordinated Debentures due 2029. (4.11)
- +4.7 - Preferred Securities Guarantee, dated as of June 3, 1999, between Carriage Services Inc., As Guarantor, and Wilmington Trust Company as Guarantee Trustee. (4.12)
- +4.8 - Common Securities Guarantee, dated as of June 3, 1999, by Carriage Services, Inc. as Guarantor. (4.13)
- +4.9 - Amendment No.1 to Amended and Restated Declaration of Trust of Carriage Services Capital Trust. (4.14)
- *10.1 - Credit Agreement by and among the Company and Bank of America dated June 14, 1999
- +10.2 - Registration Rights Agreement, dated June 3, 1999, by and among Carriage Services Capital Trust, Carriage Services, Inc., and Credit Suisse First Boston Corporation. (10.1)
- *11.1 - Statement regarding computation of per share earnings.
- *12 - Calculation of Ratio of Earnings to Fixed Charges
- *27.1 - Financial Data Schedule.

(*) Filed herewith.

(+) Incorporated by reference to the Exhibit number shown in parentheses to the registrant's Form S-3 Registration Statement No. 333-84141.

(b) Reports on Form 8-K

- 1) The Company filed a Form 8-K on June 1, 1999, reporting, under "Item 5. Other Events," the news release dated June 1, 1999 announcing the sale of convertible preferred securities.
- 2) The Company filed a Form 8-K/A on June 11, 1999 with respect to its acquisition of all the operating assets of nine cemeteries and five funeral homes from Service Corporation International, Inc. on March 30, 1999.

SIGNATURE

Pursuant to the requirements 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.

CARRIAGE SERVICES, INC.

[AUGUST 13, 1999]

/s/ Thomas C. Livengood

Date

Thomas C. Livengood,
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and
Duly Authorized Officer)

CERTIFICATE OF ELIMINATION

OF

SERIES F PREFERRED STOCK

OF

CARRIAGE SERVICES, INC.

* * * * *

Pursuant to Section 151 of the General Corporation Law of the State of Delaware, CARRIAGE SERVICES, INC., a corporation organized and existing under the General Corporation Law of the State of Delaware (herein referred to as the "Corporation"), DOES HEREBY CERTIFY:

That pursuant to authority granted to the Board of Directors of the Corporation by the Amended and Restated Certificate of Incorporation of the Corporation, and pursuant to the provisions of Section 151 of the General Corporation Law of the State of Delaware, such Board of Directors at a meeting duly held on May 11, 1999, adopted a resolution providing for the elimination of a designation of a series of preferred stock of the Corporation, which resolution is as follows:

WHEREAS, the Corporation has previously established and designated a series of Preferred Stock, \$.01 par value, designated as its Series F Preferred Stock ("Series F Preferred Stock"), originally consisting of up to 20,000,000 shares, pursuant to the Certificate of Designation, Preferences, Rights and Limitations filed with the Secretary of State of Delaware on November 6, 1996, as amended on December 17, 1996 and May 9, 1997 (as so amended and restated, the "Series F Certificate of Designation"); and

WHEREAS, no such shares of Series F Preferred Stock are currently issued or outstanding, and none will be issued;

NOW, THEREFORE, BE IT RESOLVED, that no shares of Series F Preferred Stock are issued or outstanding, and none will be issued, and therefore pursuant to the authority expressly granted and vested in the Board of Directors of the Corporation in accordance with the provisions of the Amended and Restated Certificate of Incorporation of the Corporation and Section 151(g) of the General Corporation Law of the State of Delaware, the Series F Certificate of Designation is hereby withdrawn and eliminated.

IN WITNESS WHEREOF, CARRIAGE SERVICES, INC. has caused this Certificate of Elimination to be signed by Melvin C. Payne, its Chairman of the Board and Chief Executive Officer, as of the 19th day of July, 1999.

CARRIAGE SERVICES, INC.

BY: /s/ Melvin C. Payne

MELVIN C. PAYNE, Chairman of the Board
and Chief Executive Officer

\$250,000,000

CREDIT AGREEMENT

Dated as of June 14, 1999

Among

CARRIAGE SERVICES, INC.
AS BORROWER,

THE LENDERS NAMED IN THIS CREDIT AGREEMENT
AS LENDERS,

NATIONSBANK, N.A. d/b/a BANK OF AMERICA, N.A.
AS ADMINISTRATIVE AGENT,

BANC OF AMERICA SECURITIES LLC
AS LEAD ARRANGER AND BOOK MANAGER,

PROVIDENT SERVICES, INC.
AS SYNDICATION AGENT,

BANK ONE, TEXAS, N.A.
AS DOCUMENTATION AGENT, and

CHASE BANK TEXAS, N.A.
AS CO-AGENT

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EXHIBITS:

- Exhibit A - Form of Assignment and Acceptance
- Exhibit B - Form of Guaranty
- Exhibit C - Form of Note
- Exhibit D - Form of Notice of Borrowing
- Exhibit E - Form of Notice of Conversion or Continuation
- Exhibit F - Form of NationsBank Letter of Credit Application
- Exhibit G - Form of Borrower's and Subsidiaries' Counsel Opinion
- Exhibit H - Form of Compliance Certificate
- Exhibit I - Form of Joinder Agreement

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- Schedule 1 - Notice Information for Lenders
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CREDIT AGREEMENT

This Credit Agreement dated as of June 14, 1999 is among Carriage Services, Inc., a Delaware corporation (the "Borrower"), the Lenders (as defined below), and NationsBank, N.A. d/b/a Bank of America, N.A., as Administrative Agent for the Lenders, and has been arranged by Banc of America Securities LLC, as lead arranger and book manager.

The Borrower, the Lenders, and the Administrative Agent agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.01. CERTAIN DEFINED TERMS. As used in this Agreement, the term "Borrower" shall have the meaning set forth above and the following terms shall have the following meanings (unless otherwise indicated, such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"ACQUISITION" means the direct or indirect acquisition, whether in one or more related transactions and whether by purchase, assignment, merger, consolidation, share exchange, or other acquisition transaction, of any Person, any group of Persons, or any related group of assets, liabilities, or securities of any Person or any group of Persons.

"ADJUSTED BASE RATE" means, for any day, the fluctuating rate per annum of interest equal to the greater of (a) the Base Rate in effect on such day or (b) the Federal Funds Rate in effect on such day plus 1/2%.

"ADMINISTRATIVE AGENT" means NationsBank, N.A. d/b/a Bank of America, N.A., in its capacity as agent pursuant to Article VIII, and includes any successor agent pursuant to Section 8.06.

"ADVANCE" means any advance (other than an advance by the Swing Line Lender under the line of credit created by the Swing Line Note) by a Lender to the Borrower as part of a Borrowing and refers to a Base Rate Advance or a Eurodollar Rate Advance.

"AFFILIATE" means, as to any Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person, or any Subsidiary of such Person. The term "control" (including the terms "controlled by" or "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of a Control Percentage, by contract or otherwise.

"AGREEMENT" means this Credit Agreement dated as of June 14, 1999 among the Borrower,

the Lenders, and the Administrative Agent, as it may be amended, restated, modified or supplemented from time-to-time.

"APPLICABLE LENDING OFFICE" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance and such Lender's Eurodollar Lending Office in the case of a Eurodollar Rate Advance.

"APPLICABLE MARGIN" means, at any time, the following percentages applicable during the periods described below determined as a function of the ratio of the Borrower's (a) Total Funded Debt (excluding the Trust Notes) to (b) Total Capital as of the last day of the immediately preceding fiscal quarter as follows:

	RATIO LESS THAN 30%	RATIO EQUAL TO OR GREATER THAN 30% BUT LESS THAN 40%	RATIO EQUAL TO OR GREATER THAN 40% BUT LESS THAN 50%	RATIO EQUAL TO OR GREATER THAN 50% BUT LESS THAN 55%	RATIO GREATER THAN OR EQUAL TO 55%
Eurodollar Rate Advance	1.000%	1.250%	1.500%	1.750%	2.000%
Base Rate Advance	0.000%	0.000%	0.000%	0.250%	0.500%
Commitment Fee	0.250%	0.250%	0.300%	0.375%	0.500%

The foregoing ratio shall be deemed to be equal to or greater than 30%, but less than 40% from the date of this Agreement until redetermination by the Administrative Agent. The Administrative Agent shall thereafter calculate the foregoing ratio and the resulting Applicable Margin based upon the most recent financial statements dated as of the end of a fiscal quarter delivered to the Administrative Agent pursuant to Section 5.06(c). Any adjustments to the Applicable Margin shall become effective on the first day of the month following the month during which such financial statements are required to be delivered to the Administrative Agent, but not before, provided, however, that if such financial statements are not delivered when required hereunder, the foregoing ratio shall be deemed to be greater than 55% and the Applicable Margin shall increase to the maximum percentage amount set forth in the table above from the date when such financial statements are due until three days after the date such financial statements are actually delivered, when the Administrative Agent shall recalculate the foregoing ratio, based upon such delivered financial statements, and the resulting Applicable Margin and the same shall become effective.

"ASSIGNMENT AND ACCEPTANCE" means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Administrative Agent, in substantially the form of the attached Exhibit A.

"BANK" means any Lender that is subject to regulation by the Federal Reserve Board of the United States or the equivalent Governmental Authority of any Lender organized in any jurisdiction outside the United States.

"BASE RATE" means a fluctuating interest rate per annum as shall be in effect from time-to-time equal to the rate of interest publicly announced by NationsBank as its prime, whether or not the Borrower has notice thereof.

"BASE RATE ADVANCE" means an Advance which bears interest as provided in Section 2.07(a).

"BORROWING" means a borrowing consisting of simultaneous Advances of the same Type made by each Lender pursuant to the revolving credit facility created in Section 2.01 or Converted by each Lender to Advances of a different Type pursuant to Section 2.02(b).

"BUSINESS DAY" means any Monday through Friday during which commercial banks are open for business in Houston, Texas, and Dallas, Texas, and, if the applicable Business Day relates to any Eurodollar Rate Advances, a day of the year on which dealings in U.S. Dollars are carried on in the London interbank market.

"CAPITAL LEASES" means, as applied to any Person, any lease of any Property by such Person as lessee which would, in accordance with GAAP, be required to be classified and accounted for as a capital lease on the balance sheet of such Person.

"CASH COLLATERAL ACCOUNT" means a special interest bearing cash collateral account containing cash deposited pursuant to Sections 2.14(a), 7.02(b) or 7.03(b) to be maintained at the Administrative Agent's office in accordance with Section 7.04.

"CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, state and local analogs, and all rules and regulations and requirements thereunder in each case as now or hereafter in effect.

"CODE" means the Internal Revenue Code of 1986, as amended, and any successor statute.

"COMMITMENT" as to any Lender, has the meaning set forth in Section 2.01.

"COMMON STOCK" means the shares from time to time issued and outstanding of any class or classes of Common Stock, \$.01 par value per share, of the Borrower.

"COMPLIANCE CERTIFICATE" means a Compliance Certificate in the form of the attached Exhibit H.

"CONTROL PERCENTAGE" means, with respect to any Person, the percentage of the outstanding capital stock of such Person having ordinary voting power which gives the direct or indirect holder of such stock the power to elect a majority of the Board of Directors of such Person.

"CONTROLLED GROUP" means all members of a controlled group of corporations filing a consolidated federal income tax return with the Borrower.

"CONVERT", "CONVERSION", and "CONVERTED" each refers to a conversion of Advances of one Type into Advances of another Type pursuant to Section 2.02(b).

"CORE ACQUISITION" means any Acquisition of a funeral home, cemetery, or related business.

"CREDIT DOCUMENTS" means this Agreement, the Notes, the Swing Line Note, the Guaranty, and each other agreement, instrument or document executed at any time in connection with this Agreement.

"DEBT," for any Person, means without duplication (a) indebtedness of such Person for borrowed money, including, without limitation, obligations under letters of credit and agreements relating to the issuance of letters of credit or acceptance financing; (b) obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (c) obligations of such Person to pay the deferred purchase price of Property or services (other than trade obligations incurred in the ordinary course of business) including (without limitation) Deferred Purchase Price; (d) obligations of such Person as lessee under Capital Leases; (e) obligations of such Person under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) of such Person to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in the immediately preceding clauses (a) through (d) above; (f) indebtedness or obligations of others of the kinds referred to in clauses (a) through (e) secured by any Lien on or in respect of any Property of such Person, up to (but not exceeding) the value of such Property; (g) all liabilities of such Person in respect of unfunded vested benefits under any Plan; and (h) Pre-need Obligations, except to the extent that Pre-need Obligations are trusted or covered by insurance.

"DEFAULT" means (a) an Event of Default or (b) any event or condition which with notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"DEFERRED PURCHASE PRICE" means any purchase price or other consideration, including payments under agreements not to compete, payable to the sellers in an Acquisition (whether consummated before or after the date of this Agreement) after consummation of such Acquisition, whether evidenced by notes, debentures or the contractual promise to pay on a deferred basis.

"DOLLAR EQUIVALENT" means for all purposes of this Agreement, the equivalent in another currency of an amount in Dollars to be determined by reference to the rate of exchange quoted by NationsBank, at 10:00 a.m. (Houston, Texas time) on the date of determination, for the spot purchase in the foreign exchange market of such amount of Dollars with such other currency.

"DOLLARS" and "\$" means lawful money of the United States of America.

"DOMESTIC LENDING OFFICE" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule 1 or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Administrative Agent.

"EBITDA" means, with respect to the Borrower and for any period of determination, (a) Net Income for such period PLUS (b) to the extent deducted in determining Net Income, without duplication, Interest Expense, income taxes and other taxes measured by Net Income, depreciation and amortization and payments by the Borrower in respect of Deferred Purchase Price, in each case, for such period.

"ELIGIBLE ASSIGNEE" means (a) a commercial bank organized under the laws of the United States, or any State thereof, and having primary capital of not less than \$500,000,000 and approved by the Administrative Agent and, so long as no Default exists, the Borrower, which approval by the Administrative Agent and the Borrower will not be unreasonably withheld; (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development and having primary capital (or its equivalent) of not less than \$500,000,000 (or its Dollar Equivalent) and approved by the Administrative Agent and, so long as no Default exists, the Borrower, which approval by the Administrative Agent and the Borrower will not be unreasonably withheld; and (c) Provident or Southwest Bank of Texas, N.A., in each case, if approved by the Administrative Agent, and so long as no Default exists, the Borrower, which approval by the Administrative Agent and the Borrower shall not be unreasonably withheld.

"ENVIRONMENT" or "ENVIRONMENTAL" shall have the meanings set forth in 42 U.S.C. ss. 9601(8) (1988).

"ENVIRONMENTAL CLAIM" means any action, lawsuit, claim, demand, regulatory action or proceeding, order, decree, consent agreement or notice of potential or actual responsibility or violation (including claims or proceedings under the Occupational Safety and Health Acts or similar laws or requirements relating to health or safety of employees) brought by a Governmental Authority which seeks to impose a material liability under any Environmental Law.

"ENVIRONMENTAL LAW" means all Legal Requirements arising from, relating to, or in connection with the Environment, health, or safety, including without limitation CERCLA, relating to (a) pollution, contamination, injury, destruction, loss, protection, cleanup, reclamation or restoration of the air, surface water, groundwater, land surface or subsurface strata, or other natural resources; (b) solid, gaseous or liquid waste generation, treatment, processing, recycling, reclamation, cleanup, storage, disposal or transportation; (c) exposure to pollutants, contaminants, hazardous, medical, infectious, or toxic substances, materials or wastes; (d) the safety or health of

employees; or (e) the manufacture, processing, handling, transportation, distribution in commerce, use, storage or disposal of hazardous, medical, infectious, or toxic substances, materials or wastes.

"ENVIRONMENTAL PERMIT" means any permit, license, order, approval or other authorization under Environmental Law material to the Business of the Borrower.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time-to-time.

"EUROCURRENCY LIABILITIES" has the meaning assigned to that term in Regulation D of the Federal Reserve Board (or any successor), as in effect from time to time.

"EURODOLLAR LENDING OFFICE" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule 1 (or, if no such office is specified, its Domestic Lending Office) or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Administrative Agent.

"EURODOLLAR RATE" means, for any Eurodollar Rate Advance for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period. If for any reason such rate is not available, the term "Eurodollar Rate" shall mean, for any Eurodollar Rate Advance for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Reuters Screen LIBO Page (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period; PROVIDED, HOWEVER, if more than one rate is specified on Reuters Screen LIBO Page (or any successor page), the applicable rate shall be the arithmetic mean of all such rates.

"EURODOLLAR RATE ADVANCE" means an Advance which bears interest as provided in Section 2.07(b).

"EURODOLLAR RATE RESERVE PERCENTAGE" of any Lender for the Interest Period for any Eurodollar Rate Advance means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time-to-time by the Federal Reserve Board (or other similar Governmental Authority) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"EVENT OF DEFAULT" has the meaning specified in Section 7.01.

"EXCLUDED CAPITAL STOCK" means, with respect to the Borrower, any class of capital stock that is subject to mandatory dividend accrual or payment or mandatory redemption, repurchase, repayment, refunding, or similar provisions or arrangements, including preferred stock to the extent it does not constitute Qualified Preferred Stock.

"EXISTING CREDIT AGREEMENT" has the meaning specified in Section 9.14.

"EXISTING PREFERRED STOCK" means the preferred stock of the Borrower which is outstanding on the date of this Agreement and listed on Schedule 2.

"EXPIRATION DATE" means, with respect to any Letter of Credit, the date on which such Letter of Credit will expire or terminate in accordance with its terms.

"FEDERAL FUNDS RATE" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for any such day on such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"FEDERAL RESERVE BOARD" means the Board of Governors of the Federal Reserve System or any of its successors.

"FINANCIAL OFFICER" means the Borrower's Chief Financial Officer, Controller, Treasurer, or Assistant Treasurer.

"FIXED CHARGE COVERAGE RATIO" means, with respect to the Borrower and for any period of determination, the ratio of (i) EBITDA for such period MINUS the Borrower's cash taxes paid during such period to (ii) the sum of (A) Interest Expense during such period, PLUS (B) scheduled and required principal payments during such period in respect of Total Funded Debt PLUS, (C) to the extent not included in clause (A) or (B) above in this definition, scheduled and required payments made by the Borrower in respect of Deferred Purchase Price for such period.

"FUND," "TRUST FUND," or "SUPERFUND" means the Hazardous Substance Response Trust Fund, established pursuant to 42 U.S.C. ss. 9631 (1988) and the Post-closure Liability Trust Fund, established pursuant to 42 U.S.C. ss. 9641 (1988), which statutory provisions have been amended or repealed by the Superfunds Amendments and Reauthorization Act of 1986, and the "Fund," "Trust Fund," or "Superfund" that are now maintained pursuant to ss. 9507 of the Code.

"GAAP" means United States generally accepted accounting principles as in effect from time-to-time, applied on a basis consistent with the requirements of Section 1.03.

"GOVERNMENTAL AUTHORITY" means any foreign governmental authority, the United States of America, any state of the United States of America and any subdivision of any of the foregoing, and any agency, department, commission, board, authority or instrumentality, bureau or court having jurisdiction over any Lender, the Borrower, or the Borrower's Subsidiaries or any of their respective Properties.

"GUARANTY" means the guaranty in the form of the attached Exhibit B executed by the Subsidiaries of the Borrower, as the same may be amended, restated, modified, or supplemented from time to time.

"HAZARDOUS SUBSTANCE" means the substances identified as such pursuant to CERCLA and those regulated under any other Environmental Law, including without limitation pollutants, contaminants, petroleum, petroleum products, radionuclides, radioactive materials, and medical and infectious waste.

"HAZARDOUS WASTE" means the substances regulated as such pursuant to any Environmental Law.

"HISTORICAL FINANCIAL STATEMENTS" means (i) the consolidated balance sheets of the Borrower and its Subsidiaries at December 31, 1997 and 1998 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended, together with the audit report thereon of Arthur Andersen LLP, and (ii) the unaudited consolidated balance sheet of the Borrower and its Subsidiaries at March 31, 1999, and the related unaudited consolidated statements of operations, changes in stockholders' equity and cash flows for the three-month period then ended.

"INTEREST EXPENSE" means, with respect to the Borrower and for any period of determination, the interest expense of the Borrower for such period, whether paid or accrued (including that attributable to obligations which have been or should be, in accordance with GAAP, recorded as Capital Leases), including, without limitation, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing and net costs under any interest hedge, rate swap, cap, or similar arrangement providing for the exchange of nominal interest obligations or a cap of the interest rates applicable to Debt of the Borrower, all as determined in accordance with GAAP; PROVIDED that interest accruing on the Trust Notes following an interest payment deferral by the Borrower in accordance with the terms thereof shall be excluded from Interest Expense for the duration of such deferral. Interest Expense for a period also includes the aggregate amount of Restricted Payments declared or paid by the Borrower during such period, exclusive of any Restricted Payments with respect to the Trust Preferred Stock to the extent the inclusion thereof would be duplicative with any interest expense attributable to the Trust Notes.

"INTEREST PERIOD" means, for each Eurodollar Rate Advance comprising part of the same Borrowing, the period commencing on the date of such Advance or the date of the Conversion of any Base Rate Advance into such an Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and Section 2.02 and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below and Section 2.02. The duration of each such Interest Period shall be one, two, three, or six months, in each case as the Borrower may, upon notice received by the Administrative Agent not later than 10:00 a.m. (Houston, Texas time) on the third Business Day prior to the first day of such Interest Period, select; PROVIDED, HOWEVER, that:

(a) the Borrower may not select any Interest Period for any Advance which ends after the Maturity Date;

(b) Interest Periods commencing on the same date for Advances comprising part of the same Borrowing shall be of the same duration;

(c) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, PROVIDED that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(d) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month in which it would have ended if there were a numerically corresponding day in such calendar month.

