SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM ------ TO --------

COMMISSION FILE NUMBER: 1-11961

CARRIAGE SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	76-0423828
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1900 SAINT JAMES PLACE, 4TH FLOOR, HOUSTON, TX	77056
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (713) 332-8400

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 May 10, 2001 was 14,804,927 and 1,789,618 respectively.

CARRIAGE SERVICES, INC.

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CARRIAGE SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31, 2000	MARCH 31, 2001
		(UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,210	$ 5,039
Accounts receivable --		
Trade, net of allowance for doubtful accounts of $4,572 in 2000 and $4,711 in 2001	16,167	14,503
Other	3,828	3,730
	19,995	18,233
Assets held for sale, net	10,018	2,503
Inventories and other current assets	9,152	9,343
Total current assets	42,375	35,118
Property, plant and equipment, at cost, net of accumulated depreciation of $19,156 in 2000 and $20,594 in 2001	119,252	118,392
Cemetery property, at cost	61,529	61,823
Names and reputations, net of accumulated amortization of $17,984 in 2000 and $19,156 in 2001	166,585	165,499
Deferred charges and other non-current assets	58,506	55,453
Preneed funeral contracts	231,874	236,444
Preneed cemetery trust funds	30,164	33,054
Total assets	$ 710,285	$ 705,783
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,240	$ 3,842
Accrued liabilities	21,007	18,395
Current portion of long-term debt and obligations under capital Leases	3,236	3,723
Total current liabilities	28,483	25,960
Deferred cemetery revenue and preneed liabilities	99,623	99,412
Deferred preneed funeral contracts revenue	231,874	236,444
Long-term debt, net of current portion	176,662	166,312
Obligations under capital leases, net of current portion	5,306	5,338
Total liabilities	541,948	533,466
Commitments and contingencies		
Redeemable preferred stock	1,172	1,172
Company-obligated mandatorily redeemable convertible preferred Securities of Carriage Services Capital Trust	89,928	89,997
Minority interest in consolidated subsidiary	---	200
Stockholders' equity:		
Class A Common Stock, $.01 par value; 40,000,000 shares Authorized; 14,302,000 and 14,724,000 issued and outstanding at December 31, 2000 and March 31, 2001, respectively	143	148
Class B Common Stock; $.01 par value; 10,000,000 shares Authorized; 1,845,000 and 1,793,000 issued and outstanding at December 31, 2000 and March 31, 2001, respectively	18	18
Contributed capital	193,234	193,664
Retained earnings	(116,158)	(112,380)
Unrealized gain (loss) on interest rate swaps, net of tax benefit	--	(502)
Total stockholders' equity	77,237	80,948
Total liabilities and stockholders' equity	$ 710,285	$ 705,783

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

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2000	2001
Revenues, net		
Funeral	$ 35,535	$ 34,887
Cemetery	9,676	8,993
	45,211	43,880
Costs and expenses		
Funeral	26,131	24,873
Cemetery	7,712	6,891
	33,843	31,764
Gross profit	11,368	12,116
General and administrative expenses	2,488	2,041
Operating income	8,880	10,075
Interest expense, net	3,719	3,686
Financing costs of company-obligated mandatorily Redeemable convertible preferred securities of Carriage Services Capital Trust	1,641	1,641
Total interest and financing costs	5,360	5,327
Income before income taxes and cumulative effect of the change in accounting principles	3,520	4,748
Provision for income taxes	1,760	950
Net income before cumulative effect of the change in accounting principle	1,760	3,798
Cumulative effect on prior years of the change in accounting principle, net of income tax benefit of $20,755	(38,993)	--
Net income (loss)	(37,233)	3,798
Preferred stock dividend requirements	21	20
Net income (loss) available to common stockholders	$ (37,254)	$ 3,778
Basic earnings (loss) per common share:		
Continuing operations	$ .11	$ .23
Cumulative effect of the change in accounting principle, net	(2.44)	--
Net income (loss)	$ (2.33)	$ .23
Diluted earnings (loss) per common share:		
Continuing operations	$ .11	$ .22
Cumulative effect of the change in accounting principle, net	(2.44)	--
Net income (loss)	$ (2.33)	$ .22
Weighted average number of common and common equivalent shares outstanding:		
Basic	15,977	16,511
Diluted	16,235	17,368

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

CARRIAGE SERVICES, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED AND IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	2001
Net income (loss)	$ (37,233)	$ 3,798
Other comprehensive income (loss):		
Cumulative effect on prior years of the change in accounting principle, net of income tax benefit of $1	---	1
Unrealized gains (losses) on interest rate swaps arising during period	---	(629)
Related income tax benefit	---	126
Total other comprehensive income (loss)	$ ---	$ (502)
Comprehensive income (loss)	$ (37,233)	$ 3,296

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

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2000	2001
Cash flows from operating activities:		
Net income (loss)	$ (37,233)	$ 3,798
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cumulative effect of the change in accounting principle, net of tax benefits	38,993	---
Depreciation	1,961	1,546
Amortization	3,132	2,699
Provision for losses on accounts receivable	1,078	1,185
Deferred income taxes	2,646	1,430
Net cash provided by operating activities before changes in assets and liabilities	10,577	10,658
Changes in assets and liabilities, net of effects from acquisitions:		
(Increase) decrease in accounts receivable	(2,805)	660
(Increase) decrease in inventories and other current assets	1,956	3,705
(Increase) decrease in deferred charges and other	313	(17)
(Increase) decrease in preneed cemetery trust funds	824	(2,890)
Increase (decrease) in accounts payable	824	(398)
(Decrease) in accrued liabilities	(1,871)	(2,656)
Increase (decrease) in deferred revenue and preneed liabilities	1,860	(213)
Net cash provided by operating activities	10,854	8,849
Cash flows from investing activities:		
Preneed funeral and cemetery costs	(2,699)	(958)
Purchase of note receivable	(566)	---
Proceeds from sales of businesses	--	6,224
Sale of minority interest in subsidiary	--	200
Acquisitions, net of cash acquired	(1,291)	(212)
Capital expenditures	(3,007)	(1,388)
Net cash provided by (used in) investing activities	(7,563)	3,866
Cash flows from financing activities:		
Proceeds from long-term debt	12,224	---
Proceeds from issuance of common stock	342	---
Payments on long-term debt and obligations under capital leases	(16,634)	(10,866)
Payment of preferred stock dividends	(21)	(20)
Net cash used in financing activities	(4,089)	(10,886)
Net increase (decrease) in cash and cash equivalents	(798)	1,829
Cash and cash equivalents at beginning of period	2,517	3,210
Cash and cash equivalents at end of period	$ 1,719	$ 5,039
Supplemental disclosure of cash flow information:		
Cash paid for interest and financing costs	$ 7,753	$ 6,214
Cash paid for income taxes	$ 194	$ ---