"ISSUING LENDER" means, with respect to all Letters of Credit, NationsBank and any successor issuing Lender pursuant to Section 8.06.

"JOINDER AGREEMENT" means a joinder agreement in the form of the attached Exhibit I executed by any Subsidiary of the Borrower.

"KNOWLEDGE" means, with respect to the Borrower, the actual knowledge of any member of the Borrower's executive officers, and does not include constructive knowledge.

"LEGAL REQUIREMENT" means any law, statute, ordinance, decree, requirement, order, judgment, rule, regulation (or official interpretation of any of the foregoing) of, and the terms of any license or permit issued by, any Governmental Authority, including, but not limited to, Regulations T, U and X.

"LENDERS" means the lenders listed on the signature pages of this Agreement and each Eligible Assignee that shall become a party to this Agreement pursuant to Section 9.06.

"LETTER OF CREDIT" means, individually, any letter of credit issued by the Issuing Lender which is subject to this Agreement, and "LETTERS OF CREDIT" collectively means all such letters of credit.

"LETTER OF CREDIT DOCUMENTS" means, with respect to any Letter of Credit, such Letter of Credit and any agreements, documents, and instruments entered into in connection with or relating to such Letter of Credit.

"LETTER OF CREDIT EXPOSURE" means, at any time, without duplication, the sum of (a) the aggregate undrawn maximum face amount of each Letter of Credit outstanding at such time and (b) the aggregate unpaid amount of all Reimbursement Obligations at such time.

"LETTER OF CREDIT OBLIGATIONS" means any obligations of the Borrower under this Agreement and the Letter of Credit Documents in connection with the Letters of Credit.

"LIEN" means any mortgage, lien, pledge, charge, deed of trust, security interest, or encumbrance to secure or provide for the payment of any obligation of any Person, whether arising by contract, operation of law or otherwise (including, without limitation, the interest of a vendor or lessor under any conditional sale agreement, Capital Lease or other title retention agreement).

"LIQUID INVESTMENTS" means (a) direct or indirect obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States; (b) mutual funds investing in securities issued by the United States, (c) (i) negotiable or nonnegotiable certificates of deposit, time deposits, or other similar banking arrangements maturing within 180 days from the date of acquisition thereof ("bank debt securities"), issued by (A) any Lender or (B) any other bank or trust company which has either (I) obtained insurance from the Federal Depositor's Insurance Corporation supporting such bank's or trust company's obligation to repay the bank debt securities or (II) a combined capital surplus and undivided profit of not less than \$250,000,000 or the Dollar Equivalent thereof, if at the time of deposit or purchase, such bank debt securities are rated not less than "A" (or the then equivalent) by the rating service of Standard & Poor's Corporation or of Moody's Investors Service, Inc., and (ii) commercial paper issued by (A) any Lender or (B) any other Person if at the time of purchase such commercial paper is rated not less than "A-2" (or the then equivalent) by the rating service of Standard & Poor's Corporation or not less than "P-2" (or the then equivalent) by the rating service of Moody's Investors Service, Inc., or upon the discontinuance of both of such services, such other nationally recognized rating service or services, as the case may be, as shall be selected by the Borrower with the consent of the Majority Lenders; (d) repurchase agreements relating to investments described in clauses (a) and (c) above with a market value at least equal to the consideration paid in connection therewith, with any Person who regularly engages in the business of entering into repurchase agreements and has a combined capital surplus and undivided profit of not less than \$250,000,000 or the Dollar Equivalent thereof, if at the time of entering into such agreement the debt securities of such Person are rated not less than "BBB" (or the

then equivalent) by the rating service of Standard & Poor's Corporation or of Moody's Investors Service, Inc.; and (e) such other investments as the Borrower may request and the Administrative Agent may approve in writing, which approval will not be unreasonably withheld.

"MAJORITY LENDERS" means, at any time, Lenders holding at least 51% (without arithmetic rounding up) of the then aggregate unpaid principal amount of the Notes held by the Lenders and the Letter of Credit Exposure of the Lenders at such time, or, if no such principal amount and Letter of Credit Exposure is then outstanding, Lenders having at least 51% (without arithmetic rounding up) of the aggregate amount of the Commitments at such time.

"MATERIAL ADVERSE CHANGE" shall mean (a) a material adverse change in the business, financial condition, or results of operations of the Borrower and its Subsidiaries, taken as a whole, or (b) the occurrence and continuance of any event or circumstance which could reasonably be expected to have a material adverse effect on the Borrower's ability to perform its obligations under this Agreement, any Note or any other Credit Document.

"MATURITY DATE" means the earlier of (a) June 1, 2004, and (b) the earlier termination in whole of the Commitments pursuant to Section 2.05 or Article VII.

"MAXIMUM RATE" means the maximum nonusurious interest rate under applicable law.

"MULTIEMPLOYER PLAN" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which the Borrower or any member of the Controlled Group is making or accruing an obligation to make contributions.

"NATIONSBANK" means NationsBank, N.A. d/b/a Bank of America, N.A.

"NET INCOME" means, with respect to the Borrower and for any period of determination, the net income of the Borrower for such period, as determined in accordance with GAAP, excluding, however, extraordinary items, such as (i) any net gain or loss during such period arising from the sale, exchange, or other disposition of capital assets (such term to include all fixed assets and all securities) other than in the ordinary course of business and (ii) any write-up of assets.

"NET WORTH" means, with respect to the Borrower and for any time of determination, the sum of (a) the par value (or value stated on the books of the Borrower) of all classes of capital stock of the Borrower other than Excluded Capital Stock, (b) the additional paid-in capital of the Borrower allocable to all classes of capital stock of the Borrower other than Excluded Capital Stock, (c) to the extent not already included in (a) or (b), the par value (or value stated on the books of the Trust Subsidiary), and the additional paid-in capital, of the Trust Preferred Stock, and (d) the amount of the surplus and retained earnings, whether capital or earned, of the Borrower, all determined in accordance with GAAP.

"NOTE" means a promissory note of the Borrower (other than the Swing Line Note) payable to the order of a Lender, in substantially the form of the attached Exhibit C, evidencing indebtedness of the Borrower to such Lender resulting from Advances owing to such Lender, as the same may be amended, restated, modified or supplemented from time to time.

"NOTICE OF BORROWING" means a notice of borrowing in the form of the attached Exhibit D signed by a Responsible Officer of the Borrower or the written designee thereof.

"NOTICE OF CONVERSION OR CONTINUATION" means a notice of conversion or continuation in the form of the attached Exhibit E signed by a Responsible Officer of the Borrower or the written designee thereof.

"OBLIGATIONS" means, as of any date, all principal, interest, fees, reimbursements, indemnifications, cash collateral obligations, and other amounts payable or owed by the Borrower to the Administrative Agent and the Lenders under this Agreement, the Notes, the Swing Line Note, the Letter of Credit Documents, and the other Credit Documents and any increases, extensions, and rearrangements of those obligations under any amendments, supplements, and other modifications of the documents and agreements creating those obligations.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"PERMITTED LIENS" means the Liens permitted to exist pursuant to Section 6.01.

"PERSON" means an individual, partnership, corporation (including a business trust), joint stock company, limited liability corporation, limited liability partnership, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof or any trustee, receiver, custodian or similar official.

"PLAN" means an employee benefit plan (other than a Multiemployer Plan) maintained for employees of the Borrower or any member of the Controlled Group and covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code.

"PRE-NEED OBLIGATIONS" means the liabilities and obligations of the Borrower and its Subsidiaries to perform funeral or cemetery related services or provide funeral or cemetery property, merchandise or inventory pursuant to written contracts with their customers.

"PROPERTY" of any Person means any property or assets (whether real, personal, or mixed, tangible or intangible) of such Person.

"PROVIDENT" means Provident Services, Inc., a Delaware corporation.

"PRO RATA SHARE" means, with respect to any Lender, either (a) the ratio (expressed as a percentage) of such Lender's Commitments at such time to the aggregate Commitments at such time or (b) if the Commitments have been terminated, the ratio (expressed as a percentage) of such Lender's aggregate outstanding Advances and Letter of Credit Exposure at such time to the aggregate outstanding Advances and Letter of Credit Exposure of all the Lenders at such time.

"QUALIFIED PREFERRED STOCK" means:

(a) Trust Preferred Stock; and

(b) Redeemable Preferred Stock issued after August 13, 1996, that provides (i) for its mandatory redemption on a date, if at all, that is on or after the first anniversary of the Maturity Date, as the same may be extended from time to time, and (ii) that no holder of such shares will be entitled to retain or receive Restricted Payments in respect of such shares for a period of not less than 180 days after receipt by such holder of written notice from any Lender or the Borrower that an Event of Default hereunder has occurred and is then continuing and that such payments should be blocked, and indefinitely, for so long as there shall exist any default in the payment of any Obligations, whether by maturity, acceleration, or otherwise, all such provisions to be in form and content reasonably acceptable to the Administrative Agent.

"REDEEMABLE PREFERRED STOCK" means shares of Borrower's preferred stock which by its terms requires or permits Borrower to redeem such shares.

"REGISTER" has the meaning set forth in paragraph (c) of Section 9.06.

"REGULATIONS T, U AND X" mean Regulations T, U and X of the Federal Reserve Board, as the same is from time-to-time in effect, and all official rulings and interpretations thereunder or thereof.

"REIMBURSEMENT OBLIGATIONS" means all of the obligations of the Borrower set forth in paragraph (c) of Section 2.14.

"RELEASE" shall have the meaning set forth in CERCLA or under any other Environmental Law.

"RESPONSE" shall have the meaning set forth in CERCLA or under any other Environmental Law.

"RESPONSIBLE OFFICER" means the Borrower's Chief Executive Officer, President, Chief Financial Officer, Controller, Treasurer, or Assistant Treasurer.

"RESTRICTED PAYMENT" means the declaration or making by any Person of any dividends or other distributions (in cash, property, or otherwise) on, or any payment for the purchase, redemption

or other acquisition of, any shares of any capital stock of such Person, other than any such dividends, distributions, and payments payable in such Person's common stock.

"SENIOR NOTES" means the unsecured senior notes proposed to be issued by the Borrower, in one or more series and pursuant to one or more issuances (together with the unsecured guaranties thereof executed by the Restricted Subsidiaries (as defined in the documents governing the Senior Notes) of the Borrower), in an aggregate maximum principal amount not to exceed the sum of (a) \$165,000,000 plus (b) an amount equal to 100% of cash raised from equity issuance after the date of this Agreement, that (i) do not have any stated maturity before the latest maturity of any of the Obligations, (ii) have terms that are no more restrictive than the terms of the Credit Documents, and (iii) have payment and other terms satisfactory to the Majority Lenders in their sole discretion.

"SUBORDINATED DEBT" means, with respect to the Borrower and as of any date of its issuance, any unsecured indebtedness for borrowed money for which the Borrower is directly and primarily obligated that is expressly subordinated to the Obligations and is approved by the Majority Lenders in their sole discretion that (a) arises after the date of this Agreement, (b) does not have any stated maturity before the latest maturity of any of the Obligations, (c) has terms that are no more restrictive than the terms of the Credit Documents, and (d) has payment and other terms satisfactory to the Majority Lenders in their sole discretion.

"SUBSIDIARY" means, with respect to any Person, any other Person, a majority of whose outstanding Voting Securities (other than director's qualifying shares) shall at any time be owned by such Person or one or more Subsidiaries of such Person.

"SWING LINE LENDER" means NationsBank.

"SWING LINE LOAN" means the aggregate outstanding principal amount of the advances made under the Swing Line Note.

"SWING LINE NOTE" means the promissory note of the Borrower in the principal amount of \$10,000,000 payable to the order of the Swing Line Lender evidencing the indebtedness of the Borrower to the Swing Line Lender resulting from advances to the Borrower under the line of credit created thereunder.

"TERMINATION EVENT" means (a) a Reportable Event described in Section 4043 of ERISA and the regulations issued thereunder (other than a Reportable Event not subject to the provision for 30-day notice to the PBGC under such regulations), (b) the withdrawal of the Borrower or any of its Affiliates from a Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA, (c) the filing of a notice of intent to terminate a Plan or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, (d) the institution of proceedings to terminate a Plan by the PBGC, or (e) any other event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"TOTAL CAPITAL" means, with respect to the Borrower and for any date of determination, the sum of the Borrower's Net Worth PLUS Excluded Capital Stock PLUS Total Funded Debt MINUS, to the extent that the Trust Preferred Stock remains included in the Borrower's Net Worth, the Trust Notes, all as of such date.

"TOTAL FUNDED DEBT" means, with respect to the Borrower and as of the date of determination, without duplication, the Debt of the Borrower plus (to the extent not already constituting Debt) the Letter of Credit Exposure.

"TRUST ACCOUNTS" means, collectively, those certain perpetual care trust, pre-need trust, pre-construction trust or other trust arrangements established by the Borrower as required to be established and maintained in accordance with applicable Legal Requirements.

"TRUST GUARANTIES" means, collectively, Borrower's guaranties of the obligations of the Trust Subsidiary in respect of the Trust Preferred Stock, the common securities of the Trust Subsidiary, and the expenses of the Trust Subsidiary incurred in connection with the foregoing.

"TRUST NOTES" means the Convertible Junior Subordinated Debentures Due 2029 issued by the Borrower in the original principal amount of the Trust Preferred Stock.

"TRUST PREFERRED STOCK" means the 7% Convertible Preferred Securities, Term Income Deferrable Equity Securities issued by the Trust Subsidiary.

"TRUST RESERVES" means, at the time of any determination thereof, in connection with the Trust Accounts, the aggregate of all amounts required by applicable Legal Requirements to be set aside in reserve, trust, escrow or any similar arrangement, and in respect to any jurisdiction in which the applicable Legal Requirements do not require the trusting of any such funds, then 100% of the funds received pursuant to each Trust Account.

"TRUST SUBSIDIARY" means Carriage Services Capital Trust, a statutory business trust formed under the laws of the state of Delaware.

"TYPE" has the meaning set forth in Section 1.04.

"VOTING SECURITIES" means (a) with respect to any corporation, capital stock of the corporation having general voting power under ordinary circumstances to elect directors of such corporation (irrespective of whether at the time stock of any other class or classes shall have or might have special voting power or rights by reason of the happening of any contingency), (b) with respect to any partnership, any partnership interest or other ownership interest having general voting power to elect the general partner or other management of the partnership, (c) with respect to any limited liability company, membership certificates or interests having general voting power under ordinary

circumstances to elect the managers of such limited liability company, and (d) with respect to the Trust Subsidiary, its common securities, liquidation amount \$50 per common security.

Section 1.02. COMPUTATION OF TIME PERIODS. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding".

Section 1.03. ACCOUNTING TERMS; CHANGES IN GAAP.

(a All accounting terms and expense estimates not specifically defined in this Agreement shall be construed in accordance with GAAP applied on a basis consistent with those applied in the preparation of the Historical Financial Statements, subject to any changes in accounting standards (i) which are required to conform to GAAP, (ii) which do not have a material impact on Borrower's consolidated financial position, results of operations or cash flows (unless in the absence of such change, however immaterial, Borrower would not be in compliance with this Agreement), or (iii) which the Administrative Agent approves, such approval not to be unreasonably withheld; provided, however, that the Administrative Agent's failure to approve any such change or changes shall not be deemed for purposes of this Agreement to be unreasonably withheld to the extent that, absent such change or changes, the Borrower would not be in compliance with this Agreement.

(b Unless otherwise indicated, all financial statements of the Borrower, all calculations for compliance with covenants in this Agreement, all determinations of the Applicable Margin, the commitment fees required by Section 2.04, and all calculations of any amounts to be calculated under the definitions in Section 1.01 shall be based upon the consolidated accounts of the Borrower and its Subsidiaries in accordance with GAAP applied as set forth in paragraph (a) above.

Section 1.04. TYPES OF ADVANCES. Advances are distinguished by "Type." The "Type" of an Advance refers to the determination whether such Advance is a Eurodollar Rate Advance or Base Rate Advance.

Section 1.05. MISCELLANEOUS. Article, Section, Schedule and Exhibit references are to Articles and Sections of and Schedules and Exhibits to this Agreement, unless otherwise specified.

ARTICLE II

THE CREDIT FACILITIES AND THE LETTERS OF CREDIT

Section 2.01. COMMITMENT TO MAKE ADVANCES. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Advances to the Borrower from time-to-time on any Business Day during the period from the date of this Agreement until the Maturity Date in an aggregate amount not to exceed at any time outstanding (a) the amount set opposite such Lender's name on the signature pages hereof as its Commitment, or if such Lender has entered into any Assignment and Acceptance, the amount set forth for such Lender as its Commitment in the Register maintained by the Administrative Agent pursuant to Section 9.06(c), as such amount may be reduced pursuant to Section 2.05 (such Lender's "Commitment") LESS (b) such Lender's Pro Rata Share of the Letter of Credit Exposure at such time LESS (c) such Lender's Pro Rata Share of the Swing Line Loan at such time. Each Borrowing shall, in the case of Borrowings consisting of Base Rate Advances or of Eurodollar Rate Advances, be in an aggregate amount not less than \$5,000,000 and in integral multiples of \$1,000,000 in excess thereof (including additions thereto by a continuation or Conversion pursuant to Section 2.02(b)), and in each case shall consist of Advances of the same Type made (or continued or Converted pursuant to Section 2.02(b), as applicable) on the same day by the Lenders ratably according to their respective Commitments. Within the limits of each Lender's Commitment and subject to the other terms and conditions of this Agreement, the Borrower may from time to time borrow, prepay pursuant to Section 2.08 and reborrow under this Section 2.01.

Section 2.02. METHOD OF ADVANCING.

(a NOTICE. Each Borrowing shall be made pursuant to a Notice of Borrowing (or by telephone notice promptly confirmed in writing by a Notice of Borrowing), given not later than (i) 10:00 a.m. (Houston, Texas time) on the third Business Day before the date of the proposed Borrowing, in the case of a Eurodollar Rate Advance or (ii) 9:00 a.m. (Houston, Texas time) on the Business Day of the date of the proposed Borrowing, in the case of a Base Rate Advance, by the Borrower to the Administrative Agent, and, in the case of a Base Rate Advance, with a simultaneous provision of such notice to Provident, and the Administrative Agent shall give to each Lender prompt notice of such proposed Borrowing by telecopy or telex. In order to be an effective Notice of Borrowing, each Notice of a Borrowing shall be by telecopy or telex, followed immediately by delivery of the original executed Notice of Borrowing, specifying the requested (i) date of such Borrowing, (ii) Type of Advances comprising such Borrowing, (iii) aggregate amount of such Borrowing, and (iv) if such Borrowing is to be comprised of Eurodollar Rate Advances, the Interest Period for each such Advance. In the case of a proposed Borrowing comprised of Eurodollar Rate Advances, the Administrative Agent shall promptly notify each Lender of the applicable interest rate under Section 2.07(b). Each Lender shall, before 12:00 p.m. (Houston, Texas time) on the date of such Borrowing, in the case of a Eurodollar Rate Advance or before 2:00 p.m. (Houston, Texas time) on the date of such Borrowing, in the case of a Base Rate Advance, make available for the account of its Applicable Lending Office to the Administrative Agent at its address referred to in Section 9.02, or such other location as the Administrative Agent may specify by notice to the Lenders, in same day funds, such Lender's Pro Rata Share of such Borrowing. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Administrative Agent will make such funds available to the Borrower at its account with the Administrative Agent.

(b CONVERSIONS AND CONTINUATIONS OF ADVANCES. In order to elect to Convert or continue an Advance under this Section, the Borrower shall deliver an irrevocable Notice of Conversion or Continuation to the Administrative Agent at the Administrative Agent's office no later than 10:00 a.m. (Houston, Texas time) (i) on the Business Day of the proposed Conversion date in the case of a Conversion to a Base Rate Advance and (ii) on the date which is at least three Business Days in advance of the proposed Conversion or continuation date in the case of a Conversion to, or a continuation of, a Eurodollar Rate Advance. In order to be an effective Notice of Conversion or Continuation, each such Notice of Conversion or Continuation shall be in writing or by telex or telecopy followed immediately by delivery of the original executed Notice of Conversion or Continuation, specifying (i) the requested Conversion or continuation date (which shall be a Business Day), (ii) the amount and Type of the Advance to be Converted or continued, (iii) whether a Conversion or continuation is requested, and if a Conversion, into what Type of Advance, and (iv) in the case of a Conversion to, or a continuation of, a Eurodollar Rate Advance, the requested Interest Period. Promptly after receipt of a Notice of Conversion or Continuation under this Section, the Administrative Agent shall provide each Lender with a copy thereof and, in the case of a Conversion to or a Continuation of a Eurodollar Rate Advance, notify each Lender of the applicable interest rate under Section 2.07(b).

(c CERTAIN LIMITATIONS. Notwithstanding anything in paragraphs (a) and (b) above:

(i) at no time shall there be more than ten Interest Periods applicable to outstanding Eurodollar Rate Advances;

(ii) if any Lender shall, at least one Business Day before the date of any requested Borrowing, notify the Administrative Agent that the introduction of any new law or regulation or any change in or in the interpretation of any existing law or regulation makes it unlawful, or that any central bank or other Governmental Authority asserts that it is unlawful, for such Lender or its Eurodollar Lending Office to perform its obligations under this Agreement to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances, the right of the Borrower to select Eurodollar Rate Advances for such Borrowing or for any subsequent Borrowing shall be suspended until such Lender shall notify the Administrative Agent that the circumstances causing such suspension no longer exist (which notice such Lender agrees to promptly provide), and each Advance comprising such Borrowing shall be a Base Rate Advance;

(iii) if the Administrative Agent is, in good faith after reasonable efforts, unable to determine the Eurodollar Rate for Eurodollar Rate Advances comprising any requested Borrowing, the Administrative Agent shall give written notice to the Borrower stating the reason for such determination and, after the giving of such notice, the right of the Borrower to select Eurodollar Rate Advances for such Borrowing or for any subsequent Borrowing shall be suspended until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist, and each Advance comprising such Borrowing shall be a Base Rate Advance;

(iv) if the Majority Lenders shall in good faith, at least one Business Day before the date of any requested Borrowing, notify the Administrative Agent that the Eurodollar Rate for Eurodollar Rate Advances comprising such Borrowing will not adequately reflect the cost to such Lenders of making or funding their respective Eurodollar Rate Advances, as the case may be, for such Borrowing, the right of the Borrower to select Eurodollar Rate Advances for such Borrowing or for any subsequent Borrowing shall be suspended (and such notice shall also include the rationale for such suspension) until the Majority Lenders (through the Administrative Agent) shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist (which notice shall be promptly provided), and each Advance comprising such Borrowing shall be a Base Rate Advance; and

(v) if the Borrower shall fail to select the duration or continuation of any Interest Period for any Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01 and paragraph (b) above, the Administrative Agent will forthwith so notify the Borrower and the Lenders and such Advances will be made available to the Borrower on the date of such Borrowing as Base Rate Advances or, if an existing Advance, Convert into Base Rate Advances.

(d) NOTICES IRREVOCABLE. Each Notice of Borrowing and Notice of Conversion or Continuation shall be irrevocable and binding on the Borrower. In the case of any Borrowing which the related Notice of Borrowing specifies is to be comprised of Eurodollar Rate Advances, the Borrower shall indemnify each Lender against any loss, reasonable out-of-pocket cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Borrowing the applicable conditions set forth in Article III, unless and to the extent the Eurodollar Rate Advance specified in such Notice of Borrowing is made notwithstanding such failure, such indemnified losses to include, without limitation, any loss (including any loss of anticipated profits), cost or expense reasonably incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Advance to be made by such Lender as part of such Borrowing when such Advance, as a result of such failure, is not made on such date.

(e) ADMINISTRATIVE AGENT RELIANCE. Unless the Administrative Agent shall have received notice from a Lender before the date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's Pro Rata Share of such Borrowing, the Administrative Agent may assume that such Lender has made its Pro Rata Share of such Borrowing available to the Administrative Agent on the date of such Borrowing in accordance with paragraph (a) of this Section 2.02, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made its Pro Rata Share of such Borrowing available to the Administrative Agent, such Lender and the Borrower severally agree to immediately repay to the Administrative Agent on demand such corresponding amount, together with interest on such amount, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) in the case of the Borrower, the interest rate applicable on such day to Advances comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Rate for such day. If such Lender shall repay to the Administrative Agent such corresponding amount and interest as provided above, such corresponding amount so repaid shall constitute such Lender's Advance as part of such Borrowing for purposes of this Agreement even though not made on the same day as the other Advances comprising such Borrowing.

(f) LENDER OBLIGATIONS SEVERAL. The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, to make its Advance on the date of such Borrowing. No Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the date of any Borrowing.

(g) NOTES. The indebtedness of the Borrower to each Lender resulting from Advances owing to such Lender shall be evidenced by the Note of the Borrower payable to the order of such Lender in substantially the form of Exhibit C.

Section 2.03 SWING LINE FACILITY.

(a) COMMITMENT. The Swing Line Lender agrees, on the terms and conditions set forth in the Swing Line Note, to make advances to the Borrower under the Swing Line Note. No Lender shall have any rights thereunder (but each Lender shall have the obligation to make a Base Rate Advance to the Borrower in order to reimburse the Swing Line Lender as set forth in paragraph (b) below). The indebtedness of the Borrower to the Swing Line Lender resulting from the advances under the Swing Line Note made by the Swing Line Lender shall be evidenced by the Swing Line Note made by the Borrower. Within the limits of, and subject to the other terms and conditions of, the Swing Line Note, the Borrower may from time to time borrow, prepay pursuant to Section 2.08, and reborrow under the Swing Line Note.

(b) REIMBURSEMENTS FOR SWING LINE LOAN OBLIGATIONS. With respect to the Swing Line Loan and the interest, premium, fees, and other amounts owed by the Borrower to the Swing Line Lender in connection with the Swing Line Note, and in accordance with the terms of the Swing Line Note, the Borrower agrees to pay to the Swing Line Lender such amounts when due and payable to the Swing Line Lender under the Swing Line Note. If the Borrower does not pay to the Swing Line Lender any such amounts when due and payable to the Swing Line Lender under the Swing Line Note, in addition to any rights the Swing Line Lender may have under such Swing Line Note, the Swing Line Lender may upon written notice to the Administrative Agent request the satisfaction of such obligation by the making of a Borrowing in the amount of any such amounts not paid when due and payable. Upon such request, the Borrower shall be deemed to have requested the making of a Borrowing in the amount of such obligation and the transfer of the proceeds thereof to the Swing Line Lender. Such Borrowing shall be comprised of Base Rate Advances. The Administrative Agent shall promptly forward notice of such Borrowing to the Borrower and the Lenders, and each Lender shall, in accordance with the procedures of Section 2.01 and 2.02(a), other than limitations on the size of Borrowings, and notwithstanding the failure of any conditions precedent, make available such Lender's ratable share of such Borrowing to the Administrative Agent, and the Administrative Agent shall promptly deliver the proceeds thereof to the Swing Line Lender for application to such amounts owed to the Swing Line Lender. The Borrower hereby unconditionally and irrevocably authorizes, empowers, and directs the Swing Line Lender to make such requests for Borrowings on behalf of the Borrower, and the Lenders to make Advances to the Administrative Agent for the benefit of the Swing Line Lender in satisfaction of such obligations. The Administrative Agent and each Lender may record and otherwise treat the making of such Borrowings as the making of a Borrowing to the Borrower under this Agreement as if requested by the Borrower. Nothing herein is intended to release the Borrower's obligations under the Swing Line Note, but only to provide an additional method of payment therefor. The making of any Borrowing under this Section 2.03 shall not constitute a cure or waiver of any Default or Event of Default caused by the Borrower's failure to comply with the provisions of this Agreement or the Swing Line Note.

Section 2.04. FEES.

(a) COMMITMENT FEES. The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee on the average daily amount by which such Lender's Commitment exceeds the sum of such Lender's outstanding Advances and Pro Rata Share of the Letter of Credit Exposure from the date of this Agreement until the Maturity Date at a per annum rate equal to the Applicable Margin for commitment fees. The fee payable pursuant to this clause (a) shall be due and payable quarterly in arrears on the first day of each January, April, July, and October commencing July 1, 1999, and on the Maturity Date.

(b) FACILITY AND ADMINISTRATIVE AGENT FEES. The Borrower agrees to pay to the Administrative Agent the facility and agent's fees described in the letter agreement dated March 4, 1999, between the Administrative Agent and the Borrower, together with any other upfront fees agreed to by the Borrower, the Administrative Agent, and each Lender.

(c) LETTER OF CREDIT FEES. For each Letter of Credit issued by the Issuing Lender, the Borrower shall pay to the Administrative Agent for the ratable benefit of the Lenders a letter of credit fee equal to the Applicable Margin for Eurodollar Rate Advances per annum on the face amount of such Letter of Credit for the period such Letter of Credit is outstanding, with a minimum fee of \$500. In addition, for each Letter of Credit issued by the Issuing Lender, the Borrower shall pay to the Administrative Agent for the benefit of the Issuing Lender a fronting fee of 0.125% per annum on the face amount of such Letter of Credit for the stated term of such Letter of Credit, with a minimum fee of \$500 and a maximum fee of \$750. The Borrower shall pay such letter of credit fees for each Letter of Credit quarterly in arrears within ten days after the Borrower's receipt of the invoice therefor from the Issuing Lender.

Section 2.05. REDUCTION OF THE COMMITMENTS. The Borrower shall have the right, upon at least three Business Days' irrevocable notice to the Administrative Agent, to terminate in whole or reduce ratably in part the unused portion of the Commitments; PROVIDED that each partial reduction shall be in the aggregate amount of \$5,000,000 or in integral multiples of \$5,000,000 in excess thereof. Any reduction or termination of the Commitments pursuant to this Section 2.05 shall be permanent, with no obligation of the Lenders to reinstate such Commitments and the commitment fees provided for in Section 2.04(a) shall thereafter be computed on the basis of the Commitments, as so reduced.

Section 2.06. REPAYMENT. The Borrower shall repay the outstanding principal amount of each Advance on the Maturity Date; PROVIDED that, the principal amount of any outstanding Advance may be prepaid in accordance with the terms of Section 2.08.

Section 2.07. INTEREST. The Borrower shall pay interest on the unpaid principal amount of each Advance made by each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(a BASE RATE ADVANCES. If such Advance is a Base Rate Advance, a rate per annum equal at all times to the lesser of (i) the Adjusted Base Rate in effect from time to time PLUS the Applicable Margin on Base Rate Advances in effect from time to time, or (ii) the Maximum Rate, payable in arrears on the first day of each January, April, July, and October and on the date such Base Rate Advance shall be paid in full, PROVIDED that any amount of principal of a Base Rate Advance which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the lesser of (i) the Adjusted Base Rate in effect from time to time PLUS the Applicable Margin on Base Rate Advances in effect from time to time PLUS 2% or (ii) the Maximum Rate.

(b EURODOLLAR RATE ADVANCES. If such Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during the Interest Period for such Advance to the lesser of (i) the Eurodollar Rate for such Interest Period PLUS the Applicable Margin on Eurodollar Rate Advances in effect from time to time, or (ii) the Maximum Rate, payable on the last day of such Interest Period, and, in the case of six-month Interest Periods, on the day which occurs during such Interest Period three months from the first day of such Interest Period; provided that any amount of principal of a Eurodollar Rate Advance which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the lesser of (i) the rate required to be paid on such Advance immediately prior to the date on which such amount became due PLUS 2% or (ii) the Maximum Rate; PROVIDED FURTHER that, if such overdue amount has not been paid within three Business Days of the date due, such rate of interest under the immediately preceding clause (i) shall be increased to the greater of (x) the Adjusted Base Rate in effect from time to time PLUS the Applicable Margin on Base Rate Advances in effect from time to time PLUS 2% and (y) the rate required to be paid on such Advance immediately prior to the date on which such amount became due PLUS 2%.

(c ADDITIONAL INTEREST ON EURODOLLAR RATE ADVANCES. The Borrower shall pay to each Lender, so long as any such Lender shall be required under regulations of the Federal Reserve Board to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Eurodollar Rate Advance of such Lender, from the date of the Advance until such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (A) the Eurodollar Rate for the Interest Period for such Advance from (B) the rate obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Lender for such Interest Period, payable on each date on which interest is payable on such Advance. Such additional interest payable to any Lender shall be determined by such Lender and notified to the Borrower through the Administrative Agent (such notice to include the calculation of such additional interest, which calculation shall be conclusive in the absence of manifest error, and be accompanied by any evidence indicating the need for such additional interest as the Borrower may reasonably request).

(d USURY RECAPTURE. In the event the rate of interest chargeable under this Agreement or the Notes at any time is greater than the Maximum Rate, the unpaid principal amount of the Notes shall bear interest at the Maximum Rate until the total amount of interest paid or accrued on the Notes equals the amount of interest which would have been paid or accrued on the Notes if the stated rates of interest set forth in this Agreement had at all times been in effect.

In the event, upon payment in full of the Notes, the total amount of interest paid or accrued under the terms of this Agreement and the Notes is less than the total amount of interest which would have been paid or accrued if the rates of interest set forth in this Agreement had, at all times, been in effect, then the Borrower shall, to the extent permitted by applicable law, pay the Administrative Agent for the account of the Lenders an amount equal to the difference between (i) the lesser of (A) the amount of interest which would have been charged on the Notes if the Maximum Rate had, at all times, been in effect or (B) the amount of interest which would have accrued on the Notes if the rates of interest set forth in this Agreement had at all times been in effect and (ii) the amount of interest actually paid or accrued under this Agreement on the Notes.

In the event the Lenders ever receive, collect or apply as interest any sum in excess of the Maximum Rate, such excess amount shall, to the extent permitted by law, be applied to the reduction of the principal balance of the Notes, and if no such principal is then outstanding, such excess or part thereof remaining shall be paid to the Borrower.

Section 2.08. PREPAYMENTS.

(a RIGHT TO PREPAY. The Borrower shall have the right to prepay the Advances in whole or in part, at any time or from time to time, subject to the provisions of this Section 2.08. Except as provided in this Section 2.08, the Borrower shall have no right to prepay any principal amount of any Advance.

(b OPTIONAL. The Borrower may elect to prepay any of the Advances, after giving by 10:00 a.m. (Houston, Texas time) (i) in the case of Eurodollar Rate Advances, at least two Business Days' or (ii) in case of Base Rate Advances, same Business Day's prior written notice to the Administrative Agent stating the proposed date and aggregate principal amount of such prepayment. If any such notice is given, the Borrower shall prepay Advances comprising part of the same Borrowing in whole or ratably in part in an aggregate principal amount equal to the amount specified in such notice, together with accrued interest to the date of such prepayment on the principal amount prepaid and amounts, if any, required to be paid pursuant to Section 2.09 as a result of such prepayment being made on such date; PROVIDED, however, that each partial prepayment shall be in an aggregate principal amount not less than \$1,000,000.

(c MANDATORY. On the date of each reduction of the aggregate Commitments pursuant to Section 2.05, the Borrower agrees to make a prepayment in respect of the outstanding amount of Advances to the extent, if any, that the aggregate unpaid principal amount of all Advances, Letter of Credit Exposure, and the Swing Line Loan exceeds the Commitments, as so reduced. Each

prepayment pursuant to this Section 2.08(c) shall be accompanied by accrued interest on the amount prepaid to the date of such prepayment and amounts, if any, required to be paid pursuant to Section 2.09 as a result of such prepayment being made on such date.

(d) ILLEGALITY. If any Lender shall notify the Administrative Agent and the Borrower that the introduction of any new law or regulation or any change in or in the interpretation of any existing law or regulation by the Governmental Authority charged with the administration or interpretation thereof makes it unlawful, or that any central bank or other Governmental Authority asserts that it is unlawful, for such Lender or its Eurodollar Lending Office to perform its obligations under this Agreement to maintain any Eurodollar Rate Advances of such Lender then outstanding hereunder, (i) the Borrower shall, no later than 10:00 a.m. (Houston, Texas time) (A) if not prohibited by law, on the last day of the Interest Period for each outstanding Eurodollar Rate Advance or (B) if required by such notice, on the second Business Day following its receipt of such notice, prepay all of the Eurodollar Rate Advances of all of the Lenders then outstanding, together with accrued interest on the principal amount prepaid to the date of such prepayment and amounts, if any, required to be paid pursuant to Section 2.09 as a result of such prepayment being made on such date, (ii) each Lender shall simultaneously make a Base Rate Advance to the Borrower on such date in an amount equal to the aggregate principal amount of the Eurodollar Rate Advances prepaid to such Lender, and (iii) the right of the Borrower to select Eurodollar Rate Advances for any subsequent Borrowing shall be suspended until the Lender which gave notice referred to above shall notify the Administrative Agent that the circumstances causing such suspension no longer exist.

(e) RATABLE PAYMENTS; EFFECT OF NOTICE. Each payment of any Advance pursuant to this Section 2.08 or any other provision of this Agreement shall be made in a manner such that all Advances comprising part of the same Borrowing are paid in whole or ratably in part. All notices given pursuant to this Section 2.08 shall be irrevocable and binding upon the Borrower.

Section 2.09. BREAKAGE COSTS. If (a) any payment of principal on or any conversion of any Eurodollar Rate Advance is made on any date other than the last day of the Interest Period for such Eurodollar Rate Advance, whether as a result of any voluntary or mandatory prepayment, any acceleration of maturity, or any other cause (other than Section 2.08(d) above), (b) any payment of principal on any Eurodollar Rate Advance is not made when due, or (c) any Eurodollar Rate Advance is not borrowed, converted, or prepaid in accordance with the respective notice thereof provided by the Borrower to the Administrative Agent, whether as a result of any failure to meet any applicable conditions precedent for borrowing, conversion, or prepayment, the permitted cancellation of any request for borrowing, conversion, or prepayment, the failure of the Borrower to provide the respective notice of borrowing, conversion, or prepayment, or any other cause not specified above which is created by the Borrower, the Borrower shall, within 10 days of any written demand sent to the Borrower through the Administrative Agent by any Lender having made such Eurodollar Rate Advance, pay to the Administrative Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, reasonable out-of-pocket costs or expenses which it may reasonably incur as a result of such payment or nonpayment, including, without limitation, any loss (including loss of anticipated profits, other than any loss of anticipated profits attributable

solely to the Applicable Margin for Eurodollar Rate Advances), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any such Lender reasonably necessary to fund or maintain such Advance.

Section 2.10. INCREASED COSTS.

(a EURODOLLAR RATE ADVANCES. If, due to either (i) the introduction of any new law or regulation or any change (other than any change by way of imposition or increase of reserve requirements included in the Eurodollar Rate Reserve Percentage) in or in the interpretation of any existing law or regulation or (ii) the compliance with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances, then the Borrower shall from time to time, upon demand by such Lender (with a copy of such demand to the Administrative Agent), immediately pay to the Administrative Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost. A certificate as to the amount of such increased cost and detailing the calculation of such cost submitted to the Borrower and the Administrative Agent by such Lender shall be conclusive and binding for all purposes, absent manifest error, and shall be accompanied with any evidence of such increased cost as the Borrower may reasonably request.

(b CAPITAL ADEQUACY. If any Lender (if a Bank) or the Issuing Lender (if a Bank) determines in good faith that the introduction of any new law or regulation or any change in or in the interpretation of any existing law or regulation affects or would affect the amount of capital required or expected to be maintained by such Lender or the Issuing Lender or any corporation controlling such Lender or the Issuing Lender and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend or the Issuing Lender's commitment to issue the Letters of Credit and other commitments of this type, then, upon 30 days' prior written notice by such Lender or the Issuing Lender (with a copy of any such demand to the Administrative Agent), the Borrower shall immediately pay to the Administrative Agent for the account of such Lender or to the Issuing Lender, as the case may be, from time to time as specified by such Lender or the Issuing Lender, additional amounts sufficient to compensate such Lender or the Issuing Lender, in light of such circumstances, (i) with respect to such Lender, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend under this Agreement and (ii) with respect to the Issuing Lender, to the extent that the Issuing Lender reasonably determines such increase in capital to be allocable to the issuance or maintenance of the Letters of Credit. A certificate as to such amounts and detailing the calculation of such amounts submitted to the Borrower by such Lender or the Issuing Lender shall be conclusive and binding for all purposes, absent manifest error, and shall be accompanied with any evidence of the need for maintenance of such increased capital as the Borrower may reasonably request.

(c LETTERS OF CREDIT. With respect to any Issuing Lender which is a Bank, if any change in any existing law or regulation or in the interpretation thereof by any court or administrative or Governmental Authority charged with the administration thereof shall either (i) impose, modify, or

deem applicable any reserve, special deposit, or similar requirement against letters of credit issued by, or assets held by, or deposits in or for the account of, the Issuing Lender or (ii) impose on the Issuing Lender any other condition regarding the provisions of this Agreement relating to the Letters of Credit or any Letter of Credit Obligations, and the result of any event referred to in the preceding clause (i) or (ii) shall be to increase the cost to the Issuing Lender of issuing or maintaining any Letter of Credit (which increase in cost shall be determined by the Issuing Lender's reasonable allocation of the aggregate of such cost increases resulting from such event), then, upon demand by the Issuing Lender, the Borrower shall pay to the Issuing Lender, from time to time as specified by the Issuing Lender, additional amounts which shall be sufficient to compensate the Issuing Lender for such increased cost. A certificate as to such increased cost incurred by the Issuing Lender, as a result of any event mentioned in clause (i) or (ii) above, and detailing the calculation of such increased costs submitted by the Issuing Lender to the Borrower, shall be conclusive and binding for all purposes, absent manifest error, and shall be accompanied with any evidence of such increased cost as the Borrower may reasonably request.

Section 2.11. PAYMENTS AND COMPUTATIONS.

(a) PAYMENT PROCEDURES. The Borrower shall make each payment under this Agreement and under the Notes not later than 10:00 a.m. (Houston, Texas time) on the day when due in Dollars to the Administrative Agent at the location referred to in the Notes (or such other location in the United States as the Administrative Agent shall designate in writing to the Borrower) in same day funds without deduction, setoff, or counterclaim of any kind (except as otherwise provided in Section 2.12(d)). The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest or fees ratably (other than amounts payable solely to the Administrative Agent, the Issuing Lender, or a specific Lender pursuant to Section 2.04(b), 2.04(c), 2.07(c), 2.09, 2.10, or 2.12, but after taking into account payments effected pursuant to Section 9.04) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender or the Issuing Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. If and to the extent that the Administrative Agent receives any payment or prepayment from the Borrower and fails to distribute such payment or prepayment to the Lenders ratably on the basis of their respective Pro Rata Shares on the day the Administrative Agent receives such payment or prepayment (if received prior to 10:00 a.m. (Houston, Texas time) on such day) or the next Business Day (if received after 10:00 a.m. (Houston, Texas time) on such day), then the Administrative Agent shall pay to each Lender such Lender's Pro Rata Share of such payment or prepayment together with interest thereon at the Federal Funds Rate for each day from the date such amount should have been distributed by the Administrative Agent until such payment or prepayment is actually distributed to the Lenders.