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

CARRIAGE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

(a) The Company

Carriage Services, Inc., (the "Company") is a leading provider of products and services in the death care industry in the United States. As of March 31, 2001, the Company owned and operated 161 funeral homes and 33 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 months ended March 31, 2000 and 2001 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 our annual report on Form 10-K for the year ended December 31, 2000, 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. ACCOUNTING CHANGES

(a) Preneed Revenues and Costs

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 - "Revenue Recognition in Financial Statements" (SAB 101). This SAB deals with various revenue recognition issues; certain ones of which are pertinent to the death care industry. As a result, we have changed our method of recognizing preneed revenues and certain related costs of originating preneed cemetery contracts. SAB 101 was effective as of the beginning of 2000, but because of extensions to allow for implementation, we implemented the changes beginning with the fourth quarter of 2000 and restated quarters 1 through 3 in our annual report on Form 10-K for the year ended December 31, 2000.

Previously, we had recognized sales of cemetery interment rights, together with associated merchandise and services as revenues at the time contracts were signed. Costs related to the sales of interment rights were charged to operations using the specific identification method. The costs for cemetery merchandise and services sold, but not delivered, was previously accrued as an expense at the time the cemetery revenue was recognized. Trust income on cemetery merchandise and service trusts was recognized when earned by the trust.

Under the new accounting principle, we will follow Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate", in recognizing the revenue from the sales of cemetery interment rights. This method is generally characterized as the period when the customer's payments equal or exceed 10% of the contract price related to the interment right. Costs related to the sales of interment rights are charged to operations using the specific identification method in the period in which the sale of the interment right is recognized as revenue. Revenues and costs related to the sales of cemetery merchandise and services, and earnings from the related trust funds, are deferred until the period in which the merchandise is delivered or the service is provided.

The Company recorded a non-cash charge of approximately $39.0 million, after reduction for income taxes of approximately $21 million, or $2.44 per share, to reflect the cumulative effect of the change in accounting principle as of the beginning of 2000. The effect of this change on the three months ended March 31, 2000, before the cumulative effect of the accounting change was to decrease net income $1.1 million, or $.07 per diluted share. The revenue not recognized is included in the consolidated balance sheet in the caption "Deferred cemetery revenue and preneed liabilities".

(b) Derivative Financial Instruments

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", for which the effective date was deferred to years beginning after June 15, 2000 by SFAS No. 137, and amended by SFAS No. 138 to establish accounting and financial reporting standards for certain derivative instruments and certain hedging activities. The key provisions of SFAS No. 133, as amended, are that certain derivatives will be recognized as an asset or liability at their fair value and that later changes in fair value are generally reported in earnings or other comprehensive income. The Company is currently engaged in interest rate swaps which have a notional amount of $30 million to hedge against rising interest rates on its variable rate long-term debt.

The Company recorded a non-cash benefit of approximately $1,000, after reduction for income taxes in the consolidated statement of comprehensive income to reflect the cumulative effect of the change in accounting principle as of the beginning of 2001.

3. PROPOSED ACCOUNTING CHANGE

The Financial Accounting Standards Board has issued an exposure draft which would change certain aspects in the manner in which businesses account for business combinations. We expect these changes to be prospective in the nature of adoption. The most significant of the proposed changes to Carriage would be the elimination of the amortization of Names and Reputations, which would have an estimated pre-tax impact of approximately $4 million per year, and testing to determine impairments, if any, for long-lived assets. The final pronouncement may change from the exposure draft.

4. MAJOR SEGMENTS OF BUSINESS

Carriage conducts funeral and cemetery operations only in the United States. The following table presents external revenue, profit and loss and total assets by segment (in thousands):

	Funeral	Cemetery	Corporate	Consolidated
External revenues:				
Three months ended March 31, 2001	$ 34,887	$ 8,993	---	$ 43,880
Three months ended March 31, 2000	35,535	9,676	---	45,211
Profit and Loss before cumulative effect of the change in accounting principle:				
Three months ended March 31, 2001	$ 8,011	$ 1,682	$ (5,895)	$ 3,798
Three months ended March 31, 2000	4,702	982	(3,924)	1,760
Total Assets:				
March 31, 2001	$ 545,658	$ 158,532	$ 1,593	$705,783
March 31, 2000	632,325	131,909	9,785	774,019

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

OVERVIEW

Carriage is a leading provider of death care services and products in the United States. Carriage provides a complete range of services relating to funerals, burials, and cremations, including the use of funeral homes and motor vehicles, the performance of cemetery interment services and the management and maintenance of cemetery grounds. We also sell related products and merchandise including caskets, burial vaults, garments, cemetery interment rights, stone and bronze memorials, as well as other items. From 1993 to 1999, the Company grew rapidly as a result of a high level of acquisition activity. During this period, we made many highly successful acquisitions, but in others we made market share and revenue growth assumptions that proved overly optimistic. Fiscal 2000 was a transitional year that included a decline in operating profitability, the adoption of a substantially changed accounting method for preneed cemetery sales, and the implementation of a multi-element "Fresh Start" restructuring program, announced in the latter half of 2000.

The goals of Fresh Start are restoring credibility to our operating and consolidation model, increasing and better aligning our earnings and cash flow, restoring market credibility to our balance sheet; reducing our debt; and re-accessing the capital markets.

The principal elements of Fresh Start include downsizing our corporate organization; changing our operating leadership; changing our preneed funeral organizational strategy; stratifying by performance our funeral and cemetery portfolios; implementing action plans to improve underperforming businesses; disposing of some underperforming businesses; adjusting the carrying basis of other underperforming businesses; and modifying financial covenants with lenders to facilitate execution of Fresh Start. Most of the elements of Fresh Start have been accomplished and we are beginning to see the benefits of these actions in our operating results.

Income from operations, which we define as earnings before interest and income taxes, increased, as a percentage of net revenues, from 19.6% for the first quarter of 2000 to 23.0% for the first quarter of 2001. This improvement was largely due to the cost savings that resulted from Fresh Start initiatives and from the sales of businesses that had previously performed below standard. Gross margins for the funeral homes increased from 26.5% in the first quarter of 2000 to 28.7% in the first quarter of 2001, on a decrease in revenue of 1.8%. As a percentage of cemetery net revenues, cemetery gross margin was 23.4% in the first quarter of 2001 compared to 20.3% in the first quarter in 2000. Revenues from cemeteries decreased 7.1% in the first quarter of 2001 compared to the same period in 2000.

During the first quarter of 2001 we sold, closed or combined with other existing locations, eleven funeral homes and five cemeteries. Proceeds from the sales totaling $6.2 million and cash flow from operations enabled us to reduce our debt by $10.9 million during the first quarter of 2001.

RESULTS OF OPERATIONS

The following is a discussion of the Company's results of operations for the three month periods ended March 31, 2000 and 2001. For purposes of this discussion, the Company's locations are in three groups, as a result of the stratification of our funeral home and cemetery portfolios in 2000. A "core" group which represents a large majority of our revenues and cash flow, a second "underperforming" group, and a third group consisting of businesses that are "targeted for sale".

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 months ended March 31, 2000 compared to the three months ended March 31, 2001.

	THREE MONTHS ENDED MARCH 31,		CHANGE	
	2000	2001	AMOUNT	PERCENT
	(DOLLARS IN THOUSANDS)			
Net location revenues:				
Core	$ 21,307	$ 21,223	$ (84)	0.0 %
Underperforming	10,684	10,250	(434)	(4.1)%
Targeted for sale	1,545	1,694	149	9.6 %
Sold and discontinued	1,476	418	(1,058)	*
Total location revenues	$ 35,012	$ 33,585	$ (1,427)	(4.1)%
Preneed insurance commissions revenue	523	1,302	779	*
Total net revenues	$ 35,535	$ 34,887	$ (648)	(1.8)%
Gross profit:				
Core	$ 6,422	$ 6,087	$ (335)	(5.2)%
Underperforming	2,320	2,283	(37)	(1.6)%
Targeted for sale	107	367	260	*
Sold and discontinued	32	(25)	(57)	*
Total location gross profit	$ 8,881	$ 8,712	$ (169)	(1.9)%
Preneed insurance commissions revenue	523	1,302	779	*
Total gross profit	$ 9,404	$ 10,014	$ 610	6.5 %

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* Not meaningful.

Funeral location revenues for the three months ended March 31, 2001 decreased $1.4 million or 4.1% over the three months ended March 31, 2000. The lower net revenues were primarily a result of a decrease of $1.1 million from businesses that were sold in the first quarter of 2001. The number of funeral services decreased 1.3% for the core group in comparing the first quarter of 2001 to the first quarter of 2000, while the average revenue per service for those existing locations increased 0.8% in comparing those same periods. The number of funeral services for the underperforming group decreased 8.0% while the average revenue per service increased 3.5% in comparing the first quarter 2001 to the first quarter of 2000. In addition to the net revenues from funeral location operations above, insurance commission revenues from preneed funeral contract sales totaled $1.3 million for the three months of 2001 as compared to $.5 million for the three months ended March 31, 2000. The increase in commission revenues is due primarily to nonrecurring commissions on rollover transactions.

Total funeral location gross profit for the three months ended March 31, 2001 decreased $.2 million or 1.9% from the comparable three months of 2000. The lower total gross profit is due primarily to the lower net revenues and higher utility costs due to the recent increase in energy prices. These negative factors were mitigated in part by depreciation and amortization that was $.9 million less than the prior period due to the impairments recorded in the latter half of 2000 and lower overhead and administrative costs resulting from Fresh Start initiatives.

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 months ended March 31, 2000 compared to the three months ended March 31, 2001.

	THREE MONTHS ENDED MARCH 31, 2000	THREE MONTHS ENDED MARCH 31, 2001	CHANGE AMOUNT	CHANGE PERCENT
	(DOLLARS IN THOUSANDS)			
Net revenues:				
Core	$ 8,257	$ 8,007	$ (250)	(3.0)%
Targeted for sale	907	900	(.7)	(7)%
Sold	512	86	(426)	*
Total net revenues	$ 9,676	$ 8,993	$ (683)	(7.1)%
Gross profit:				
Core	$ 1,819	$ 1,931	$ 112	6.2%
Targeted for sale	113	202	89	78.8%
Sold	32	(31)	(63)	*
Total gross profit	$ 1,964	$ 2,102	$ 138	7.0%

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* Not meaningful.

Total cemetery net revenues for the three months ended March 31, 2001 decreased $.7 million over the three months ended March 31, 2000, and total cemetery gross profit increased $.1 million over the comparable three months of 2000. The lower net revenues reflect a decrease of $250,000 from core operations and a decrease of $433,000 from the cemeteries that have been sold or are targeted for sale. The higher gross profit reflected an increase of $112,000 from core operations and $26,000 from cemeteries that have been sold or are targeted for sale. Total gross margin increased from 20.3% for the three months ended March 31, 2000 to 23.4% for the three months ended March 31, 2001, due primarily to the reduction in personnel costs related to the downsizing in the Fresh Start program.