(b) COMPUTATIONS. All computations of interest based on the Base Rate shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate, the Federal Funds Rate, and of fees shall be made by the Administrative Agent, on the basis of a year of 360 days, in each case for the actual

number of days (including the first day, but excluding the last day) occurring in the period for which such interest or fees are payable. Each determination by the Administrative Agent of an interest rate shall be conclusive and binding for all purposes, absent manifest error.

(c NON-BUSINESS DAY PAYMENTS. Whenever any payment shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be; PROVIDED, however, that if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d ADMINISTRATIVE AGENT RELIANCE. Unless the Administrative Agent shall have received written notice from the Borrower prior to the date on which any payment is due to the Lenders that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender, together with interest, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate for such day.

Section 2.12. TAXES.

(a NO DEDUCTION FOR CERTAIN TAXES. Any and all payments by the Borrower shall be made, in accordance with Section 2.11, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings (except as otherwise provided in Section 2.12(d)), and all liabilities with respect thereto, excluding, in the case of each Lender, the Issuing Lender, and the Administrative Agent, any franchise taxes or taxes on the net income, net worth or shareholders' capital of such Person (and taxes imposed in lieu of any such taxes) imposed on such Person by the jurisdiction under the laws of which it is organized or in which is located its Applicable Lending Office or any political subdivision or taxing authority thereof or therein (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable to any Lender, the Issuing Lender, or the Administrative Agent (i) the sum payable shall be increased as may be necessary so that, after making all required deductions (including deductions applicable to additional sums payable under this Section 2.12), such Person receives an amount equal to the sum it would have received had no such deductions been made; PROVIDED, however, that if the Borrower's obligation to deduct or withhold Taxes is caused solely by such Person's failure or inability to comply with the provisions of paragraph (d) of this Section 2.12, no such increase shall be required; (ii) the Borrower shall make such deductions; and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and provide to the Administrative Agent a receipt or a copy of a payment voucher from such relevant taxation authority or other authority evidencing such payment.

(b OTHER TAXES. In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, the Notes, or the other Credit Documents (hereinafter referred to as "Other Taxes").

(c INDEMNIFICATION. THE BORROWER INDEMNIFIES EACH LENDER, THE ISSUING LENDER, AND THE ADMINISTRATIVE AGENT FOR THE FULL AMOUNT OF ALL TAXES (AS DEFINED IN SECTION 2.12(A) ABOVE) AND OTHER TAXES (AS DEFINED IN SECTION 2.12(B) ABOVE) IMPOSED BY ANY JURISDICTION ON AMOUNTS PAYABLE UNDER THIS SECTION 2.12 PAID BY SUCH LENDER, THE ISSUING LENDER, OR THE ADMINISTRATIVE AGENT (AS THE CASE MAY BE) AND ANY LIABILITY (INCLUDING INTEREST, PENALTIES AND EXPENSES (OTHER THAN INTEREST, PENALTIES AND EXPENSES ARISING SOLELY FROM THE FAILURE OR INABILITY OF THE ADMINISTRATIVE AGENT, THE ISSUING LENDER, OR ANY LENDER TO PROVIDE THE FORMS DESCRIBED IN PARAGRAPH (D) OF THIS SECTION 2.12)) ARISING THEREFROM OR WITH RESPECT THERETO, WHETHER OR NOT SUCH TAXES (AS DEFINED IN SECTION 2.12(A) ABOVE) OR OTHER TAXES (AS DEFINED IN SECTION 2.12(B) ABOVE) WERE CORRECTLY OR LEGALLY ASSERTED. EACH PAYMENT REQUIRED TO BE MADE BY THE

BORROWER IN RESPECT OF THIS INDEMNIFICATION SHALL BE MADE TO THE ADMINISTRATIVE AGENT FOR THE BENEFIT OF ANY LENDER CLAIMING SUCH INDEMNIFICATION WITHIN 30 DAYS FROM THE DATE THE BORROWER RECEIVES WRITTEN DEMAND THEREFOR FROM THE ADMINISTRATIVE AGENT ON BEHALF OF ITSELF AS ADMINISTRATIVE AGENT, THE ISSUING LENDER, OR ANY SUCH LENDER. IF ANY LENDER, THE ADMINISTRATIVE AGENT, OR THE ISSUING LENDER RECEIVES A REFUND OR TAX CREDIT IN RESPECT OF ANY TAXES (AS DEFINED IN SECTION 2.12(A) ABOVE) PAID BY THE BORROWER UNDER THIS PARAGRAPH (C), SUCH LENDER, THE ADMINISTRATIVE AGENT, OR THE ISSUING LENDER, AS THE CASE MAY BE, SHALL PROMPTLY PAY TO THE BORROWER THE BORROWER'S SHARE OF SUCH REFUND OR TAX CREDIT.

(d FOREIGN LENDER WITHHOLDING EXEMPTION. Each Lender and Issuing Lender that is not incorporated under the laws of the United States of America or a state thereof agrees that it will deliver to the Borrower and the Administrative Agent (i) two duly completed copies of United States Internal Revenue Service Form 1001 or 4224 or successor applicable form, as the case may be, certifying in each case that such Lender is entitled to receive payments under this Agreement and the Notes payable to it, without deduction or withholding of any United States federal income taxes, (ii) if applicable, an Internal Revenue Service Form W-8 or W-9 or successor applicable form, as the case may be, to establish an exemption from United States backup withholding tax, and (iii) any other governmental forms which are necessary or required under an applicable tax treaty or otherwise by law to reduce or eliminate any withholding tax, which have been reasonably requested by the Borrower. Each Lender which delivers to the Borrower and the Administrative Agent a Form 1001 or 4224 and Form W-8 or W-9 pursuant to the next preceding sentence further undertakes to deliver to the Borrower and the Administrative Agent two further copies of the said letter and Form 1001 or 4224 and Form W-8 or W-9, or successor applicable forms, or other manner of certification, as the case may be, on or before the date that any such letter or form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent letter and form previously delivered by it to the Borrower and the Administrative Agent, and such extensions or renewals thereof as may reasonably be requested by the Borrower and the Administrative Agent certifying in the case of a Form 1001 or 4224 that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. If an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any delivery required by the preceding sentence would otherwise be required which renders all such forms inapplicable or which would prevent any Lender from duly completing and delivering any such letter or form with respect to it and such Lender advises the Borrower and the Administrative Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax, and in the case of a Form W-8 or W-9, establishing an exemption from United States backup withholding tax, such Lender shall not be required to deliver such letter or forms. The Borrower shall withhold tax at the rate and in the manner required by the laws of the United States with respect to payments made to a Lender failing to timely provide the requisite Internal Revenue Service forms.

Section 2.13. SHARING OF PAYMENTS, ETC. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off or otherwise) on account of the Advances or Letter of Credit Obligations made by it in excess of its Pro Rata Share of payments on account of the Advances or Letter of Credit Obligations obtained by all the Lenders, such Lender shall notify the Administrative Agent and forthwith purchase from the other Lenders such participations in the Advances made by them or Letter of Credit Obligations held by them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; PROVIDED, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such Lender's ratable share (according to the proportion of (a) the amount of the participation sold by such Lender to the purchasing Lender as a result of such excess payment to (b) the total amount of such excess payment) of such recovery, together with an amount equal to such Lender's ratable share (according to the proportion of (a) the amount of such Lender's required repayment to the purchasing Lender to (b) the total amount of all such required repayments to the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.13 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

Section 2.14. LETTERS OF CREDIT.

(a ISSUANCE. From time-to-time from the date of this Agreement until the Maturity Date, at the request of the Borrower, the Issuing Lender shall, on the terms and conditions hereinafter set forth, issue, increase, or extend the expiration date of Letters of Credit for the account of the Borrower on any Business Day. No Letter of Credit will be issued, increased, or extended (i) unless such issuance, increase, or extension would not cause (A) the Letter of Credit Exposure to exceed the lesser of (1) \$10,000,000 or (2) the aggregate Commitments LESS the aggregate outstanding principal amount of all Advances LESS the outstanding principal amount of the Swing Line Loan; (ii) unless such Letter of Credit has an Expiration Date not later than the earlier of (A) 13 months after the date of issuance thereof (or, if extendable beyond such period, unless such Letter of Credit is cancelable upon 120 days' notice given by the Issuing Lender to the beneficiary of such Letter of Credit) and (B) the Maturity Date; (iii) unless such Letter of Credit is in form and substance acceptable to the Issuing Lender in its sole discretion; (iv) unless such Letter of Credit is a standby letter of credit not supporting the repayment of indebtedness for borrowed money of any Person; and (v) unless the Borrower has delivered to the Issuing Lender a completed and executed letter of credit application on the Issuing Lender's standard form, which application for the initial Issuing Lender is in the form of the attached Exhibit F. Notwithstanding the foregoing, if the Administrative Agent and the Lenders permit the Expiration Date of any Letter of Credit to extend beyond the Maturity Date, the Borrower shall either (i) deposit with the Administrative Agent into the Cash Collateral Account on the Maturity Date an amount of cash equal to the outstanding Letter of Credit Exposure as security for the Obligations to the extent the Letter of Credit Obligations are not otherwise paid

at such time, or (ii) cause to be issued to the Issuing Lender, as beneficiary, a standby letter of credit in the face amount of the Letter of Credit Exposure, as security for the Letter of Credit Obligations, issued by a commercial bank meeting the criteria of an Eligible Assignee, in form and content reasonably acceptable to the Issuing Lender.

(b PARTICIPATIONS. Upon the date of the issuance or increase of a Letter of Credit, the Issuing Lender shall be deemed to have sold to each other Lender and each other Lender shall have been deemed to have purchased from the Issuing Lender a participation in the related Letter of Credit Obligations equal to such Lender's Pro Rata Share at such date and such sale and purchase shall otherwise be in accordance with the terms of this Agreement. The Issuing Lender shall promptly notify each such participant Lender by telex, telephone, or teletype of each Letter of Credit issued or increased and the actual dollar amount of such Lender's participation in such Letter of Credit.

(c REIMBURSEMENT. The Borrower hereby agrees to pay on demand to the Issuing Lender for the benefit of the Lenders in respect of each Letter of Credit, or as a Base Rate Advance as hereafter provided, an amount equal to any draw paid by the Issuing Lender under or in respect of such Letter of Credit. In the event the Issuing Lender makes a payment pursuant to a request for draw presented under a Letter of Credit and such payment is not promptly reimbursed by the Borrower upon demand, the Issuing Lender shall give notice of such payment to the Administrative Agent and the Lenders, and each Lender shall promptly reimburse the Issuing Lender for such Lender's Pro Rata Share of such payment, and such reimbursement shall be deemed for all purposes of this Agreement to constitute a Base Rate Advance to the Borrower from such Lender. If such reimbursement is not made by any Lender to the Issuing Lender on the same day on which the Issuing Lender shall have made payment on any such draw, such Lender shall pay interest thereon to the Issuing Lender at a rate per annum equal to the Federal Funds Rate. The Borrower hereby unconditionally and irrevocably authorizes, empowers, and directs the Administrative Agent and the Lenders to record and otherwise treat such payment under a Letter of Credit not immediately reimbursed by the Borrower as a Borrowing comprised of Base Rate Advances to the Borrower.

(d OBLIGATIONS UNCONDITIONAL. The obligations of the Borrower under this Agreement in respect of each Letter of Credit shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including, without limitation, the following circumstances:

(i) any lack of validity or enforceability of any Letter of Credit Documents;

(ii) any amendment or waiver of, or any consent to departure from, any Letter of Credit Documents;

(iii) the existence of any claim, set-off, defense or other right which the Borrower may have at any time against any beneficiary or transferee of such Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), the Issuing Lender or any other person or entity, whether in connection with this Agreement, the

transactions contemplated in this Agreement or in any Letter of Credit Documents or any unrelated transaction;

(iv) any statement or any other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect to the extent the Issuing Lender would not be liable therefor pursuant to the following paragraph (e);

(v) payment by the Issuing Lender under such Letter of Credit against presentment of a draft or certificate which does not comply with the terms of such Letter of Credit (unless such failure to comply is evident on the face of such draft or certificate and such payment would constitute gross negligence or willful misconduct by the Issuing Lender); or

(vi) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing;

PROVIDED, HOWEVER, that nothing contained in this paragraph (d) shall be deemed to constitute a waiver of any remedies of the Borrower against the Issuing Lender in connection with the Letters of Credit.

(e) LIABILITY OF ISSUING LENDER. Except as otherwise provided herein, the Borrower assumes all risks of the acts or omissions of any beneficiary or transferee of any Letter of Credit with respect to its use of such Letter of Credit. Neither the Issuing Lender nor any of its officers or directors shall be liable or responsible for:

(i) the use which may be made of any Letter of Credit or any acts or omissions of any beneficiary or transferee in connection therewith;

(ii) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged;

(iii) payment by the Issuing Lender against presentment of documents which do not comply with the terms of a Letter of Credit, including failure of any documents to bear any reference or adequate reference to the relevant Letter of Credit (unless such failure to comply is evident on the face of the draft or certificate and such payment would constitute negligence or willful misconduct by the Issuing Lender); or

(iv) any other circumstances whatsoever in making or failing to make payment under any Letter of Credit (including the Issuing Lender's own negligence).

EXCEPT that the Borrower shall have a claim against the Issuing Lender, and the Issuing Lender shall be liable to the Borrower, to the extent of any direct, as opposed to consequential, damages suffered by the Borrower which the Borrower proves were caused by (A) the Issuing Lender's willful

misconduct or gross negligence in determining whether documents presented under a Letter of Credit comply with the terms of such Letter of Credit or (B) the Issuing Lender's willful failure to make lawful payment under any Letter of Credit after the presentment to it of a draft and certificate strictly complying with the terms and conditions of such Letter of Credit.

In furtherance and not in limitation of the foregoing, the Issuing Lender may accept documents that appear on their face to comply with the terms of the applicable Letter of Credit, without responsibility for further investigation, regardless of any notice or information to the contrary.

Section 2.15. NOTICE OF INCREASED COSTS; LENDER REPLACEMENT. Each Lender seeking compensation pursuant to Sections 2.07(c), 2.08(d), 2.10(a), 2.10(b), 2.10(c) or 2.12 shall deliver the notices required by such Sections as promptly as practicable, and in any event within 90 days after it becomes aware thereof and determines to request compensation provided that, except as set forth in the immediately succeeding sentence of this Section 2.15, the failure on the part of any Lender to demand compensation under such Sections shall not constitute a waiver of such Lender's rights under such Sections. Notwithstanding the provisions of Sections 2.07(c), 2.08(d), 2.10(a), 2.10(b), 2.10(c) or 2.12 of this Agreement and the other provisions of this Section 2.15, the Borrower shall have no obligation to pay to any Lender (including the Issuing Lender and the Administrative Agent) any compensation described in such Sections to the extent any such compensation relates to any period which is more than 90 days prior to the date such Lender delivers to the Borrower the notice or notices required by any such Section or Sections, unless reasonably promptly following the date such Lender became aware of the event or occurrence which results in such Lender's right to receive such compensation under such Section or Sections of this Agreement such Lender gave written notice thereof to the Borrower. To the extent requested by Borrower and not inconsistent with the Lender requesting compensation, such Lender shall use reasonable efforts and take such actions as are reasonably appropriate if as a result thereof the additional moneys which would otherwise be required to be paid to such Lender pursuant to such Sections would be materially reduced, or the illegality or other adverse circumstances which would otherwise require a Conversion would cease to exist, and in each case if, as determined by such Lender in its sole discretion, the taking of such actions would not have any cost to such Lender and would not adversely affect the Advances made by such Lender. In the event any Lender shall give any notice to the Borrower or the Administrative Agent pursuant to Sections 2.01(b), 2.07(c), 2.08(d), 2.10(a), 2.10(b), 2.10(c) or 2.12, the Borrower may give notice to such Lender (with a copy to the Administrative Agent) that it wishes to seek one or more Eligible Assignees (which may be one or more of the Lenders) to assume the Commitment of such Lender and to purchase its Pro Rata Share of the Obligations and its Note. Each Lender delivering a notice pursuant to the foregoing Sections agrees to sell, without recourse, its Commitment, and its Pro Rata Share of the Obligations and its Note to any such Eligible Assignee for an amount equal to the sum of the outstanding principal amount of and accrued interest on the Advances owing to such Lender plus all fees and other amounts owing to such Lender under the Credit Documents (including, without limitation, any compensation owing to such Lender pursuant to the foregoing Sections) until the date such Commitment, Note and amounts are purchased, whereupon such Lender shall have no further Commitment or other obligation to the

Borrower under this Agreement or any other Credit Document and such Eligible Assignee shall thereupon be substituted in its place as a "Lender" hereunder.

ARTICLE III

CONDITIONS OF LENDING

Section 3.01. CONDITIONS PRECEDENT TO INITIAL BORROWINGS AND ISSUANCE OF LETTERS OF CREDIT. The obligation of each Lender to make its initial Advance as part of the initial Borrowing and of the Issuing Lender to issue the initial Letters of Credit is subject to the conditions precedent that:

(a) DOCUMENTATION. On or before the day on which the initial Borrowing is made or the initial Letters of Credit are issued, the Administrative Agent shall have received the following, duly executed by all the parties thereto, in form and substance satisfactory to the Administrative Agent and the Lenders, and (except for the Notes and unless otherwise indicated) in sufficient copies for each Lender:

(i) this Agreement and all attached Exhibits and Schedules, and the Notes payable to the order of each of the Lenders, respectively;

(ii) a Guaranty executed by each of the Borrower's Subsidiaries;

(iii) the Swing Line Note payable to the order of the Swing Line Lender;

(iv) the letter agreement regarding fees dated as of March 4, 1999, between the Borrower and the Administrative Agent (such letter agreement to be delivered only to the Administrative Agent);

(v) (A) certified copies of (I) the resolutions of the Board of Directors or Managers, as applicable, of the Borrower and each of its Subsidiaries (other than the Trust Subsidiary) approving this Agreement, the Notes and the other Credit Documents, (II) the articles or certificate of incorporation and bylaws of the Borrower and each of its Subsidiaries, and (III) all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement, the Notes and the other Credit Documents, and (B) certificates of good standing, existence and authority for the Borrower (one copy only);

(vi) a certificate of the Secretary or an Assistant Secretary of the Borrower and each of its Subsidiaries dated as of the date of this Agreement certifying the names and true signatures of those officers of the Borrower and each of its Subsidiaries (other than the Trust Subsidiary) who are authorized to sign this Agreement, the Notes, Notices of Borrowing, Notices of Conversion or Continuation and the other Credit Documents (one copy only); and

(vii) a favorable opinion of Snell & Smith, A Professional Corporation, counsel to the Borrower and its Subsidiaries, dated as of the date of this Agreement and substantially in the form of the attached Exhibit G.

(b) NO MATERIAL ADVERSE CHANGE. No event or events which, individually or in the aggregate has had or is reasonably likely to cause a Material Adverse Change, shall have occurred.

(c) PAYMENT OF FEES. On the date of this Agreement, the Borrower shall have paid the fees required by paragraph (b) of Section 2.04 which are payable as of such date and all costs and expenses which have been invoiced and are payable pursuant to Section 9.04.

(d) NO DEFAULT. No Default shall have occurred and be continuing or would result from such Borrowing or from the application of the proceeds therefrom or from the issuance, increase or extension of such Letters of Credit.

(e) REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in Article IV hereof and in the Guaranty shall be true and correct in all material respects on and as of the date of this Agreement and before and after giving effect to the initial Borrowing and to the application of the proceeds from such Borrowing or to the issuance, increase or extension of the initial Letters of Credit, as though made on and as of such date.

(f) NO MATERIAL LITIGATION. No legal or regulatory action or proceeding shall have commenced and then be continuing against the Borrower or any of its Subsidiaries since the date of this Agreement which could reasonably be expected to cause a Material Adverse Change.

Section 3.02. CONDITIONS PRECEDENT TO EACH BORROWING. The obligation of each Lender to make an Advance on the occasion of each Borrowing (including the initial Borrowing) and of the Issuing Lender to issue, increase, or extend any Letter of Credit shall be subject to the further conditions precedent that on the date of such Borrowing or the issuance, increase, or extension of such Letter of Credit:

(a) the following statements shall be true (and each of the giving of the applicable Notice of Borrowing and the acceptance by the Borrower of the proceeds of such Borrowing or the issuance, increase, or extension of such Letter of Credit shall constitute a representation and warranty by the Borrower that on the date of such Borrowing or the issuance, increase, or extension of such Letter of Credit such statements are true):

(i) the representations and warranties contained in Article IV and in the Guaranty are correct in all material respects on and as of the date of such Borrowing or the issuance, increase, or extension of such Letter of Credit, before and after giving effect to such Borrowing or to the issuance, increase, or extension of such Letter of Credit and to the application of the proceeds from such Borrowing, as though made on and as of such date, except for such representations and warranties which, by their nature, are made as of a

specific date, which shall continue to be correct in all material respects as of such specific date; and

(ii) no Default has occurred and is continuing or would result from such Borrowing or from the application of the proceeds therefrom or from the issuance, increase or extension of such Letter of Credit; and

(b) the Administrative Agent shall have received such other approvals or documents deemed necessary by any Lender as a result of circumstances beyond the control of such Lender occurring after the date of this Agreement, as any Lender through the Administrative Agent may reasonably request.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants as follows:

Section 4.01. CORPORATE EXISTENCE; SUBSIDIARIES. The Borrower is a corporation duly organized, validly existing, and in good standing under the laws of Delaware and in good standing and qualified to do business in each jurisdiction where its ownership or lease of property or conduct of its business requires such qualification and where a failure to be qualified could reasonably be expected to cause a Material Adverse Change. Each Subsidiary of the Borrower is a corporation, limited liability company, or business trust, as applicable, duly organized, validly existing, and in good standing under the laws of its jurisdiction of incorporation or organization and (where applicable) in good standing and qualified to do business in each jurisdiction where its ownership or lease of property or conduct of its business requires such qualification and where a failure to be qualified could reasonably be expected to cause a Material Adverse Change. The Borrower has no Subsidiaries on the date of this Agreement other than the Subsidiaries listed on the attached Schedule 4.01, and Schedule 4.01 lists the jurisdiction of incorporation or organization and the address of the principal office of each such Subsidiary existing on the date of this Agreement.

Section 4.02. CORPORATE POWER. The execution, delivery, and performance by the Borrower of this Agreement, the Notes, and the other Credit Documents to which it is a party, and by the Subsidiaries of the Borrower (other than the Trust Subsidiary) of the Guaranty and the consummation of the transactions contemplated hereby and thereby (a) are within the Borrower's and such Subsidiaries' respective corporate powers, (b) have been duly authorized by all necessary corporate action required on their part, (c) do not contravene (i) the Borrower's or such Subsidiaries' certificate or articles, as the case may be, of incorporation or by-laws or other organizational documents, as applicable, or (ii) any law or any contractual restriction binding on or affecting the Borrower or such Subsidiaries, and (d) will not result in or require the creation or imposition of any Lien prohibited by this Agreement. At the time of each Borrowing, such Borrowing and the use of

the proceeds of such Borrowing will be within the Borrower's corporate powers, will have been duly authorized by all necessary corporate action, (a) will not contravene (i) the Borrower's certificate of incorporation or by-laws or (ii) any law or any contractual restriction binding on or affecting the Borrower and (b) will not result in or require the creation or imposition of any Lien prohibited by this Agreement.

Section 4.03. AUTHORIZATION AND APPROVALS. No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by the Borrower of this Agreement, the Notes, or the other Credit Documents to which the Borrower is a party or by each of the Subsidiaries of the Borrower (other than the Trust Subsidiary) of its Guaranty or the consummation of the transactions contemplated thereby. At the time of each Borrowing, no further authorization or approval or other action by, and no notice to or filing with, any Governmental Authority will be required for such Borrowing or the use of the proceeds of such Borrowing.

Section 4.04. ENFORCEABLE OBLIGATIONS. This Agreement, the Notes, and the other Credit Documents to which the Borrower is a party have been duly executed and delivered by the Borrower and the Guaranty has been duly executed and delivered by the Subsidiaries of the Borrower (other than the Trust Subsidiary). Each Credit Document is the legal, valid, and binding obligation of the Borrower and each such Subsidiary which is a party to it, enforceable against the Borrower and each such Subsidiary in accordance with its terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or similar law affecting creditors' rights generally and by general principles of equity.

Section 4.05. HISTORICAL FINANCIAL STATEMENTS. The Historical Financial Statements, copies of which have been furnished to each Lender, fairly present, in all material respects (a) the consolidated financial condition of the Borrower and its Subsidiaries at December 31, 1997 and 1998 and March 31, 1999, and (b) the consolidated results of their operations, changes in stockholders' equity, and their cash flows for the periods covered thereby, in each case in conformity with GAAP (subject, in the case of the financial statements at, and for the three-month period ended March 31, 1999, to normal year-end adjustments and the absence of footnotes). Since December 31, 1998, no Material Adverse Change has occurred.

Section 4.06. TRUE AND COMPLETE DISCLOSURE. All factual information (excluding projections, estimates and pro forma financial information) heretofore or contemporaneously furnished by the Borrower or any of its Subsidiaries in writing to the Administrative Agent for purposes of or in connection with this Agreement, any other Credit Document or any transaction contemplated hereby or thereby is (taken as a whole) true and accurate in all material respects on the date as of which such information is dated or certified and does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements contained therein not misleading as of the date of this Agreement. All projections, estimates, and pro forma financial information furnished by the Borrower were prepared on the basis of assumptions, data, information,

tests, or conditions believed to be reasonable at the time such projections, estimates, and pro forma financial information were furnished.

Section 4.07. LITIGATION. There is no pending or, to the Knowledge of the Borrower, threatened action or proceeding affecting the Borrower or any of its Subsidiaries before any court, Governmental Agency or arbitrator, which could reasonably be expected to cause a Material Adverse Change or which purports to affect the legality, validity, binding effect or enforceability of this Agreement, any Note, or any other Credit Document.

Section 4.08. USE OF PROCEEDS. The proceeds of Advances and the Letters of Credit will be used by the Borrower for general corporate purposes including, but not limited to, Acquisitions. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U). No proceeds of any Advance will be used to purchase or carry any margin stock in violation of Regulation T, U or X.

Section 4.09. INVESTMENT COMPANY ACT. Neither the Borrower nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 4.10. PUBLIC UTILITY HOLDING COMPANY ACT. Neither the Borrower nor any of its Subsidiaries is a "holding company", or a "Subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "Subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

Section 4.11. TAXES. Proper and accurate (in all material respects) federal, state, local and foreign tax returns, reports and statements required to be filed (after giving effect to any extension granted in the time for filing) by the Borrower, its Subsidiaries or any member of the Controlled Group (hereafter collectively called the "Tax Group") have been filed with the appropriate governmental agencies in all jurisdictions in which such returns, reports and statements are required to be filed and where the failure to file would cause a Material Adverse Change, and all taxes (which are material in amount) and other impositions due and payable have been timely paid prior to the date on which any fine, penalty, interest, late charge or loss may be added thereto for non-payment thereof except where contested in good faith and by appropriate proceedings. Neither the Borrower nor any member of the Tax Group has given, or been requested to give, a waiver of the statute of limitations relating to the payment of any federal, state, local or foreign taxes or other impositions. Proper and accurate amounts have been withheld by the Borrower and all other members of the Tax Group from their employees for all periods to comply in all material respects with the tax, social security and unemployment withholding provisions of applicable federal, state, local and foreign law. Timely payment of all material sales and use taxes required by applicable law have been made by the Borrower and all other members of the Tax Group. The amounts shown on all tax returns to be due and payable have been paid in full or adequate provision therefor is included on the books of the appropriate member of the Tax Group.

Section 4.12. PENSION PLANS. All Plans are in compliance in all material respects with all applicable provisions of ERISA. No Termination Event has occurred with respect to any Plan, and each Plan has complied with and been administered in all material respects with applicable provisions of ERISA and the Code. No "accumulated funding deficiency" (as defined in Section 302 of ERISA) has occurred and there has been no excise tax imposed under Section 4971 of the Code. Neither the Borrower nor any of its Subsidiaries has any Multiemployer Plans. The present value of all benefits vested under each Plan (based on the assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed the value of the assets of such Plan allocable to such vested benefits. Based upon GAAP existing as of the date of this Agreement and current factual circumstances, the Borrower has no reason to believe that the annual cost during the term of this Agreement to the Borrower or any member of the Controlled Group for post-retirement benefits to be provided to the current and former employees of the Borrower or any member of the Controlled Group under Plans that are welfare benefit plans (as defined in Section 3(a) of ERISA) could, in the aggregate, reasonably be expected to cause a Material Adverse Change.

Section 4.13. CONDITION OF PROPERTY; CASUALTIES. The material Properties used or to be used in the continuing operations of the Borrower and each of its Subsidiaries are in the condition required to adequately service the function for which such Properties are used. Since December 31, 1998, neither the business nor the material Properties of the Borrower and each of its Subsidiaries, taken as a whole, has been materially and adversely affected as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of property or cancellation of contracts, permits or concessions by a Governmental Authority, riot, activities of armed forces or acts of God or of any public enemy.

Section 4.14. INSURANCE. The Borrower and each of its Subsidiaries carry insurance with reputable insurers in respect of such of their respective Properties, in such amounts and against such risks as is customarily maintained by other Persons of similar size engaged in similar businesses.

Section 4.15. NO BURDENSOME RESTRICTIONS; NO DEFAULTS. Neither the Borrower nor any of its Subsidiaries is a party to any indenture, loan or credit agreement or any lease or other agreement or instrument or subject to any charter or corporate restriction or provision of applicable law or governmental regulation which could reasonably be expected to cause a Material Adverse Change. Neither the Borrower nor any of its Subsidiaries is in default or has received a notice of default under or with respect to any contract, agreement, lease or other instrument to which the Borrower or any of its Subsidiaries is a party and which could reasonably be expected to cause a Material Adverse Change. No Default has occurred and is continuing.

Section 4.16. ENVIRONMENTAL CONDITION.

(a) PERMITS, ETC. The Borrower and its Subsidiaries (i) have obtained all Environmental Permits required by Governmental Authorities necessary for the ownership and operation of their respective Properties and the conduct of their respective businesses; (ii) to the Borrower's Knowledge, have been and are in compliance with all terms and conditions of such Environmental Permits, if any, and with all other material requirements of applicable Environmental Laws; (iii) have not received notice of any violation or alleged violation of any Environmental Law or Environmental Permit; and (iv) are not subject to any actual or contingent Environmental Claim.

(b) CERTAIN LIABILITIES. Except as set forth on Schedule 4.16(b), to the Borrower's Knowledge, none of the present or previously owned or operated Properties of the Borrower or of any of its present or former Subsidiaries, wherever located, (i) has been placed on or proposed to be placed on the National Priorities List, the Comprehensive Environmental Response Compensation Liability Information System list, or their state or local analogs, or have been otherwise investigated, designated, listed, or identified as a potential site for removal, remediation, cleanup, closure, restoration, reclamation, or other response activity under any Environmental Laws, except for any such Property with respect to which the Borrower or the applicable Subsidiary has received a closure letter or other official written approval from the applicable Governmental Authority stating that all applicable legal and regulatory standards have been met with respect to all conditions identified with respect to such Property; (ii) is subject to a Lien, arising under or in connection with any Environmental Laws, that attaches to any revenues or to any Property owned or operated by the Borrower or any of its Subsidiaries, wherever located, which could reasonably be expected to have a Material Adverse Change; or (iii) has been the site of any Release of Hazardous Substances or Hazardous Wastes from present or past operations which has caused at the site or at any third party site any condition that has resulted in or could reasonably be expected to result in the need for Response that would cause a Material Adverse Change.

(c) CERTAIN ACTIONS. Without limiting the foregoing, (i) all necessary notices have been properly filed, and no further action is required under current Environmental Law as to each Response or other restoration or remedial project taken by the Borrower, or its present or former Subsidiaries on any of their presently or formerly owned or operated Properties and (ii) the present and, to the Borrower's Knowledge, future liability, if any, of the Borrower and its Subsidiaries which could reasonably be expected to arise in connection with requirements under Environmental Laws will not result in a Material Adverse Change.

Section 4.17. PERMITS, LICENSES, ETC. The Borrower and its Subsidiaries possess all permits, licenses, patents, patent rights or licenses, trademarks, trademark rights, trade names rights and copyrights which are necessary and material to the conduct of their businesses. To the Borrower's Knowledge, the Borrower and its Subsidiaries manage and operate their business in all material respects in accordance with all applicable Legal Requirements and standard industry practices.

Section 4.18. TOTAL FUNDED DEBT; LIENS. As of the date hereof, neither Borrower nor any of its Subsidiaries is subject to any Total Funded Debt, except for (a) Total Funded Debt disclosed on the Borrower's consolidated balance sheet at March 31, 1999, included within the Historical Financial Statements, (b) Total Funded Debt incurred under the Existing Credit Agreement since the date of such balance sheet, (c) obligations under the Trust Notes and the Trust Guaranties, and (d) obligations under agreements not to compete and for Deferred Purchase Price of Acquisitions closed after March 31, 1999. As of the date hereof, none of the respective assets or Properties of the Borrower or any of its Subsidiaries is subject to any Liens, other than those which would constitute Permitted Liens under Section 6.01.

Section 4.19. DIRECT BENEFIT FROM BORROWINGS. The Borrower and each of its Subsidiaries (other than the Trust Subsidiary) has received, or, upon the execution and funding thereof, will receive (i) direct benefit from the making and execution of this Agreement and the other Credit Documents to which each of them is a party, and (ii) fair and independent consideration for the entry into, and performance of, this Agreement and the other Credit Documents to which each of them is a party.

Section 4.20. CHIEF EXECUTIVE OFFICE. As of the date of this Agreement, the chief executive office of the Borrower is the address set forth in SECTION 9.02 hereof.

Section 4.21. YEAR 2000.

(a) The Borrower (i) has analyzed the operations of the Borrower and its Subsidiaries and Affiliates that could be adversely affected by failure to become Year 2000 compliant (that is, that computer applications, imbedded microchips and other systems will be able to perform date-sensitive functions prior to and after December 31, 1999); and (ii) has implemented a plan for becoming Year 2000 compliant in a timely manner. The Borrower reasonably believes that it will become Year 2000 compliant for its operations and those of its Subsidiaries and Affiliates on a timely basis except to the extent that a failure to do so could not reasonably be expected to cause a Material Adverse Change.

(b) The Borrower reasonably believes any suppliers and vendors that are material to the operations of the Borrower or its Subsidiaries and Affiliates will be Year 2000 compliant for their own computer applications, or that any such supplier or vendor can be replaced by one that is so compliant, except in either event to the extent that a failure to do so could not reasonably be expected to cause a Material Adverse Change.

(c) The Borrower will promptly notify the Administrative Agent in the event the Borrower determines that any computer application which is material to the operations of the Borrower, its Subsidiaries, or any of its material vendors or suppliers will not be fully Year 2000 compliant on a timely basis, except to the extent that such failure could not reasonably be expected to cause a Material Adverse Change.

ARTICLE V

AFFIRMATIVE COVENANTS

So long as any Note or any amount under any Credit Document shall remain unpaid, any Letter of Credit shall remain outstanding, or any Lender shall have any Commitment hereunder, the Borrower agrees, unless the Majority Lenders shall otherwise consent in writing, to comply with the following covenants.

Section 5.01. COMPLIANCE WITH LAWS, ETC. The Borrower will comply, and cause each of its Subsidiaries to comply, in all material respects with all Legal Requirements. Without limiting the generality and coverage of the foregoing, the Borrower shall comply, and shall cause each of its Subsidiaries to comply, in all material respects, with all Environmental Laws and all laws, regulations, or directives with respect to equal employment opportunity and employee safety in all jurisdictions in which the Borrower, or any of its Subsidiaries do business; PROVIDED, however, that this Section 5.01 shall not prevent the Borrower, or any of its Subsidiaries from, in good faith and with reasonable diligence, contesting the validity or application of any such laws or regulations by appropriate legal proceedings.

Section 5.02. MAINTENANCE OF INSURANCE. The Borrower will maintain, and cause each of its Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or any such Subsidiary operates.

Section 5.03. PRESERVATION OF CORPORATE EXISTENCE, ETC. The Borrower will preserve and maintain, and cause each of its Subsidiaries to preserve and maintain, its corporate or other applicable existence, rights, franchises and privileges in the jurisdiction of its incorporation or organization, and qualify and remain qualified, and cause each such Subsidiary to qualify and remain qualified, as a foreign corporation or other entity in each jurisdiction in which qualification is necessary or desirable in view of its business and operations or the ownership of its properties, and, in each case, where failure to qualify or preserve and maintain its rights and franchises could reasonably be expected to cause a Material Adverse Change; PROVIDED, HOWEVER, that nothing herein contained shall prevent (i) any transaction permitted by Section 6.04 or 6.05(a)(iii), or (ii) the dissolution, liquidation or termination of existence of any Subsidiary of Borrower, provided that all of the Property of any such Subsidiary is transferred to Borrower or another Subsidiary of Borrower.

Section 5.04. PAYMENT OF TAXES, ETC. The Borrower will pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, (a) all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or Property that are material in amount prior to the date on which penalties attach thereto and (b) all lawful claims that are material in amount which, if unpaid, might by law become a Lien upon its Property; PROVIDED, HOWEVER, that neither the Borrower nor any such Subsidiary shall be required to

pay or discharge any such tax, assessment, charge, levy, or claim which is being contested in good faith and by appropriate proceedings, and with respect to which reserves in conformity with GAAP have been provided.

Section 5.05. VISITATION RIGHTS. At any reasonable time and from time-to-time, upon reasonable notice, the Borrower will, and will cause its Subsidiaries to, permit the Administrative Agent and any Lender or any of its agents or representatives thereof, to (a) examine and make copies of and abstracts from the records and books of account of, and visit and inspect at its reasonable discretion the properties of, the Borrower and any such Subsidiary, and (b) discuss the affairs, finances and accounts of the Borrower and any such Subsidiary with any of their respective officers or directors. The Borrower shall pay all reasonable expenses in connection with such visits and inspections; PROVIDED, HOWEVER, that, the Borrower shall not be obligated to pay travel and hotel expenses incurred by representatives of the Administrative Agent or any Lender in connection with inspections or visits made before the occurrence of an Event of Default.

Section 5.06. REPORTING REQUIREMENTS. The Borrower will furnish to the Administrative Agent and each Lender:

(a) DEFAULTS. As soon as possible and in any event within 5 days after the occurrence of each Default known to a Responsible Officer of the Borrower which is continuing on the date of such statement, a written statement of a Financial Officer of the Borrower setting forth the details of such Default and the actions which the Borrower has taken and proposes to take with respect thereto;

(b) OTHER DEFAULTS. As soon as possible and in any event within 15 days after the occurrence of each material default known to a Responsible Officer of the Borrower which is continuing on the date of such statement, a written statement of a Financial Officer of the Borrower setting forth the details of any material default under or with respect to any contract, agreement, lease or other instrument to which the Borrower or any of its Subsidiaries is a party and which requires the payment by the Borrower or any of its Subsidiaries of an aggregate amount equal to or exceeding \$1,000,000 and the actions which the Borrower has taken and proposes to take with respect thereto;

(c) QUARTERLY FINANCIALS. As soon as available and in any event not later than 45 days after the end of each of the fiscal quarters of the Borrower, the consolidated balance sheets of Borrower and its Subsidiaries as of the end of such quarter and the consolidated statements of income, retained earnings and cash flows of the Borrower and its Subsidiaries for the period commencing at the end of the previous year and ending with the end of such quarter, all in reasonable detail and duly certified with respect to such consolidated statements (subject to year-end audit adjustments and the absence of footnotes) by a Financial Officer of the Borrower on behalf of the Borrower as having been prepared in accordance with GAAP, together with a Compliance Certificate executed by a Financial Officer of the Borrower;

(d) ANNUAL FINANCIALS. As soon as available and in any event not later than 90 days after the end of each fiscal year of the Borrower, a copy of the annual audit report for such year for the

Borrower and its Subsidiaries, including therein consolidated balance sheets of the Borrower and its Subsidiaries as of the end of such fiscal year and consolidated statements of income, retained earnings and cash flows of the Borrower and its Subsidiaries for such fiscal year, in each case certified by Arthur Andersen LLP or other independent certified public accountants of recognized standing reasonably acceptable to the Administrative Agent, together with (i) an unqualified opinion and a certificate of such accounting firm to the Lenders stating that, in the course of the regular audit of the business of the Borrower and its Subsidiaries, which audit was conducted by such accounting firm in accordance with generally accepted auditing standards, such accounting firm has obtained no knowledge that a Default has occurred and is continuing, or if, in the opinion of such accounting firm, a Default has occurred and is continuing, a statement as to the nature thereof, (ii) a Compliance Certificate executed by a Financial Officer of the Borrower, and (iii) a listing of all Subsidiaries of the Borrower as of the date of such annual audit report, certified by a Responsible Officer of the Borrower;

(e) SECURITIES LAW FILINGS. Promptly and in any event within 15 days after the sending or filing thereof, copies of all proxy material, reports and other information which the Borrower sends to its stockholders generally;

(f) TERMINATION EVENTS. As soon as possible and in any event within 10 days after the Borrower or any of its Affiliates knows or has reason to know that any Termination Event with respect to any Plan has occurred, a statement of the Chief Financial Officer of the Borrower describing such Termination Event and the action, if any, which the Borrower or such Affiliate proposes to take with respect thereto;

(g) TERMINATION OF PLANS. Promptly and in any event within 5 Business Days after receipt thereof by the Borrower or any member of the Controlled Group from the PBGC, copies of each notice received by the Borrower or any such member of the Controlled Group of the PBGC's intention to terminate any Plan or to have a trustee appointed to administer any Plan;

(h) OTHER ERISA NOTICES. Promptly and in any event within 5 Business Days after receipt thereof by the Borrower or any member of the Controlled Group from a Multiemployer Plan sponsor, a copy of each notice received by the Borrower or any member of the Controlled Group concerning the imposition or amount of withdrawal liability pursuant to Section 4202 of ERISA;

(i) ENVIRONMENTAL NOTICES. A copy of any form of written notice, summons or citation, promptly upon the receipt thereof by the Borrower or any of its Subsidiaries, if received from the Environmental Protection Agency or any other Governmental Authority or, upon a Responsible Officer having Knowledge of the receipt thereof by the Borrower or any of its Subsidiaries, if received from any other Person, concerning (i) violations or alleged violations of Environmental Laws, which seeks to impose any liability therefor, (ii) any action or omission on the part of the Borrower or any of its present or former Subsidiaries in connection with Hazardous Waste or Hazardous Substances which could reasonably result in the imposition of any liability therefor, including without limitation any notice of potential responsibility under CERCLA, or