OTHER. General and administrative expenses for the quarter ended March 31, 2001 decreased $.3 million as compared to the first quarter of 2000. These expenses, as a percentage of net revenues, decreased from 5.5% to 4.6% due to the downsizing of the corporate organization and other cost savings initiatives of Fresh Start.

Interest expense and other financing costs for the three months ended March 31, 2001 was approximately the same as in the first three months of 2000. While the average debt outstanding during the 2001 quarter was less than the outstanding debt in the 2000 quarter, the rate paid on the Company's line of credit was slightly higher due to the debt modification in late 2000 as was also the amortization of loan costs due to the payment of debt modification fees.

Preferred stock dividends of $20,000 were subtracted from the $3.8 million of net income in computing the net income available to common stockholders for the three months ended March 31, 2001.

For the three months ended March 31, 2001, we provided for income taxes on income before income taxes at a combined state and federal rate of 20% compared with 50% on income from continuing operations for the same period in 2000. The rate for the first quarter of 2000 was negatively impacted by the effects of non-deductible amortization, while the rate for the first quarter of 2001 benefited by $1.2 million from the utilization of tax benefits that were generated from the losses in the latter part of 2000, such tax benefits are being recognized when realized through taxable income. We will continue to evaluate the realizability of the valuation allowance for deferred taxes at each reporting period.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled $5.0 million at March 31, 2001, representing an increase of $1.8 million from December 31, 2000. For the three months ended March 31, 2001, cash provided by operations was $8.8 million as compared to $10.9 million for the three months ended March 31, 2000. The decrease in cash provided by operations was primarily due to the changes in the working capital accounts period to period. Cash provided by investing activities was $3.9 million for the three months ended March 31, 2001 compared to cash used in the amount of $7.6 million for the first three months of 2000, the change being primarily due to the proceeds from the sale of businesses in the first quarter of 2001 in the amount of $6.2 million.. In the first three months of 2001, cash flow used in financing activities amounted to approximately $10.9 million, due to the reduction of the Company's debt. We intend to utilize the majority of free cash flow and proceeds from the sale of assets to reduce the amount of debt outstanding and thereby improve credit ratios.

The Company's debt and other sources of capital include $108 million in senior debt notes, approximately $90 million in mandatorily redeemable convertible preferred securities, a $100 million revolving line of credit, approximately $1 million of redeemable preferred stock, and approximately $25 million in acquisition indebtedness and capital lease obligations.

The $108 million in senior debt notes are unsecured, mature in traunches of $24.5 million in 2004, $59 million in 2006 and $24.5 million in 2008 and bear interest at the fixed rates of $7.73%, 7.96% and 8.06%, respectively.

The approximately $90 million in mandatorily redeemable convertible preferred securities mature in 2029 and pay a fixed rate of 7%.

Carriage has a credit facility with a group of banks for a $100 million revolving line of credit. The credit facility, maturing in 2004, is unsecured and contains customary restrictive covenants, including a restriction on the payment of dividends on common stock, and requires that we 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 March 31, 2001, $42 million was outstanding under the credit facility and the Company's debt to total capitalization was 51 percent.

As of March 31, 2001, the Company had 1,182,500 shares outstanding of Series D Preferred Stock. 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 the Series D Preferred Stock 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.

We believe that cash flow from operations and borrowings under the credit facility should be sufficient to fund anticipated capital expenditures as well as other operating requirements. Acquisition spending during 2001 is anticipated to be relatively insignificant and capital expenditures should be less than the 2000 amount. 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 financing may be required in the future. 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.

ACCOUNTING CHANGES

In December 1999, the Securities and Exchange Commission (the "Commission") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", which, as amended, was implemented during the fourth quarter of 2000, and applied retroactively to the first three quarters of 2000, to provide guidance related to recognizing revenue in circumstances in which no specific authoritative literature exists. Members of the death care industry, in consultation with the Commission, agreed to certain changes in the manner in which cemetery preneed sales and costs are recorded. The change that is most meaningful to the Company is a change from recording cemetery merchandise and service revenue and their related costs at the time the contract is executed, to the period in which they are delivered. These accounting changes do not result in a material change in net cash flows nor the amount or revenues we ultimately expect to realize.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting For Derivative Instruments and Hedging Activities", for which the effective date was deferred to years beginning after June 15, 2000 by SFAS No. 137, and amended by SFAS No. 139, to establish accounting and financial reporting standards for certain derivative instruments and certain hedging activities. The key provisions of SFAS No. 133, as amended, are that every derivative will be recognized as an asset or liability at its fair value and that later changes in fair value are generally reported in earnings or other comprehensive income. The Company is currently engaged in interest rate swaps that have a notional amount of $30 million to hedge against rising interest rates on its variable rate long-term debt. The swaps are recorded as a liability in the amount of $.6 million at March 31, 2001.

POTENTIAL ACCOUNTING CHANGE

The Financial Accounting Standards Board has issued an exposure draft which would change certain aspects in the manner in which businesses account for business combinations. We expect these changes to be prospective in the nature of adoption. The most significant of the proposed changes to Carriage would be the elimination of the amortization of Names and Reputations, which would have an estimated pre-tax impact of approximately $4 million per year, and testing to determine impairments, if any, for long-lived assets. The final pronouncement may change from the exposure draft.

SEASONALITY

The Company's business can be affected by seasonal fluctuations in the death rate. Generally, death rates are higher during the winter months.

INFLATION

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

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 2000 form 10-K.