(iii) concerning the filing of a Lien upon, against or in connection with the Borrower, its present or former Subsidiaries, or any of their leased or owned Property, wherever located;

(j) OTHER GOVERNMENTAL NOTICES. Promptly and in any event within 5 Business Days after receipt thereof by the Borrower or any Subsidiary, a copy of any notice, summons, citation, or proceeding seeking to modify in any material respect, revoke, or suspend any material contract, license, or Agreement with any Governmental Authority;

(k) MATERIAL CHANGES. Prompt written notice of any condition or event of which the Borrower has Knowledge, which condition or event has resulted or may reasonably be expected to result in (i) a Material Adverse Change or (ii) a breach of or noncompliance with any material term, condition, or covenant of any contract to which the Borrower or any of its Subsidiaries is a party or by which they or their properties may be bound and which is material to the business of the Borrower and its Subsidiaries, taken as a whole;

(l) PENDING OR THREATENED LITIGATION. Prompt written notice of any pending or, to the Knowledge of the Borrower, threatened action or proceeding affecting the Borrower or any of its Subsidiaries before any court, Governmental Agency or arbitrator, if the amount asserted in such action or proceeding against the Borrower or any of its Subsidiaries equals or exceeds \$2,000,000, or if no amount is asserted, the Borrower reasonably believes, after any consultation with its attorneys or other advisors, as the Borrower deems appropriate, to involve an amount against the Borrower or any of its Subsidiaries equal to or exceeding \$2,000,000 and, contemporaneously with the delivery by the Borrower of its financial statements pursuant to Section 5.06(c) for each fiscal quarter of the Borrower, a list of each pending or, to the Knowledge of the Borrower, threatened action or proceeding affecting the Borrower or any of its Subsidiaries before any court, Governmental Agency or arbitrator as of the last day of such fiscal quarter, if the amounts asserted in such action or proceeding exceeds \$1,000,000 or, if no amount is asserted, the Borrower reasonably believes, after consultation with its attorneys or other advisors, as the Borrower deems appropriate, to involve an amount against the Borrower or any of its Subsidiaries in excess of \$1,000,000;

(m) DISPUTES, ETC. Prompt written notice of any claims, proceedings, or disputes, or to the Knowledge of the Borrower threatened, or affecting the Borrower, or any of its Subsidiaries which could reasonably be expected to cause a Material Adverse Change, or any material labor controversy of which the Borrower has Knowledge resulting in or reasonably considered to be likely to result in a general labor strike against the Borrower or any of its Subsidiaries;

(n) QUALIFIED PREFERRED STOCKHOLDERS. Promptly following each issuance of Qualified Preferred Stock, a list of the names, addresses, fax numbers (if available) and number of shares of Qualified Preferred Stock acquired by each Person in such issuance;

(o) TRUST NOTES OR SENIOR NOTES DEFAULTS. As soon as possible and in any event within 5 days after the receipt thereof, a copy of any notice of default received by the Borrower in

connection with the Trust Notes, the Trust Guaranties, or the Senior Notes, together with a written statement of a Financial Officer of the Borrower setting forth the details of such default and the actions which the Borrower has taken and proposes to take with respect thereto; and

(p) OTHER INFORMATION. Such other information respecting the business or Properties, or the condition or operations, financial or otherwise, of the Borrower, or any of its Subsidiaries, as any Lender through the Administrative Agent may from time-to-time reasonably request.

Section 5.07. MAINTENANCE OF PROPERTY. Borrower shall, and shall cause each of its Subsidiaries to, maintain their owned, leased, or operated Property, equipment, buildings and fixtures necessary for the operation of their business in good condition (ordinary wear and tear excepted) and shall make all repairs necessary to maintain such condition; and shall abstain, and cause each of its Subsidiaries to abstain from and not knowingly or willfully permit the commission of waste or other injury, destruction or loss of natural resources, or the occurrence of pollution, contamination or any other condition in, on or about the owned or operated Property involving the Environment that could reasonably be expected to result in Response activities, the costs of which would substantially exceed the accrual established by Borrower or by any of its Subsidiaries for those purposes.

Section 5.08. NEW SUBSIDIARIES. Upon Borrower's formation or acquisition of any new Subsidiary, other than the Trust Subsidiary, the Borrower shall cause such Subsidiary to promptly execute and deliver to the Administrative Agent a Joinder Agreement with such modifications thereto as the Administrative Agent may reasonably request for the purpose of joining such Subsidiary as a party to the Guaranty. In connection therewith, the Borrower shall provide, contemporaneously with the delivery of its financial statements pursuant to Section 5.06(c), corporate documentation and, if requested by the Administrative Agent, opinion letters reasonably satisfactory to the Administrative Agent reflecting the corporate status of such Subsidiary and the enforceability of such Joinder Agreement; PROVIDED, that upon the Administrative Agent's written request, the Borrower shall promptly provide such corporate documentation with respect to any previously formed or acquired Subsidiary for which such items have not previously been provided, and shall thereafter provide such corporate documentation contemporaneously with the execution and delivery of each Joinder Agreement in connection with any subsequent formation or acquisition of any new Subsidiary. With respect to the Trust Subsidiary, the Borrower shall provide to the Administrative Agent corporate and other related documentation as requested by the Administrative Agent.

Section 5.09. MAINTENANCE OF TRUST RESERVES AND TRUST ACCOUNTS. The Borrower shall set aside, and shall cause its Subsidiaries to set aside, where appropriate, in the appropriate Trust Accounts, all applicable Trust Reserves at the time such funds are received by the Borrower or any of its Subsidiaries, and Borrower shall, and shall cause its Subsidiaries to, establish and maintain all of the funding obligations of each of the Trust Accounts in accordance with applicable Legal Requirements and the provisions set forth herein and in the other Credit Documents.

Section 5.10. MAINTENANCE OF TRUST BALANCE. Borrower shall comply, and shall cause its Subsidiaries to comply, with all merchandise, perpetual care and other trusting requirements imposed on the Borrower or any of its Subsidiaries by any and all applicable states having jurisdiction thereof, as in effect on the date hereof ("EXISTING TRUSTING LAWS"). If, however, the monetary trusting provisions of the laws of the applicable state are amended during the term of this Agreement ("AMENDED TRUSTING LAWS"), the Borrower agrees that it will trust or cause to be trusted, and will cause its Subsidiaries to trust or cause to be trusted, in accordance with the provisions of Existing Trusting Laws or the Amended Trusting Laws, whichever requires the Borrower or any such Subsidiary to place greater amounts in trust, unless otherwise agreed to by the Majority Lenders.

Section 5.11. HAZARDOUS SUBSTANCES. (a) The Borrower shall keep and maintain, and shall cause its Subsidiaries to keep and maintain, the Properties owned or leased by them in compliance in all material respects with, and shall not cause or permit any of the Properties owned or leased by them to be in violation of, any Environmental Law on, under or about their Properties, including but not limited to soil and ground water conditions. Neither the Borrower nor any of its Subsidiaries shall, except in compliance in all material respects with Environmental Law, use, generate, manufacture, store or dispose of, on, under or about its properties or transport to or from their properties any Hazardous Substances.

(b) The Borrower shall remove, and shall cause its Subsidiaries to remove any Hazardous Substances from any of their Properties in accordance with applicable Legal Requirements (or if removal is prohibited by law, to take whatever action is required by applicable Requirements) within 60 days after discovery or generation thereof, at the sole expense of the Borrower and its Subsidiaries. The Borrower will establish and implement, and will cause its Subsidiaries to establish and implement, such procedures as may be necessary to determine and assure that all of their Properties and operations thereof and thereon are in material compliance with Environmental Law. The Borrower will promptly notify the Administrative Agent and each Lender in writing of any existing, pending or threatened action, investigation or inquiry by any governmental authority in connection with any Environmental Law.

ARTICLE VI

NEGATIVE COVENANTS

So long as any Note or any amount under any Credit Document shall remain unpaid, any Letter of Credit remain outstanding, or any Lender shall have any Commitment, the Borrower agrees, unless the Majority Lenders otherwise consent in writing, to comply with the following covenants.

Section 6.01. LIENS, ETC. The Borrower will not create, assume, incur or suffer to exist, or permit any of its Subsidiaries to create, assume, incur, or suffer to exist, any Lien on or in respect of any of its Property whether now owned or hereafter acquired, or assign any right to receive income, except that the Borrower and its Subsidiaries may create, incur, assume or suffer to exist Liens:

(a) securing the Obligations;

(b) for taxes, assessments or governmental charges or levies on Property of the Borrower or any of its Subsidiaries to the extent not required to be paid pursuant to Sections 5.01 and 5.04;

(c) imposed by law, such as landlords', carriers', warehousemen's and mechanics' liens and other similar Liens arising in the ordinary course of business securing obligations which are not overdue for a period of more than 30 days and which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of the Borrower and its Subsidiaries in accordance with GAAP;

(d) arising in the ordinary course of business out of pledges or deposits under workers' compensation laws, unemployment insurance, old age pensions or other social security or retirement benefits, or similar legislation or to secure public or statutory obligations of the Borrower or any of its Subsidiaries;

(e) existing on Property acquired by the Borrower or any of its Subsidiaries prior to its acquisition of such Property or existing on Property of a newly acquired Subsidiary prior to the Borrower's or any other Subsidiary's acquisition of stock of such newly acquired Subsidiary; PROVIDED, HOWEVER, that the aggregate outstanding principal amount of the indebtedness secured by the Liens permitted by this paragraph (e) shall not, when combined with the aggregate outstanding principal amount of indebtedness secured by Liens permitted by paragraph (f) of this Section 6.01, exceed 10% of the Borrower's Net Worth at any time on or after the date on which such Lien is created, assumed or incurred;

(f) purchase money liens or purchase money security interests upon or in any Property acquired or held by the Borrower or any of its Subsidiaries to secure the purchase price of such Property or to secure indebtedness incurred solely for the purpose of financing the acquisition of such Property, PROVIDED that the aggregate outstanding principal amount of the indebtedness secured by the Liens permitted by this paragraph (f) shall not, when combined with the aggregate outstanding principal amount of indebtedness secured by Liens permitted by paragraph (e) of this Section 6.01, exceed 10% of the Borrower's Net Worth at any time on or after the date on which such Lien is created, assumed or incurred; and

(g) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, easements, licenses, restrictions on the use of Property or minor imperfections in title thereto which, in the aggregate, are not material in amount, and which do not in any case materially detract from the value of the Property subject thereto or interfere with the ordinary conduct of the business of the Borrower and its Subsidiaries.

Section 6.02. DEBTS, GUARANTIES AND OTHER OBLIGATIONS. (a) The Borrower will not, and will not permit any of its Subsidiaries to, create, assume, suffer to exist or in any manner become or be liable in respect of any Debt except:

- (i) Debt of the Borrower and its Subsidiaries under the Credit Documents;
- (ii) intercompany indebtedness owed between any Subsidiary of the Borrower and the Borrower, PROVIDED that the payment of such indebtedness is subordinate to the payment of the Obligations pursuant to Section 3.2 of the Guaranty or otherwise in a manner satisfactory to the Administrative Agent;
- (iii) the Trust Notes and the Senior Notes;
- (iv) Subordinated Debt; and
- (v) Debt of the Borrower or any of its Subsidiaries (in addition to Debt described in paragraphs (i) through (iv) above), provided that the aggregate outstanding principal amount of such Debt does not exceed 25% of the Borrower's Net Worth at any time on or after the date on which such Debt is created, assumed or incurred.

(b) The Borrower will not, and will not permit any of its Subsidiaries to, create, assume, suffer to exist, or in any manner become or be liable in respect of any trade payables or other current operating liabilities more than 90 days past due, except for such trade payables or other current operating liabilities which (i) are being contested in good faith by appropriate proceedings and adequate reserves therefor have been established and reflected in the financial statements of such Person in accordance with GAAP, or (ii) do not exceed \$200,000 in the aggregate outstanding at any time.

(c) The Borrower will not, and will not permit any of its Subsidiaries to, create, assume, suffer to exist, or in any manner become or be liable in respect of obligations with respect to any swap, hedge, cap, collar, or similar arrangement providing for the exchange of risks related to price changes in any commodity ("Derivatives"), including money, other than Derivatives used by such Person in such Person's business operations in aggregate notional quantities not to exceed the reasonably anticipated consumption of such Person of the underlying commodity for the relevant period, but no Derivatives which are speculative in nature.

(d) The Borrower will not, and will not permit any of its Subsidiaries to, create, assume, suffer to exist, or in any manner become or be liable in respect of any obligations with respect to guaranties or like assurances of payment or performance other than (i) those incurred in the ordinary course of business or (ii) those described in clause (e) of the definition of Debt; PROVIDED, HOWEVER, that (A) the Borrower or any of its Subsidiaries shall be permitted to create, assume, suffer to exist, or in any manner become or be liable in respect of any obligations with respect to guaranties or like assurances of payment or performance in respect of any of the

obligations or liabilities of any of the Subsidiaries permitted hereunder, (B) any of the Subsidiaries shall be permitted to create, assume, suffer to exist, or in any manner become or be liable in respect of any obligations with respect to guaranties or like assurances of payment or performance in respect of any of the obligations and liabilities of the Borrower permitted hereunder, including the Senior Notes, and (C) the Borrower shall be permitted to execute, deliver, and perform the Trust Guaranties.

Section 6.03. AGREEMENTS RESTRICTING LIENS AND DISTRIBUTIONS. The Borrower will not, nor will it permit any of its Subsidiaries to, enter into any agreement (other than a Credit Document) which (a) except (i) with respect to specific Property encumbered to secure payment of Debt related to such Property or (ii) as provided in the documents governing the Senior Notes, imposes restrictions upon the creation or assumption of any Lien upon its other Properties, revenues or assets, whether now owned or hereafter acquired or (b) limits Restricted Payments to or any advance by any of the Borrower's Subsidiaries to the Borrower.

Section 6.04. MERGER OR CONSOLIDATION; ASSET SALES. The Borrower will not, and will not permit any of its Subsidiaries to:

(a) merge or consolidate with or into any other Person, except (i) that the Borrower may merge with any of its Subsidiaries and any of the Borrower's Subsidiaries may merge with another of the Borrower's Subsidiaries, PROVIDED that immediately after giving effect to any such proposed transaction no Default would exist and in the case of any such merger to which the Borrower is a party, the Borrower is the surviving corporation and (ii) for mergers and consolidations consummated in connection with Acquisitions permitted under Section 6.07 hereof, provided that the surviving corporation is the Borrower or one of its Subsidiaries (or, contemporaneously with such consummation, will become one of its Subsidiaries), or in connection with the disposition of the Borrower's Subsidiaries that, if structured as the disposition of Property, would be permitted under paragraph (b) below; or

(b) sell, lease, transfer, or otherwise dispose of any of its Property, except for (i) sales of funeral merchandise, cemetery property, mausoleum spaces and related merchandise and other inventory, (ii) sales in the ordinary course of business of inventory and Property of the Borrower and its Subsidiaries not included in clause (i) of this paragraph (b), (iii) sales of funeral homes, cemeteries, and other businesses acquired by the Borrower or a Subsidiary, to the extent that the same would not reasonably be expected to cause a Material Adverse Change, (iv) sales of assets outside the ordinary course of business in an aggregate amount for any fiscal year not to exceed \$2,000,000, and (v) sales, leases, transfers and dispositions between the Borrower and its Subsidiaries or between or among one or more Subsidiaries of the Borrower.

Section 6.05. RESTRICTED PAYMENTS; ISSUANCE OF PREFERRED STOCK.

(a) The Borrower will not make or pay (or, in the case of the Trust Preferred Stock, permit any making or payment of) any Restricted Payment other than (i) payments of dividends on and redemptions of Existing Preferred Stock, (ii) payments of dividends on Qualified Preferred Stock, (iii) distribution of the Trust Notes to the holders of the Trust Preferred Stock in connection with the dissolution of the Trust Subsidiary, (iv) repurchases of Common Stock in an aggregate amount not to exceed (A) for the period beginning on June 14, 1999 and ending on December 31, 2000, \$10,000,000 and (B) for each fiscal year of the Borrower thereafter, 25% of the Borrower's Net Income for the prior fiscal year, and (v) with respect to shares of Common Stock purchased from the Borrower by employees or former employees of the Borrower or any of its Subsidiaries in connection with the exercise of stock options granted by the Borrower, the purchase by the Borrower of a number of such shares, in an aggregate amount not to exceed \$5,000,000 in any fiscal year of the Borrower. In no event shall Borrower make or declare any Restricted Payment during the existence of an Event of Default or if the making of such Restricted Payment would cause an Event of Default.

(b) The Borrower will not issue or have outstanding any Redeemable Preferred Stock, other than (i) Existing Preferred Stock or (ii) Qualified Preferred Stock.

Section 6.06. INVESTMENTS; LINES OF BUSINESS. (a) The Borrower will not, and will not permit any of its Subsidiaries to, make or permit to exist any loans, advances or capital contributions to, or make any investment in, or purchase or commit to purchase any stock or other securities or evidences of indebtedness of or interests in any Person, except the following:

- (i) as shown on the attached Schedule 6.06;
- (ii) the purchase of Liquid Investments or the making of Acquisitions permitted by Section 6.07;
- (iii) trade and customer accounts receivable which are for goods furnished or services rendered in the ordinary course of business and are payable in accordance with customary trade terms;
- (iv) Borrower's investment in the Trust Subsidiary, and ordinary course of business contributions, loans or advances to, or investments in, (A) a direct or indirect Subsidiary of the Borrower, or (B) the Borrower;
- (v) investments not covered by clauses (i) through (iv) above in an aggregate amount not to exceed at any time \$5,000,000;
- (vi) investments in or by any perpetual care trust, merchandise trust, preneed trust, preconstruction trust or other trust arrangements established by the Borrower or any of its Subsidiaries in accordance with applicable laws, regulations and interpretations; and

(vii) investments in less than 50% of the outstanding Voting Securities of corporations or other business entities that own or operate funeral homes or cemeteries in jurisdictions which prohibit ownership of 50% or more of such Voting Securities by the Borrower or a Subsidiary of the Borrower and in which the cost of each such investment does not exceed \$10,000.

(b) The Borrower will not, and will not permit its Subsidiaries, taken as a whole together with the Borrower, to, change the character of the business (other than to a type of business reasonably related to the business) as conducted by the Borrower and its Subsidiaries, taken as a whole, on the date of this Agreement or engage in any type of business not reasonably related to such business as presently and normally conducted.

Section 6.07. ACQUISITIONS. The Borrower will not, and will not permit any of its Subsidiaries to, make an Acquisition in a transaction or related series of transactions unless:

(a) such Acquisition would not, after giving effect thereto, result in a Default;

(b) such Acquisition is a Core Acquisition;

(c) the amount of the consideration paid or contributed for such Acquisition (including all cash paid and Property contributed for such Acquisition, the amount of any liabilities (including unfunded Pre-need Obligations) assumed, and Deferred Purchase Price, but excluding the value of any Common Stock or any preferred stock (including, but not limited to, Redeemable Preferred Stock) that is not prohibited by Section 6.05 of this Agreement, of the Borrower or its Subsidiaries transferred or issued as consideration for such Acquisition), does not, at the time of the making of such Acquisition, exceed 20% of the Borrower's Net Worth as reflected on (i) the most recent financial statements of the Borrower delivered to the Lenders pursuant to Section 5.06(c) or (ii) any certificate delivered by the Borrower to the Administrative Agent setting forth, in reasonable detail, a calculation of the Borrower's Net Worth as of time of making such Acquisition; and

(d) the Property to be acquired in connection with such Acquisition is in compliance with Environmental Law and the Borrower, at its expense, shall have conducted such affirmative due diligence concerning the environmental condition of such Property (which may include environmental questionnaires or independent site assessments) as shall be warranted by such Property.

Section 6.08. CAPITAL EXPENDITURES. Neither Borrower nor any of its Subsidiaries will make or commit to make any expenditure in respect of the purchase or construction or other acquisition (excluding any deemed purchases allocable to Acquisitions) of fixed or capital assets that would cause the aggregate amount of all such expenditures during the four fiscal quarters then most recently ended to exceed 10% of the Borrower's Net Worth as of the last day of such four quarter period.

Section 6.09. AFFILIATE TRANSACTIONS. Except as expressly permitted elsewhere in this Agreement, the Borrower will not, and will not permit any of its Subsidiaries to, make, directly or indirectly: (a) any investment in any Affiliate (other than a Subsidiary of the Borrower); (b) any transfer, sale, lease, assignment or other disposal of any assets to any such Affiliate or any purchase or acquisition of assets from any such Affiliate; or (c) any arrangement or other transaction directly or indirectly with or for the benefit of an such Affiliate (including without limitation, guaranties and assumptions of obligations of an Affiliate); PROVIDED, HOWEVER, that the Borrower and its Subsidiaries may enter into any arrangement or other transaction with any such Affiliate providing for the leasing of property, the making of Acquisitions permitted under Section 6.07 hereof, the rendering or receipt of services or the purchase or sale of inventory and other assets in the ordinary course of business if the monetary or business consideration arising therefrom would be substantially as advantageous to the Borrower and its Subsidiaries as the monetary or business consideration which it would obtain in a comparable arm's length transaction with a Person not such an Affiliate.