PART II -- OTHER INFORMATION

ITEM 5. OTHER INFORMATION

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report contains forward-looking statements made by the management of Carriage Services, Inc.(the "Company" or "Carriage"). Such statements are typically identified by terms expressing future expectations or goals. These forward-looking statements, although made in good faith, are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include Carriage's inability to sell businesses and properties held for sale for their carrying value, to maintain or increase free cash flow from operations, or to achieve internal growth from our businesses; adverse changes in economic and financial market conditions, including declining stock prices, increasing interest rates, and restricted credit availability; lower death rates; changing consumer preferences; competition in our markets; Carriage's inability to maintain operating ratios within the limits set out within our financing arrangements; and changes in government regulation of the death care industry. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision of these forward-looking statements. Readers should carefully review the Cautionary Statements described in this and other documents we file from time to time with the Securities and Exchange Commission, including Annual Reports on Form 10-K and Current Reports on Form 8-K filed by Carriage throughout 2001.

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) Maintaining or achieving growth in free cash flow from operations depends primarily on achieving anticipated levels of earnings before depreciation, amortization and other non-cash charges, controlling capital expenditures to budgeted levels, collecting accounts receivable and reducing preneed funeral costs.

(2) Achieving the Company's revenue goals also is affected by the volume and prices of the products and services sold, as well as the mix of products and services sold. The annual sales targets set by the Company are aggressive, and the inability of the Company to achieve planned volume or prices could cause the Company not to meet anticipated levels of revenue. In certain markets the Company

expects to increase prices, while in other markets prices will be lowered. The ability of the Company to achieve volume or price targets at any location depends on numerous factors, including the capabilities of the local operating staff, the local economy, the local death rate, competition and changes in consumer preferences, including cremations.

(3) Revenue also is affected by the level of preneed sales in both current and prior periods. The level of preneed sales may be adversely affected by numerous factors, including deterioration in the economy, which causes individuals to have less discretionary income, as well as changes in marketing approach, commission practices and contractual terms. Future revenue will also be affected by the Company's recent decision to eliminate its national preneed sales and marketing organization and to manage future preneed activities at the local business level.

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

(a) The ability of the Company to retain or attract key personnel.

(b) The amount and rate of growth in the Company's general and administrative expenses.

(c) Changes in interest rates, which can increase or decrease the amount the Company pays on borrowings with variable rates of interest.

(d) The Company's ability to stay within the limits of the credit ratios set out in the debt covenants, such as the debt-to-capital ratio, debt-to-EBITDA ratio, and the fixed charge coverage ratio.

(e) Availability and related terms of debt and equity financing to fund operating needs.

(f) The impact on the Company's financial statements of accounting charges that may result from the Company's evaluation of its business strategies, asset valuations and organizational structures as part of the Fresh Start restructuring program.

(g) The amount of net proceeds actually realized on assets held for sale.

(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 required by generally accepted accounting principles or the Securities and Exchange Commission, such as amortization periods and asset carrying values for long-lived intangible assets.

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

10.1--Note Termination Agreement with Russell Allen dated March 9, 2001

10.2--Tax Indemnity Agreement with Russell Allen dated March 9, 2001

11.1--Statement regarding computation of per share earnings

12 --Computation of Ratio of Earnings to Fixed Charges

(b) Reports on Form 8-K

Carriage filed a Current Report on Form 8-K on March 28, 2001, with respect to the correspondence to the Securities and Exchange Commission regarding Staff Accounting Bulletin No. 101.

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.

May 15, 2001	/s/Thomas C. Livengood
Date	Thomas C. Livengood, Executive Vice President and Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

EXHIBIT 10.1

NOTE TERMINATION AGREEMENT

THIS AGREEMENT, dated as of March 9, 2001, between RUSSELL W. ALLEN, a resident of Montgomery County, Texas ("Borrower"), and CARRIAGE SERVICES, INC., a Delaware corporation ("Lender");

W I T N E S E T H:

WHEREAS, the Borrower is the "Maker" of that certain Promissory Note dated March 31, 2000 payable to the order of Lender in the original principal amount of $1,068,416.62 (the "Note"); and

WHEREAS, the Note is secured by, among other things, a prior perfected lien and security interest in all of Borrower's personal property and assets which are not exempt under applicable law, pursuant to the terms and conditions of the Security Agreement dated March 31, 2000 between Borrower and Lender ("Security Agreement"); and

WHEREAS, the Note was secured by a pledge of 46,392 shares of Class A Common Stock, $.01 par value, of Lender which were owned by Borrower, pursuant to the Amended and Restated Security Agreement - Pledge dated March 31, 2000 between Borrower and Lender (the "Pledge Agreement"), and pursuant to the Stock Purchase Agreement dated December 18, 2000, Lender repurchased all of such shares from Borrower for the sum of $69,588.00, all of which was applied against accrued interest and principal under the Note, in connection with which the Pledge Agreement and the pledge evidenced thereby was cancelled; and

WHEREAS, as of the date of this Agreement, the fair market value of Borrower's assets are less than the amount of his liabilities (including indebtedness represented by the Note), and in particular the fair market value of those assets of Borrower which are not exempt from seizure for the claims of creditors under applicable principles of Texas and federal law ("non-exempt assets") is substantially less than the amount of such liabilities; as a consequence of which Borrower is "insolvent" within the meaning of Section 108(d)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and the Treasury Regulations issued thereunder; and

WHEREAS, because the prospect of Lender's recovery of any remaining principal, interest or other sums due under the Note are poor due to Borrower's insolvency as aforesaid, Lender is willing to forgive all such sums due under the Note and to therefore cancel the Note and the Security Agreement and all obligations of Borrower thereunder;

NOW, THEREFORE, the parties agree as follows:

1. BORROWER INSOLVENCY. Borrower, on the basis of an independent appraisal conducted on Borrower's non-exempt assets, is insolvent. The fair market value of such non-exempt assets, as supported by such appraisal, is substantially less than the sum of the principal, interest and other sums due under the Note plus Borrower's other liabilities. In connection with the appraisal process, Borrower has

furnished the independent appraiser with sufficient and complete information concerning Borrower's non-exempt assets to enable such appraiser to fairly conduct such appraisal. Borrower has provided Lender with a true and correct copy of such appraisal. The Note matures March 31, 2001, and Borrower has no reasonable means or prospect of paying the Note balance when the Note so matures, or at any other time in the reasonably foreseeable future. On the basis of the foregoing, Borrower has requested that Lender forgive the Note and all related obligations, and Lender is willing to do so.

2. FORGIVENESS OF DEBT; CANCELLATION OF NOTE AND LIENS. Lender hereby forgives Borrower and his heirs and assigns from all liabilities and obligations arising under the Note and the Security Agreement, and hereby agrees to cancel the Note and terminate the Security Agreement. Borrower hereby accepts such forgiveness and cancellation and likewise agrees to such termination. Promptly following execution of this Agreement, Lender shall (i) deliver to Borrower the original of the Note, marked "Paid in Full" or words to that effect, and (ii) take all necessary or appropriate action to evidence the termination of the Security Agreement and the release of the liens thereby as Borrower may reasonably request, including (without limitation) the execution and delivery of UCC-3 termination statements and other lien releases.

3. SECTION 108 DISCHARGE OF INDEBTEDNESS. It is the parties' intention that Lender's releases and termination of Borrower's liabilities and obligations under the Note pursuant to this Agreement constitute a discharge of indebtedness occurring when Borrower is insolvent, within the meaning of and qualifying for treatment as being excluded from gross income under, Section 108(a)(1)(B) of the Code. The parties agree to file all of their respective federal income tax returns in a manner consistent with such position.

4. MUTUAL GENERAL RELEASES.

4.1. BY LENDER. In confirmation of the provisions of this Agreement, Lender, for itself and for all persons claiming by or through it, hereby releases, acquits and fully discharges Borrower and his heirs and assigns from any and all claims, liabilities, causes of action, damages or expenses, known or unknown, accrued or unaccrued, contingent or other-wise, whether sounding in contract or tort, arising on or before the date hereof, under common law or by statute or regulation, that is based upon facts arising prior to the date of this Agreement, with respect to any matter or action related to the matters described in this Agreement and any other matters and relationships between the parties, SAVE AND EXCEPT only those obligations referred to in Section 4.3 below.

4.2. BY BORROWER. In confirmation of the provisions of this Agreement, Borrower, for himself and for all persons claiming by or through him, hereby releases, acquits and fully discharges Lender, its subsidiaries and affiliated entities and their respective officers, directors, employees, agents, advisors, successors and assigns from any and all claims, liabilities, causes of action, damages or expenses, known or unknown, accrued or unaccrued, contingent or other-wise, whether sounding in contract or tort, arising on or before the date hereof, under common law or by statute or regulation, that is based upon facts arising prior to the date of this Agreement, with respect to any matter or action related to the matters described in this Agreement and any other matters and relationships between the parties, SAVE AND EXCEPT only those obligations referred to in Section 4.3 below.

4.3. OBLIGATIONS NOT RELEASED. Notwithstanding the foregoing provisions of this Section 4, the parties shall not be released from their respective obligations under the Separation Agreement and Release between the parties dated as of December 18, 2000 (and those provisions of the Employment Agreement described therein which by operation of such Separation Agreement and Release are to survive the effectiveness thereof), or the Stock Purchase Agreement between the parties dated as of December 18, 2000.

5. MISCELLANEOUS.

5.1. FURTHER ASSURANCES. Each party agrees to execute and deliver from time to time after the date of this Agreement, at the reasonable request of the other party, and without further consideration, such additional instruments of conveyance and transfer, and to take such other action as such other party may reasonably require to carry out the transactions contemplated hereunder.

5.2. SURVIVAL. Regardless of any investigation made at any time by or on behalf of any party hereto, all covenants, agreements, representations and warranties made hereunder or pursuant hereto or in connection with the transactions contemplated hereby and thereby shall not terminate but shall survive the Closing and continue in effect thereafter.

5.3. NOTICES. All notices, requests, consents and other communications hereunder shall be in writing and shall be deemed to have been given if personally delivered, when mailed, first class, registered or certified mail, postage prepaid, or when sent by electronic communication and receipt is confirmed, as follows:

(i) if to the Lender:

Carriage Services, Inc.
1900 St. James Place - 4th Floor
Houston, Texas 77056
Attn: Chief Executive Officer

(ii) if to the Borrower:

Mr. Russell W. Allen
11301 Lake Forest Drive
Conroe, Texas 77384

5.4. ASSIGNMENT; BINDING EFFECT. This Agreement may not be assigned by either party hereto without the prior written consent of the other party. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs and personal representatives.

5.5. SECTION AND PARAGRAPH HEADINGS. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

5.6. AMENDMENT. This Agreement may be amended only by an instrument in writing executed by the parties hereto.

5.7. ENTIRE AGREEMENT. This Agreement and the other documents referred to herein constitute the entire agreement of the parties hereto, and supersede all prior understandings with respect to the subject matter hereof and thereof.

5.8. GOVERNING LAW. This Agreement shall be construed and enforced under and in accordance with and governed by the law of the State of Texas.

5.9. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall constitute the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed and delivered as of the date first above written.

BORROWER:

/s/ Russell W. Allen

RUSSELL W. ALLEN

LENDER:

CARRIAGE SERVICES, INC.

BY /s/ Melvin C. Payne

MELVIN C. PAYNE, Chief Executive Officer

EXHIBIT 10.2

TAX INDEMNITY AGREEMENT

THIS TAX INDEMNITY AGREEMENT ("AGREEMENT") dated as of March 9, 2001, between RUSSELL W. ALLEN, a resident of Montgomery County, Texas ("ALLEN"), and CARRIAGE SERVICES, INC., a Delaware corporation (the "COMPANY").

RECITALS

A. Allen and the Company are parties to the Note Termination Agreement of even date herewith ("NOTE TERMINATION AGREEMENT") pursuant to which, among other things, the parties have acknowledged that Allen is "insolvent" within the meaning of Section 108(d)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and the Treasury Regulations issued thereunder, and that as a consequence of such determination, Company has released Allen from all of his obligations under the "Note" (as therein defined and hereafter so referred to) and terminated all liens securing same; it being the parties' intention that such releases constitute a discharge of indebtedness qualifying for treatment as being excluded from gross income under Section 108(a)(1)(B) of the Code.