Section 6.10. COMPLIANCE WITH ERISA. The Borrower will not, and will not permit any of its Subsidiaries to, (a) terminate any Plan so as to result in any material (in the opinion of the Majority Lenders) liability of the Borrower or any of its Subsidiaries to the PBGC, unless the Plan was in effect prior to consummation of an Acquisition permitted under Section 6.07 hereof to which the Plan relates, the Borrower or applicable Subsidiary has been fully indemnified in respect of any such liability and the Borrower has reasonably assured itself of adequate capital, offset or security for such indemnity or (b) permit to exist any occurrence of any Reportable Event (as defined in Title IV of ERISA), or any other event or condition, which presents a material (in the opinion of the Majority Lenders) risk of such a termination by the PBGC of any Plan.

Section 6.11. MAINTENANCE OF OWNERSHIP OF SUBSIDIARIES. Except as permitted by Sections 5.03 and 6.04, the Borrower will not, and will not permit any of its Subsidiaries to, sell or otherwise dispose of any shares of capital stock of any of its Subsidiaries or permit any of its Subsidiaries to issue, sell or otherwise dispose of any shares of its capital stock or the capital stock of any of its Subsidiaries, except that, (a) where required by applicable law, up to 20% of the outstanding stock of any of the Borrower's Subsidiaries may be issued to and held by employees of the Borrower or any such Subsidiary who are licensed funeral directors, and (b) the Trust Subsidiary may issue the Trust Preferred Stock.

Section 6.12. TRUST FUNDS. Without the prior written consent of the Majority Lenders or as otherwise required by applicable Legal Requirement, Borrower will not withdraw or otherwise remove, and will cause all of its Subsidiaries not to withdraw or otherwise remove, any monies or other assets (whether principal, interest or other earnings) from any merchandise, service or other trust fund or trust account except for the purpose of providing the merchandise or services which are intended to be provided out of such trust fund or trust account.

Section 6.13. SETTLEMENT OF LITIGATION. Without prior written notice to the Lenders, Borrower will not, and will cause all of its Subsidiaries not to, settle or compromise, during any fiscal year of the Borrower, any threatened action or proceeding affecting the Borrower or any of its

Subsidiaries before any court, Governmental Agency or arbitrator, if the amount of the proposed settlement or compromise required to be paid by the Borrower or any of its Subsidiaries (excluding any amounts to be paid or to be reimbursed to the Borrower or any of its Subsidiaries from any insurance proceeds), together with the amount of all settlements and compromises (excluding any amounts paid or to be reimbursed to the Borrower or any of its Subsidiaries from any insurance proceeds) previously paid by the Borrower or any of its Subsidiaries during such fiscal year of the Borrower, exceeds \$2,000,000.

Section 6.14. FIXED CHARGE COVERAGE RATIO. As of the last day of each fiscal quarter, the Borrower will not permit its Fixed Charge Coverage Ratio for the four fiscal quarters then ended to be less than 1.70 to 1.00.

Section 6.15. TOTAL FUNDED DEBT TO TOTAL CAPITAL RATIO. The Borrower will not permit at any time the ratio of its Total Funded Debt (excluding the Trust Notes) to its Total Capital to be greater than .60 to 1.00.

Section 6.16. NET WORTH. The Borrower will not permit at any time its Net Worth to be less than an amount equal to the sum of (a) \$275,000,000, PLUS (b) 50% of the Borrower's Net Income for each fiscal quarter ending on or after June 30, 1999, during which Borrower had positive Net Income PLUS (c) 100% of the increases in Net Worth from any sale or issuance of any equity securities, including Qualified Preferred Stock (other than the Trust Preferred Stock), of, or any other additions to capital by, the Borrower or its Subsidiaries during each fiscal quarter ending on or after March 31, 1999.

ARTICLE VII

REMEDIES

Section 7.01. EVENTS OF DEFAULT. The occurrence of any of the following events shall constitute an "Event of Default" under any Credit Document:

(a) PAYMENT. The Borrower shall fail to pay (i) any principal of any Note, the Swing Line Note or any Reimbursement Obligation when the same becomes due and payable, or (ii) any interest on any Note or the Swing Line Note, or any fee or other amount payable hereunder or under any other Credit Document, within 5 Business Days after the same becomes due and payable;

(b) REPRESENTATION AND WARRANTIES. Any representation or warranty made or deemed to be made (i) by the Borrower in this Agreement or in any other Credit Document, (ii) by the Borrower (or any of its Responsible Officers) in connection with this Agreement or any other Credit Document, or (iii) by any of the Borrower's Subsidiaries in any Credit Document shall prove to have been incorrect in any material respect when made or deemed to be made;

(c) COVENANT BREACHES. (i) The Borrower shall (A) fail to perform or observe any covenant contained in Section 5.05, 5.06(a) or (b), or Article VI of this Agreement or (B) fail to perform or observe any other term or covenant set forth in this Agreement or in any other Credit Document which is not covered by clause (i)(A) above or any other provision of this Section 7.01 if such failure shall remain unremedied for 30 days after the earlier of written notice of such failure shall have been given to the Borrower by the Administrative Agent or any Lender or the Borrower's Knowledge of such failure or (ii) any of the Borrower's Subsidiaries (other than the Trust Subsidiary) shall fail to perform or observe any covenant contained in the Guaranty (after any applicable grace period);

(d) CROSS-DEFAULTS. (i) The Borrower or any its Subsidiaries shall fail to pay any principal of or premium or interest on its Debt (but excluding Debt constituting Obligations under the Credit Documents) which is outstanding in an amount of at least (A) with respect to Debt which constitutes Deferred Purchase Price, \$2,000,000 individually or \$5,000,000 when aggregated with all other Debt of the Borrower or its Subsidiaries which constitutes Deferred Purchase Price and is so in default; or (B) with respect to any other Debt, \$1,000,000 individually or when aggregated with all such other Debt of the Borrower or its Subsidiaries so in default, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; (ii) any other event shall occur or condition shall exist under any agreement or instrument relating to the Debt specified in clause (i)(A) or (B) of this paragraph (d) and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate the maturity of such Debt; or (iii) any Debt specified in clause (i)(A) or (B) of this paragraph (d) shall properly be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; and in any such event, if (in the case of Debt constituting Deferred Purchase Price only) such default is not cured in full within ten (10) Business Days thereafter;

(e) INSOLVENCY. (i) The Borrower or any of its Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; (ii) any proceeding shall be instituted by or against the Borrower or any of its Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against the Borrower or any such Subsidiary, either such proceeding shall remain undismissed for a period of 60 days or any of the actions sought in such proceeding shall occur; or (iii) the Borrower or any of its Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this paragraph (e), except for any of the foregoing events affecting any of the Borrower's Subsidiaries which is not reasonably likely to cause a Material Adverse Change;

(f) JUDGMENTS. One or more judgments or orders for the payment of money in excess of \$2,000,000 in the aggregate (after giving effect to insurance proceeds, if any, received or to be received by the Borrower or any of its Subsidiaries) shall be rendered against the Borrower or any of its Subsidiaries and either (A) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (B) there shall be any period of 60 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect;

(g) TERMINATION EVENTS. Any Termination Event with respect to a Plan shall have occurred, and, 30 days after notice thereof shall have been given to the Borrower by the Administrative Agent, (i) such Termination Event shall not have been corrected and (ii) the then present value of such Plan's vested benefits exceeds the then current value of assets accumulated in such Plan by more than the amount of \$500,000 (or in the case of a Termination Event involving the withdrawal of a "substantial employer" (as defined in Section 4001(a)(2) of ERISA), the withdrawing employer's proportionate share of such excess shall exceed such amount);

(h) PLAN WITHDRAWALS. The Borrower or any member of the Controlled Group as employer under a Multiemployer Plan shall have made a complete or partial withdrawal from such Multiemployer Plan and the plan sponsor of such Multiemployer Plan shall have notified such withdrawing employer that such employer has incurred a withdrawal liability in an annual amount exceeding \$500,000;

(i) GUARANTY. Any material provision of the Guaranty shall for any reason cease to be valid and binding on any applicable Subsidiary of the Borrower or the applicable Subsidiary of the Borrower shall so state in writing;

(j) CHANGE OF CONTROL. (i) As a result of one or more transactions after the date of this Agreement, any "person" or related persons constituting a "group" of persons shall have "beneficial ownership" of more than 20% of the total voting power of all classes then outstanding of Voting Securities of the Borrower (all within the meaning of Section 13(d) or 14(d), as applicable, of the Securities Exchange Act of 1934, as amended, and the applicable rules and regulations thereunder), provided that the relationships among the respective shareholders of the Borrower on the date of this Agreement shall not be deemed to constitute all or any combination of them as a "group" or (ii) individuals who, at the beginning of any period of 12 consecutive months, constitute the Borrower's board of directors (together with any new director whose election by the Borrower's board of directors or whose nomination for election by the Borrower's stockholders entitled to vote thereon was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason (other than death or disability) to constitute a majority of the Borrower's board of directors then in office; or

(k) OTHER OBLIGATIONS. The Borrower shall fail to pay or cause to be paid any principal of or premium, make-whole amount, or interest on the Trust Preferred Stock, Trust Notes, Trust Guaranties, or Senior Notes, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreements, instruments, and documents governing the Trust Preferred Stock, Trust Notes, Trust Guaranties, or Senior Notes (collectively, the "Debt Documents"), subject to any valid exercise of any deferral rights contained therein, (ii) any other event shall occur or condition shall exist under any Debt Document and shall continue after the applicable grace period, if any, specified in such Debt Document, if the effect of such event or condition is to accelerate the maturity of the Trust Preferred Stock, Trust Notes, or Senior Notes, as applicable; (iii) without the prior written consent of the Majority Lenders, any modification shall be made to any Debt Document which (A) renders the subordination provisions thereof more favorable to the holders of the Trust Preferred Stock, Trust Notes, or Senior Notes, as applicable, or less favorable to the Lenders, or (B) renders the economic terms of the Trust Preferred Stock, Trust Notes, or Senior Notes, as applicable, materially more favorable to the holders of the Trust Preferred Stock, Trust Notes, or Senior Notes, as applicable, or materially less favorable to the Borrower or the applicable Subsidiary, or (iv) any event shall occur under any Debt Document that would permit the holders thereof to require the redemption or mandatory prepayment thereof.

Section 7.02. OPTIONAL ACCELERATION OF MATURITY. If any Event of Default (other than an Event of Default pursuant to paragraph (e) of Section 7.01) shall have occurred and be continuing, then, and in any such event:

(a) the Administrative Agent (i) shall at the request, or may with the consent, of the Majority Lenders, by notice to the Borrower, declare the obligation of each Lender to make Advances and the obligation of the Issuing Lender to issue Letters of Credit to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Majority Lenders, by notice to the Borrower, declare the Notes, all interest thereon, the Letter of Credit Obligations, and all other Obligations payable under this Agreement to be forthwith due and payable, whereupon the Notes, all such interest, all such Letter of Credit Obligations and all such other Obligations shall become and be forthwith due and payable in full, without presentment, demand, protest or further notice of any kind (including, without limitation, any notice of intent to accelerate or notice of acceleration), all of which are (unless otherwise provided for herein) hereby expressly waived by the Borrower; and

(b) the Borrower shall, on demand of the Administrative Agent at the request or with the consent of the Majority Lenders, either deposit with the Administrative Agent into the Cash Collateral Account an amount of cash equal to the outstanding Letter of Credit Exposure as security for the Obligations to the extent the Letter of Credit Obligations are not otherwise paid at such time, or cause to be issued and delivered to the Issuing Lender a standby letter of credit of the type described in Section 2.13(a).

Section 7.03. AUTOMATIC ACCELERATION OF MATURITY. If any Event of Default pursuant to paragraph (e) of Section 7.01 shall occur,

(a) the obligation of each Lender to make Advances, the obligation of the Issuing Lender to issue, increase, or extend Letters of Credit, and all other commitments of the Lender under the Credit Documents shall immediately and automatically be terminated and the Notes, all interest on the Notes, all Letter of Credit Obligations, and all other Obligations shall immediately and automatically become and be due and payable in full, without presentment, demand, protest or any notice of any kind (including, without limitation, any notice of intent to accelerate or notice of acceleration), all of which are (unless otherwise provided for herein) hereby expressly waived by the Borrower and

(b) the Borrower shall either deposit with the Administrative Agent into the Cash Collateral Account an amount of cash equal to the outstanding Letter of Credit Exposure as security for the Obligations to the extent the Letter of Credit Obligations are not otherwise paid at such time, or cause to be issued and delivered to the Issuing Lender a standby letter of credit of the type described in Section 2.13(a).

Section 7.04. CASH COLLATERAL ACCOUNT.

(a) If at any time the Borrower is required to deposit funds in the Cash Collateral Account and the same has not been administratively established, the Borrower and the Administrative Agent shall establish the Cash Collateral Account and the Borrower shall execute any documents and agreements, including the Administrative Agent's standard form assignment of deposit accounts, that the Administrative Agent requests in connection therewith to establish the Cash Collateral Account and confirm the Administrative Agent a first priority security interest in such account and the funds therein. The Borrower hereby pledges to the Administrative Agent and grants the Administrative Agent a security interest in the Cash Collateral Account, whenever established, all funds held in the Cash Collateral Account from time to time, and all proceeds thereof as security for the payment of the Obligations.

(b) During the existence of any Event of Default, funds held in the Cash Collateral Account shall be held as cash collateral for Obligations with respect to Letters of Credit and promptly applied by the Administrative Agent to any reimbursement or other Obligations arising under the Letter of Credit Documents. To the extent that any surplus funds are held in the Cash Collateral Account above the Letter of Credit Exposure, the Administrative Agent may (A) hold such surplus funds in the Cash Collateral Account as cash collateral for the Obligations or (B) apply such surplus funds to any Obligations. Upon cure of all Events of Default, the Administrative Agent shall release to the Borrower at the Borrower's written request any funds held in the Cash Collateral Account.

(c) Funds held in the Cash Collateral Account shall be invested in money market funds of the Administrative Agent or in another investment if mutually agreed upon by the Borrower and the Administrative Agent, but the Administrative Agent shall have no other obligation to make any other

investment of the funds therein. The Administrative Agent shall exercise reasonable care in the custody and preservation of any funds held in the Cash Collateral Account and shall be deemed to have exercised such care if such funds are accorded treatment substantially equivalent to that which the Administrative Agent accords its own property, it being understood that the Administrative Agent shall not have any responsibility for taking any necessary steps to preserve rights against any parties with respect to any such funds.

Section 7.05. NON-EXCLUSIVITY OF REMEDIES. No remedy conferred upon the Administrative Agent is intended to be exclusive of any other remedy, and each remedy shall be cumulative of all other remedies existing by contract, at law, in equity, by statute or otherwise.

Section 7.06. RIGHT OF SET-OFF. Upon the occurrence and during the continuance of any Event of Default, the Administrative Agent and each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Administrative Agent or such Lender to or for the credit or the account of the Borrower (other than deposits specifically maintained to support Pre-need Obligations) against any and all of the Obligations of the Borrower now or hereafter existing, irrespective of whether or not the Administrative Agent or such Lender shall have made any demand, and although such obligations may be unmatured. The Administrative Agent and each Lender agrees to promptly notify the Borrower after any such set-off and application made by the Administrative Agent or such Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Administrative Agent and each Lender under this Section are in addition to any other rights and remedies (including, without limitation, other rights of set-off) which the Administrative Agent or such Lender may have.

ARTICLE VIII

THE ADMINISTRATIVE AGENT AND THE ISSUING LENDER

Section 8.01. AUTHORIZATION AND ACTION. Each Lender hereby appoints and authorizes the Administrative Agent to take such action as agent on behalf of such Lender and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof and of the other Credit Documents, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement or any other Credit Document (including, without limitation, enforcement or collection of the Notes), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Lenders (or all the Lenders where unanimity is required), and such instructions shall be binding upon all Lenders and all holders of the Notes; PROVIDED, HOWEVER, that the Administrative Agent shall not be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to this Agreement, any other Credit Document, or applicable law.

Section 8.02. ADMINISTRATIVE AGENT'S RELIANCE, ETC. Neither the Administrative Agent nor any of the Administrative Agent's directors, officers, agents or employees shall be liable for any action taken or omitted to be taken (including the Administrative Agent's own negligence) by it or them under or in connection with this Agreement or the other Credit Documents, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Administrative Agent: (a) may treat the payee of any Note as the holder thereof until the Administrative Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to the Administrative Agent; (b) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with this Agreement or the other Credit Documents; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or any other Credit Document on the part of the Borrower or its Subsidiaries or to inspect the property (including the books and records) of the Borrower or its Subsidiaries; (e) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other Credit Document; and (f) shall incur no liability under or in respect of this Agreement or any other Credit Document by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopy, telegram, cable or telex) reasonably believed by it to be genuine and signed or sent by the proper party or parties.

Section 8.03. THE ADMINISTRATIVE AGENT AND ITS AFFILIATES. With respect to its Commitment, the Advances made by it and the Note issued to it, the Administrative Agent shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though

it were not an Administrative Agent hereunder. The term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include the Administrative Agent in its individual capacity. The Administrative Agent and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, the Borrower or any of its Subsidiaries, and any Person who may do business with or own securities of the Borrower or any such Subsidiary, all as if the Administrative Agent were not an agent hereunder and without any duty to account therefor to the Lenders.

Section 8.04. LENDER CREDIT DECISION. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on the financial statements referred to in Section 4.05 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

Section 8.05. INDEMNIFICATION. THE LENDERS SEVERALLY AGREE TO INDEMNIFY THE ADMINISTRATIVE AGENT AND THE ISSUING LENDER AND EACH AFFILIATE THEREOF AND THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS (TO THE EXTENT NOT REIMBURSED BY THE BORROWER), ACCORDING TO THEIR RESPECTIVE PRO RATA SHARES FROM AND AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES OR DISBURSEMENTS OF ANY KIND OR NATURE WHATSOEVER WHICH MAY BE IMPOSED ON, INCURRED BY, OR ASSERTED AGAINST THE ADMINISTRATIVE AGENT AND THE ISSUING LENDER IN ANY WAY RELATING TO OR ARISING OUT OF THIS AGREEMENT OR ANY ACTION TAKEN OR OMITTED BY THE ADMINISTRATIVE AGENT OR THE ISSUING LENDER UNDER THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT (INCLUDING THE ADMINISTRATIVE AGENT'S AND THE ISSUING LENDER'S OWN NEGLIGENCE), PROVIDED THAT NO LENDER SHALL BE LIABLE FOR ANY PORTION OF SUCH LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES OR DISBURSEMENTS RESULTING FROM THE ADMINISTRATIVE AGENT'S OR THE ISSUING LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. WITHOUT LIMITATION OF THE FOREGOING, EACH LENDER AGREES TO REIMBURSE THE ADMINISTRATIVE AGENT PROMPTLY UPON DEMAND FOR ITS RATABLE SHARE OF ANY OUT-OF-POCKET EXPENSES (INCLUDING COUNSEL FEES) INCURRED BY THE ADMINISTRATIVE AGENT IN CONNECTION WITH THE PREPARATION, EXECUTION, DELIVERY, ADMINISTRATION, MODIFICATION, AMENDMENT OR ENFORCEMENT (WHETHER THROUGH NEGOTIATIONS, LEGAL PROCEEDINGS OR OTHERWISE) OF, OR LEGAL ADVICE IN RESPECT OF RIGHTS OR RESPONSIBILITIES UNDER, THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT, TO THE EXTENT THAT THE

ADMINISTRATIVE AGENT IS NOT REIMBURSED FOR SUCH EXPENSES BY THE BORROWER.

Section 8.06. SUCCESSOR ADMINISTRATIVE AGENT AND ISSUING LENDER. The Administrative Agent or the Issuing Lender may resign at any time by giving written notice thereof to the Lenders and the Borrower and may be removed at any time with cause by the Majority Lenders upon receipt of written notice from the Majority Lenders to such effect. Upon receipt of notice of any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Administrative Agent or Issuing Lender with, if no Default exists, the consent of the Borrower, which consent shall not be unreasonably withheld. If no successor Administrative Agent or Issuing Lender shall have been so appointed by the Majority Lenders with the consent of the Borrower, if required, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent's or Issuing Lender's giving of notice of resignation or the Majority Lenders' removal of the retiring Administrative Agent or Issuing Lender, then the retiring Administrative Agent or Issuing Lender may, on behalf of the Lenders and the Borrower, appoint a successor Administrative Agent or Issuing Lender, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$500,000,000 and, in the case of the Issuing Lender, a Lender. Upon the acceptance of any appointment as Administrative Agent or Issuing Lender by a successor Administrative Agent or Issuing Lender, such successor Administrative Agent or Issuing Lender shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent or Issuing Lender, and the retiring Administrative Agent or Issuing Lender shall be discharged from its duties and obligations under this Agreement and the other Credit Documents, except that the retiring Issuing Lender shall remain the Issuing Lender with respect to any Letters of Credit outstanding on the effective date of its resignation or removal and the provisions affecting the Issuing Lender with respect to such Letters of Credit shall inure to the benefit of the retiring Issuing Lender until the termination of all such Letters of Credit. After any retiring Administrative Agent's or Issuing Lender's resignation or removal hereunder as Administrative Agent or Issuing Lender, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent or Issuing Lender under this Agreement and the other Credit Documents.