B. In connection with the parties' execution, delivery and performance of the Note Termination Agreement, the parties desire to enter into this Agreement to evidence the parties' agreement that the Company indemnify Allen from any Taxes (as hereafter defined) to which Allen may become subject if and to the extent that the discharge of indebtedness evidenced by the Note Termination Agreement may not be properly excluded from Allen's gross income.

NOW, THEREFORE, in consideration of the premises and of the respective covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement, the following terms shall have the following respective meanings:

"AFTER-TAX BASIS" shall mean the amount sufficient to hold Allen harmless from (i) all Taxes ("Indemnity Taxes") payable or deemed payable with respect to such payment, after taking into account any deductions to which Allen may be entitled as a result of the payment of such Taxes, but shall not include any Taxes attributable to the payment of Indemnity Taxes.

"AGREEMENT" is defined in the introductory paragraph of this Agreement.

"CODE" means the Internal Revenue Code of 1986, as amended (or any successor thereto).

"COMPANY" is defined in the introductory paragraph to this Agreement.

"FINAL DETERMINATION" with respect to an Indemnity Amount shall mean (a) a final decision with respect to the proposed adjustment by an IRS appeals officer, as evidenced by the issuance of a 90-day letter, IRS Form 870-AD or like notice, unless judicial proceedings are initiated, (b) a final decision with respect to the proposed adjustment by the United States Tax Court, Court of Federal Claims or the appropriate Federal District Court, unless such decision is appealed, (c) a final non-appealable decision of the United States Court of Appeals having competent jurisdiction, unless such decision is further appealed, (d) a final non-appealable decision of the United States Supreme Court or (e) the settlement of the proposed adjustment with the consent of the Company and Allen.

"INDEMNITY AMOUNT" means an amount equal to one hundred percent (100%) of a claim for indemnification under this Agreement computed on an After-Tax Basis.

"INDEPENDENT PUBLIC ACCOUNTANTS" means a firm of independent nationally recognized accountants mutually selected by the Company and Allen.

"IRS" means the Internal Revenue Service and any successor federal agency.

"NOTE TERMINATION AGREEMENT" is defined in the Recitals to this Agreement.

"NOTE TERMINATION TAX" means the Tax, if any, to which Allen becomes subject as a result of the Note Termination Transactions.

"NOTE TERMINATION TRANSACTIONS" means the Company's forgiveness of indebtedness owed to it by Allen and the other transactions consummated pursuant to the Note Termination Agreement.

"PROCEEDING" is defined in Section 3.3(b) below.

"TAX" OR "TAXES" means any Federal income taxes (including alternative or add-on minimum taxes), along with any interest, penalty, or addition thereto. A "Tax" includes only an imposition or assessment which results in a payment obligation and does not include any other tax attribute which may be affected; specifically excluded is any adjustment in basis which may result from a particular action or event.

"TAX LIABILITY ISSUE" is defined in Section 3.3(a) below.

"TAX RETURN" OR "TAX RETURNS" means any Federal income tax return, (including any schedule or attachment thereto) and any amendment thereof required to be filed with IRS in connection with any Tax.

"TREASURY REGULATION" OR "TREASURY REGULATIONS" means any regulation promulgated under the Code including any amendments or any substitute or successor provisions thereto.

ARTICLE II

COVENANTS

2.1 PREPARATION AND FILING OF TAX RETURNS: PAYMENT OF TAXES. Allen shall prepare and file on or before the due date therefor (taking into account properly and timely granted extensions), all Tax Returns required to be filed by him with respect to all tax periods affected by the Note Termination Transactions. Without limiting the generality of the foregoing, Allen shall file a federal income Tax Return for the period ending December 31, 2001 on or before the due date therefor, which shall include a completed Form 982 (Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)) setting forth the information called for therein with respect to the forgiveness of indebtedness accomplished pursuant to the Note Termination Agreement. It shall be Allen's primary responsibility to complete his Tax Returns required to be so filed, but the Company will consult with and advise Allen with respect to those portions of his Tax Returns which are impacted by the Note Termination Transactions. Prior to filing such Tax Returns, Allen will furnish the Company with the portions thereof which are affected by the Note Termination Transactions and give the Company the opportunity to make suggested revisions thereto. The indemnity and other obligations of the Company set forth in this Agreement are expressly made subject to Allen's compliance with his obligations hereunder and shall be effective only insofar as Allen complies with such obligations and files his Tax Returns which, insofar as they pertain to or are affected by the Note Termination Transactions, are in form and substance reasonably acceptable to the Company, and any failure by Allen in that regard will relieve the Company of its obligations hereunder.

2.2. NOTIFICATION OF TAX PROCEEDINGS. If after the filing of any Tax Return referred to in Section 2.1, Allen receives notice of the commencement or scheduling of any Tax audit, the assessment of any Tax, the issuance of any notice of Tax due or any bill for collection of any Tax due for Taxes, or the commencement or scheduling of any other administrative or judicial proceeding with respect to the determination, assessment or collection of any Tax on Allen which is attributable in whole or in part to the Note Termination Transactions, Allen shall provide prompt written notice to the Company of such matter, setting forth information (to the extent known) describing any asserted Tax liability in reasonable detail and including copies of any notice or other documentation received from the IRS with respect to such matter.

2.3. TAX ELECTIONS, WAIVERS AND SETTLEMENTS. Allen shall not take any of the following actions after the date hereof without the prior written consent of the Company:

(A) make, revoke or amend any Tax election which may affect the Note Termination Tax;

(B) execute any waiver of restrictions on the assessment or collection of any Note Termination Tax (other than waivers relating to extensions); or

(C) enter into or amend any agreement or settlement with the IRS which materially affects the Note Termination Tax.