ARTICLE IX

MISCELLANEOUS

Section 9.01. AMENDMENTS, ETC. No amendment or waiver of any provision of this Agreement, the Notes, or any other Credit Document, nor consent to any departure by the Borrower or any of its Subsidiaries therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Lenders and the Borrower, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; PROVIDED, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders, do any of the following: (a) waive any of the conditions specified in Section 3.01 or 3.02, (b) increase the Commitments of the Lenders, (c) reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder or under any other Credit Document, (d) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (e) amend Section 2.01, Section 2.13, Section 2.14(a) or this Section 9.01, (f) release the Guaranty or any guarantor thereunder (other than the release of a guarantor which is one of the Borrower's Subsidiaries in connection with the sale or transfer thereof, whether by sale of stock, merger, consolidation or otherwise, to the extent permitted under this Agreement), or (g) amend the definitions of "Majority Lenders" and "Maturity Date"; and PROVIDED, further, that no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent or the Issuing Lender in addition to the Lenders required above to take such action, affect the rights or duties of the Administrative Agent or the Issuing Lender, as the case may be, under this Agreement or any other Credit Document.

Section 9.02. NOTICES, ETC. All notices and other communications shall be in writing (including telecopy, telegraphic or telex) and mailed, telecopied, telegraphed, telexed, hand delivered or delivered by a nationally recognized overnight courier, if to the Borrower, at its address at 1300 Post Oak Blvd., Suite 1500, Houston, Texas 77056, Attention: Chief Financial Officer (telecopy: (281) 556-7401; telephone: (281) 556-7400), with a copy to: Mr. W. Christopher Schaeper, Snell & Smith, A Professional Corporation, 1000 Louisiana, Suite 1200, Houston, Texas 77002 (telecopy: (713) 651-8010; telephone (713) 652-3300; if to any Lender at its Domestic Lending Office specified opposite its name on Schedule 1 or pursuant to Section 2.10(b); and if to the Administrative Agent or the Issuing Lender, at its address at 700 Louisiana, 7th Floor, Houston, Texas 77002, Attention: Mr. Craig S. Wall (telecopy: (713) 247-7748; telephone: (713) 247-6559); or, as to each party, at such other address or teletransmission number as shall be designated by such party in a written notice to the other parties. All such notices and communications shall, when mailed, telecopied, telegraphed, telexed, hand delivered or delivered, be effective three days after deposited in the mails, telecopy transmission is completed, delivered to the telegraph company, confirmed by telex answer-back or, if hand delivered or delivered by a courier, when received, respectively, except that notices and communications to the Administrative Agent pursuant to Article II or VIII shall not be effective until received by the Administrative Agent.

Section 9.03. NO WAIVER; REMEDIES. No failure on the part of any Lender, the Administrative Agent, or the Issuing Lender to exercise, and no delay in exercising, any right hereunder or under any Credit Document shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 9.04. COSTS AND EXPENSES. The Borrower agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Administrative Agent (including the reasonable fees and expenses of its legal counsel) in connection with the preparation, execution, delivery, administration, modification and amendment of this Agreement, the Notes and the other Credit Documents including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Administrative Agent and with respect to advising the Administrative Agent as to its rights and responsibilities under this Agreement, and all reasonable out-of-pocket costs and expenses, if any, of the Administrative Agent, the Issuing Lender, and each Lender (including, without limitation, reasonable counsel fees and expenses of the Administrative Agent, the Issuing Lender, and each Lender) in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other Credit Documents.

Section 9.05. BINDING EFFECT. This Agreement shall become effective when it shall have been executed by the Borrower and the Administrative Agent, and when the Administrative Agent shall have, as to each Lender, either received a counterpart hereof executed by such Lender or been notified by such Lender that such Lender has executed it and thereafter shall be binding upon and inure to the benefit of the Borrower, the Administrative Agent, the Issuing Lender, and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights or delegate its duties under this Agreement or any interest in this Agreement without the prior written consent of each Lender.

(a) ASSIGNMENTS. Any Lender may assign to one or more Eligible Assignees all or any portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it, the Note held by it, and the participation interest in the Letter of Credit Obligations held by it); PROVIDED, HOWEVER, that (i) each such assignment shall be of a constant, and not a varying, percentage of all of such Lender's rights and obligations under this Agreement, (ii) the amount of the Commitment, Advances, and Letter of Credit Exposure of such Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall be, if to an entity other than a Lender, not less than \$5,000,000 and, unless such assignment is an assignment of 100% of such Lender's rights and obligations hereunder, shall be an integral multiple of \$1,000,000, (iii) each such assignment shall be to an Eligible Assignee, (iv) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with the Note subject to such assignment, and (v) each Eligible Assignee (other than the Eligible Assignee of the Administrative Agent) shall pay to the Administrative Agent a \$3,500 administrative fee. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least three Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto for all purposes and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (B) such Lender thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of such Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but all indemnification provisions contained herein shall continue to inure for the benefit of such departing Lender with respect to matters arising during the period such Lender was a party hereto).

(b) TERM OF ASSIGNMENTS. By executing and delivering an Assignment and Acceptance, the Lender thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency of value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or its Subsidiaries or the performance or observance by the Borrower or its Subsidiaries of any of their obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.05 (or its most recently furnished financial statements pursuant to Section 5.06) and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment

and Acceptance; (iv) such assignee will, independently and without reliance upon the Administrative Agent, such Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vi) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(c) THE REGISTER. The Administrative Agent shall maintain at its address referred to in Section 9.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitments of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Administrative Agent, the Issuing Lender, and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) PROCEDURES. Upon its receipt of an Assignment and Acceptance executed by a Lender and an Eligible Assignee, together with the Notes subject to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of the attached Exhibit A, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register, and (iii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice, the Borrower, with its own attorney's fees being its own expense, shall execute and deliver to the Administrative Agent in exchange for the surrendered Notes a new Note to the order of such Eligible Assignee in an amount equal to the Commitment assumed by it pursuant to such Assignment and Acceptance and, if such Lender has retained any Commitment hereunder, a new Note to the order of such Lender in an amount equal to the Commitment retained by it hereunder. Such new Notes shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of the attached Exhibit C.

(e) PARTICIPATIONS. Each Lender may sell participations to one or more banks or other entities in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitments, the Advances owing to it, its participation interest in the Letter of Credit Obligations, and the Notes held by it); PROVIDED, HOWEVER, that (i) such Lender's obligations under this Agreement (including, without limitation, its Commitments to the Borrower hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Notes for all purposes of this Agreement, (iv) the Borrower, the Administrative Agent, and the Issuing Lender and the other Lenders shall continue to deal solely and directly with such

Lender in connection with such Lender's rights and obligations under this Agreement, and (v) such Lender shall not require the participant's consent to any matter under this Agreement, except for change in the principal amount of the Notes, reductions in fees or interest, or extending the Maturity Date. The Borrower hereby agrees that participants shall have the same rights under Sections 2.09, 2.10, 2.12(c), and 9.07 as a Lender to the extent of their respective participations.

(f) CONFIDENTIALITY. Each Lender may furnish any information concerning the Borrower and its Subsidiaries in the possession of such Lender from time-to-time to assignees and participants (including prospective assignees and participants); PROVIDED that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree in writing to preserve the confidentiality of any confidential information relating to the Borrower and its Subsidiaries received by it from such Lender. Such Lender shall, upon the Borrower's request, deliver a signed copy of any such confidentiality agreement to the Borrower.

Section 9.07. INDEMNIFICATION. THE BORROWER SHALL INDEMNIFY THE ADMINISTRATIVE AGENT, THE LENDERS, THE ISSUING LENDER, AND EACH AFFILIATE THEREOF AND THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS (COLLECTIVELY, THE "RELATED PARTIES") FROM, AND DISCHARGE, RELEASE, AND HOLD EACH OF THEM HARMLESS AGAINST, ANY AND ALL LOSSES, LIABILITIES, CLAIMS OR DAMAGES TO WHICH ANY OF THEM MAY BECOME SUBJECT, INsofar AS SUCH LOSSES, LIABILITIES, CLAIMS OR DAMAGES ARIse OUT OF OR RESULT FROM (I) ANY ACTUAL OR PROPOSED USE BY THE BORROWER OR ANY AFFILIATE OF THE BORROWER OF THE PROCEEDS OF ANY ADVANCE, (II) ANY BREACH BY THE BORROWER OF ANY PROVISION OF THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT, (III) ANY INVESTIGATION, LITIGATION OR OTHER PROCEEDING (INCLUDING ANY THREATENED INVESTIGATION OR PROCEEDING) RELATING TO THE FOREGOING, OR (IV) ANY ENVIRONMENTAL CLAIM OR REQUIREMENT OF ENVIRONMENTAL LAWS CONCERNING OR RELATING TO THE PRESENT OR PREVIOUSLY OWNED OR OPERATED PROPERTIES, OR THE OPERATIONS OR BUSINESS, OF THE BORROWER OR ANY OF ITS SUBSIDIARIES, INCLUDING WITHOUT LIMITATION THOSE MATTERS SET FORTH IN SCHEDULES 4.16(A) AND (B), AND THE BORROWER SHALL REIMBURSE THE ADMINISTRATIVE AGENT, THE ISSUING LENDER, AND EACH LENDER, AND EACH OF THEIR RESPECTIVE RELATED PARTIES, UPON DEMAND FOR ANY REASONABLE OUT-OF-POCKET EXPENSES (INCLUDING LEGAL FEES) INCURRED IN CONNECTION WITH ANY SUCH INVESTIGATION, LITIGATION OR OTHER PROCEEDING; AND EXPRESSLY INCLUDING ANY SUCH LOSSES, LIABILITIES, CLAIMS, DAMAGES, OR EXPENSE INCURRED BY REASON OF THE PERSON BEING INDEMNIFIED'S OWN NEGLIGENCE, BUT EXCLUDING ANY SUCH LOSSES, LIABILITIES, CLAIMS, DAMAGES OR EXPENSES INCURRED BY REASON OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE PERSON TO BE INDEMNIFIED.

Section 9.08. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

Section 9.09. SURVIVAL OF REPRESENTATIONS, ETC. All representations and warranties contained in this Agreement or made in writing by or on behalf of the Borrower in connection herewith shall survive the execution and delivery of this Agreement and the Credit Documents, the making of the Advances and any investigation made by or on behalf of the Lenders, none of which investigations shall diminish any Lender's right to rely on such representations and warranties. All obligations of the Borrower provided for in Sections 2.09, 2.10, 2.12(c), and 9.07 shall survive any termination of this Agreement and repayment in full of the Obligations.

Section 9.10. SEVERABILITY. In case one or more provisions of this Agreement or the other Credit Documents shall be invalid, illegal or unenforceable in any respect under any applicable law, the validity, legality and enforceability of the remaining provisions contained herein or therein shall not be affected or impaired thereby.

Section 9.11. BUSINESS LOANS. The Borrower warrants and represents that the Loans evidenced by the Notes and the Swing Line Note are and shall be for business, commercial, investment or other similar purposes and not primarily for personal, family, household or agricultural use, as such terms are used in Chapter 303 of the Texas Finance Code and Chapter 1D of the Texas Credit Title.

Section 9.12. USURY NOT INTENDED. It is the intent of the Borrower and each Lender in the execution and performance of this Agreement and the other Credit Documents to contract in strict compliance with applicable usury laws, including conflicts of law concepts, governing the Advances of each Lender including such applicable laws of the State of Texas and the United States of America from time to time in effect. In furtherance thereof, each Lender and the Borrower stipulate and agree that none of the terms and provisions contained in this Agreement or the other Credit Documents shall ever be construed to create a contract to pay, as consideration for the use, forbearance or detention of money, interest at a rate in excess of the Maximum Rate applicable to such Lender and that for purposes hereof "interest" shall include the aggregate of all charges which constitute interest under such laws that are contracted for, charged or received under this Agreement; and in the event that, notwithstanding the foregoing, under any circumstances the aggregate amounts taken, reserved, charged, received or paid on the Advances, include amounts which by applicable law are deemed interest which would exceed the Maximum Rate applicable to such Lender, then such excess shall be deemed to be a mistake and such Lender shall credit the same on the principal of its Note (or if such Note shall have been paid in full, refund said excess to the Borrower). In the event that the maturity of the Notes are accelerated by reason of any election of the Majority Lenders resulting from any Event of Default under this Agreement or otherwise, or in the event of any required or permitted prepayment, then such consideration to any Lender that constitutes interest may never include more than the Maximum Rate for such Lender and excess interest, if any, provided for in this Agreement or otherwise shall be canceled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited by such Lender on its Note (or, if its Note shall have been paid in full, refunded to the Borrower of such interest). The provisions of this Section shall control over all other provisions of this Agreement or the other Credit Documents which may be in apparent conflict herewith. In determining whether or not the interest paid or payable under any specific contingencies exceeds the Maximum Rate applicable to a Lender, the Borrower and such Lender shall to the maximum extent permitted under applicable law give effect to Section 2.07(d) and amortize, prorate, allocate and spread in equal parts during the period of the full stated term of its Note all amounts considered to be interest under applicable law at any time contracted for, charged, received or reserved in connection with the Obligations.

Section 9.13. GOVERNING LAW. This Agreement, the Notes and the other Credit Documents shall be governed by, and construed and enforced in accordance with, the laws of the State of Texas. Borrower and each Lender agree that the provisions of Chapter 346 of the Texas Finance Code, as amended (regulating certain revolving credit loans and revolving tri-party accounts) shall not apply to the Credit Documents.

Section 9.14 AMENDMENT AND RESTATEMENT. This Agreement represents a full and complete amendment and restatement of the Credit Agreement dated as of September 9, 1997 (as amended, the "Existing Credit Agreement"), among the Borrower, NationsBank of Texas, N.A., predecessor in interest to the Administrative Agent, as administrative agent, and the Lenders named therein, which amended and restated the Credit Agreement dated as of August 13, 1996, among the

Borrower, NationsBank of Texas, N.A., as administrative agent, Provident, as documentation agent, and the Lenders named therein. The Existing Credit Agreement is deemed replaced hereby as of the effectiveness of this Agreement. The indebtedness under such prior version of this Agreement continues under this Agreement (as reallocated among the Lenders in connection with the effectiveness of this Agreement) and the execution of this Agreement does not indicate a payment, satisfaction, novation, or discharge thereof. All support for the indebtedness under the prior version of this Agreement continues to support the indebtedness hereunder. Upon the effectiveness of this Agreement, all outstanding Advances shall be reallocated among the Lenders ratably in accordance with their Commitments. Amounts payable under the prior version of this Agreement shall accrue thereunder until the effectiveness of this Agreement and the Administrative Agent shall arrange with the Borrower and the Lenders to prorate and ratably distribute to the Administrative Agent and the Lenders all amounts payable under the prior version of this Agreement for the periods prior to the effectiveness of this Agreement.

THE BORROWER, THE LENDERS, THE ISSUING LENDER AND THE ADMINISTRATIVE AGENT HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN RESPECT OF ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER CREDIT DOCUMENT, OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY.

PURSUANT TO SECTION 26.02 OF THE TEXAS BUSINESS AND COMMERCE CODE, A CREDIT AGREEMENT IN WHICH THE AMOUNT INVOLVED IN THE CREDIT AGREEMENT EXCEEDS \$50,000 IN VALUE IS NOT ENFORCEABLE UNLESS THE LOAN AGREEMENT IS IN WRITING AND SIGNED BY THE PARTY TO BE BOUND OR THAT PARTY'S AUTHORIZED REPRESENTATIVE.

THE RIGHTS AND OBLIGATIONS OF THE PARTIES TO AN AGREEMENT SUBJECT TO THE PRECEDING PARAGRAPH SHALL BE DETERMINED SOLELY FROM THE WRITTEN CREDIT AGREEMENT, AND ANY PRIOR ORAL AGREEMENTS BETWEEN THE PARTIES ARE SUPERSEDED BY AND MERGED INTO THE CREDIT AGREEMENT. THIS WRITTEN AGREEMENT AND THE CREDIT DOCUMENTS, AS DEFINED IN THIS AGREEMENT, REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

EXECUTED as of the date first above written.

BORROWER:

CARRIAGE SERVICES, INC.

By: -----
Thomas C. Livengood, Executive Vice
President and Chief Financial Officer

ADMINISTRATIVE AGENT:

NATIONSBANK, N.A. d/b/a
BANK OF AMERICA, N.A.

By: -----
Craig S. Wall
Senior Vice President

COMMITMENT:

LENDERS:

NATIONSBANK, N.A. d/b/a
BANK OF AMERICA, N.A.

Commitment: \$40,000,000

By: -----
Craig S. Wall
Senior Vice President

PROVIDENT SERVICES, INC.

Commitment: \$50,000,000

By:

Daniel M. Chong
Vice President

BANK ONE, TEXAS, NA

Commitment: \$40,000,000

By: -----

Name: -----

Title: -----

FIRST UNION NATIONAL BANK

Commitment: \$20,000,000

By: -----

Name: -----

Title: -----

CHASE BANK TEXAS, N.A.

Commitment: \$35,000,000

By: -----
Name: -----
Title: -----

WELLS FARGO BANK (TEXAS), NATIONAL
ASSOCIATION

Commitment: \$15,000,000

By: -----
Name: -----
Title: -----

UNION BANK OF CALIFORNIA, N.A.

Commitment: \$15,000,000

By: -----

Name: -----

Title: -----

SUNTRUST BANK, ATLANTA

Commitment: \$25,000,000

By: -----
Name: -----
Title: -----

By: -----
Name: -----
Title: -----

SOUTHWEST BANK OF TEXAS, N.A.

Commitment: \$10,000,000

By: -----

Name: -----

Title: -----

CARRIAGE SERVICES, INC.
 COMPUTATION OF PER SHARE EARNINGS
 (UNAUDITED AND IN THOUSANDS, EXCEPT PER SHARE DATA)

Earnings per share for the three and six month periods ended June 30, 1999 and 1998 is calculated based on the weighted average number of common and common equivalent shares outstanding during the period as prescribed by SFAS 128. The following table sets forth the computation of the basic and diluted earnings per share for the three and six month periods ended June 30, 1998 and 1999:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1999	1998	1999
Net income before extraordinary item	\$ 1,803	\$ 3,096	\$ 4,449	\$ 7,474
Extraordinary item	--	(200)	--	(200)
Net income	1,803	2,896	4,449	7,274
Preferred stock dividends	151	28	301	56
Net income available to common stockholders for basic EPS computation	1,652	2,868	4,148	7,218
Effect of dilutive securities	--	--	243	291
Net income available to common stockholders for diluted EPS computation	\$ 1,652	\$ 2,868	\$ 4,391	\$ 7,509
Weighted average number of common shares outstanding for basic EPS computation	12,393	15,877	11,775	15,843
Effect of dilutive securities:				
Stock options	488	458	377	424
Assumed conversion of preferred stock	--	--	722	714
Weighted average number of common and common equivalent shares outstanding for diluted EPS computation	12,881	16,335	12,874	16,981
Basic earnings per share:				
Net income before extraordinary item	\$.13	\$.19	\$.35	\$.47
Extraordinary item	--	(.01)	--	(.01)
Net income	\$.13	\$.18	\$.35	\$.46
Diluted earnings per share:				
Net income before extraordinary item	\$.13	\$.19	\$.35	\$.45
Extraordinary item	--	(.01)	--	(.01)
Net income	\$.13	\$.18	\$.35	\$.44

CARRIAGE SERVICES, INC.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (UNAUDITED AND IN THOUSANDS)

	1994*	1995*	1996*	1997	1998	SIX MONTHS ENDED JUNE 30, 1999
Fixed charges:						
Interest expense	\$ 2,671	\$ 3,684	\$4,347	\$5,889	\$ 9,720	\$ 7,470
Amortization of capitalized expenses related to debt	30	50	150	200	150	64
Rental expense	245	317	308	629	720	415
Total fixed charges before capitalized interest and preferred stock dividends	2,946	4,051	4,805	6,718	10,590	7,949
Capitalized interest	100	175	250	450	600	216
Total fixed charges	3,046	4,226	5,055	7,168	11,190	8,165
Preferred stock dividends	--	--	1,037	1,627	1,082	98
Total fixed charges plus preferred dividends	3,046	4,226	6,092	8,795	12,272	8,263
Earnings available for fixed charges:	(923)	(1,800)	345	8,217	17,023	13,111
Add fixed charges before capitalized interest and preferred stock dividends	2,946	4,051	4,805	6,718	10,590	7,949
Total earnings available For fixed charges	\$ 2,023	\$ 2,251	\$5,150	\$14,935	\$27,613	\$ 21,060
Ratio of earnings to fixed charges (1)	0.66	0.53	1.02	2.08	2.47	2.58
Ratio of earnings to fixed charges plus dividends (1)	0.66	0.53	0.85	1.70	2.25	2.55

(1) For purposes of computing the ratios of earnings to fixed charges and earnings to fixed charges plus dividends: (i) earnings consist of income before provision for income taxes plus fixed charges (excluding capitalized interest) and (ii) "fixed charges" consist of interest expensed and capitalized, amortization of debt discount and expense relating to indebtedness and the portion of rental expense representative of the interest factor attributable to leases for rental property. There were no dividends paid or accrued on the Company's Common Stock during the periods presented above.

* Earnings were inadequate to cover fixed charges. The coverage deficiency was \$1,023,000, \$1,975,000 and \$942,000 for 1994, 1995 and 1996 respectively.

THE FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM 10-Q FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCES TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS	DEC-31-1999	
	JUN-30-1999	
		3,949
		0
		30,049
		4,848
		6,160
		36,558
		162,304
		14,147
		514,918
		22,582
		160,586
		90,547
		1,172
		158
		208,362
514,918		
		84,341
		84,341
		59,048
		59,048
		4,712
		0
		7,470
		13,111
		5,637
		7,474
		0
		(200)
		0
		2,274
		.47
		.45