ARTICLE III

TAX INDEMNIFICATION; TAX CONTESTS

3.1. INDEMNIFICATION. The Company agrees to protect, defend, indemnify and hold harmless Allen and his heirs and assigns from any and all Note Termination Taxes. The foregoing specifically includes (a) the Indemnity Amount associated with Note Termination Taxes which may become due following a Final Determination hereunder, plus (b) the expenses associated with the defense of a Proceeding which are to be paid or reimbursed in accordance with this Agreement.

3.2. CONTEST PROVISIONS.

(A) The Company, on the one hand, and Allen, on the other hand, will (A) promptly inform the other of any investigations, audit or other proceedings and use reasonable efforts to keep the other advised as to the status of Tax audits and litigation involving any Taxes that could give rise to a liability under this Agreement or increase the Tax obligation of the other party (a "TAX LIABILITY ISSUE"), (B) promptly furnish to the other copies of any inquiries or requests for information from IRS concerning any Tax Liability Issue, (C) timely notify the other regarding any proposed written communication (I.E., communications not relating to inquiries or requests for information) to the IRS with respect to such Tax Liability Issue, (D) promptly furnish to the other upon receipt a copy of information or document requests, a notice of proposed adjustment, revenue agent's report or similar report or notice of deficiency together with all relevant documents, Tax Returns and memos related to the foregoing documents, notices or reports, relating to any Tax Liability Issue, (E) give the other and its or his accountants and counsel the reasonable opportunity to review and comment in advance (if reasonably possible) on all written submissions, filings and any other information relevant to any Tax Liability Issue, and (F) consider in good faith any suggestions made by the other and its or his accountants and counsel to submit documentation or attend those portions of any meetings and proceedings that relate to such proposed adjustment; provided, however, that the failure of one party to so notify the other party of any such audit or Tax controversy shall not affect the other party's obligations under this Agreement except to the extent that it has been prejudiced or adversely affected thereby.

(B) In the case of any Tax controversy, including, without limitation, an audit, a protest to the Appeals Division of the IRS, and litigation in Tax Court or any other court of competent jurisdiction (a "PROCEEDING") as to any Note Termination Taxes, the Company shall control the defense thereof with legal, tax and/or accounting counsel selected by the Company to act on Allen's behalf, at the Company's expense. Allen may participate in the Proceeding, with his own advisory counsel, at his own expense. If for any reason the Company does not assume such defense or does not select such counsel (other than as a result of Allen's failure to promptly notify the Company of the Proceeding), then Allen shall have the right to control the defense of the Proceeding with counsel chosen by Allen, the cost of which will be subject to indemnification from the Company in accordance with this Agreement, provided that the Company may thereafter participate with advisory counsel of its choice at the Company's expense. In any event, all material Tax positions and all other material decisions taken in the Proceeding must be approved by the Company, and in no event shall the Proceeding be settled or compromised without the Company's prior written consent. The Company may settle or compromise the Proceeding without Allen's consent, but only if such settlement is limited to the payment of Taxes and the Company agrees to pay all such Taxes agreed to be paid in such settlement.

3.3. CLAIMS FOR, AND PAYMENT OF, INDEMNITY AMOUNT.

(A) Whenever Allen makes any claim for indemnification or another obligation under this Agreement, he shall notify the Company promptly after Allen has knowledge of any event which might give rise to a claim for indemnification under this Agreement.

(B) The failure by Allen to give notice of a claim as required in paragraph (a) above or a delay in giving such notice shall not affect the validity or amount of such claim and the indemnification obligations of the Company shall remain in effect as to such claim, except to the extent that the Company has been prejudiced or adversely affected thereby.

(C) Within five days of any Final Determination of any claim for indemnification under this Agreement, Allen shall provide a detailed written notice to the Company explaining and substantiating the calculation of the Indemnity Amount. The Company shall pay the Indemnity Amount to Allen on the last to occur of (i) fifteen (15) days after receipt of such notice, (ii) thirty (30) days after any Final Determination or (iii) fifteen (15) days after the final determination of the calculation of the Indemnity Amount owed by the Company to Allen under paragraph (d) below; provided, such amount is not in dispute. In lieu of paying Allen, the Company is authorized to pay any Indemnity Amount directly to the third party for which such Indemnity Amount is due, including the IRS.

(D) If the Company shall disagree with Allen's calculation of the Indemnity Amount and within ten (10) days after receipt of such calculation requests in writing verification of such amount, such amount shall be verified by a firm of Independent Public Accountants. Within 15 days after the Company's request, the Independent Public Accountants either (i) shall confirm the accuracy of Allen's computation or (ii) notify Allen that such computation is inaccurate. In the case of (ii) above, the Independent Public Accountants shall recompute the Indemnity Amount in such a manner as shall enable the Independent Public Accountants to confirm its accuracy. The costs of such verification shall be borne by the Company unless such verification shall result in an adjustment in the Company's favor of the Indemnity Amount computed by Allen, in which case such costs shall be borne by Allen. Allen agrees to cooperate with such Independent Public Accountants and, subject to a confidentiality agreement reasonably satisfactory to Allen, to supply them with all information reasonably necessary to permit them to accomplish such review and determination. The Company and Allen agree that the sole responsibility of the Independent Public Accountants shall be to verify the amount of the Indemnity Amount pursuant to this paragraph (d) and the matters of interpretation of this Agreement are not within the scope of the Independent Public Accountant's responsibility.

ARTICLE IV

COOPERATION, ACCESS TO TAX INFORMATION, CONFIDENTIALITY AND FURTHER ACTION

4.1. ACCESS TO INFORMATION. Allen shall, upon the Company's request, in connection with the preparation by the parties of Tax Returns, Tax contests or for other Tax purposes as the Company shall reasonably request, (a) provide to the officers and other authorized representatives of the Company access, during normal business hours upon reasonable advance notice, to any of Allen's files, books, records, documents and other information relevant to the Note Termination Transactions, (b) make himself available to the Company to consult with its representatives, advisors and counsel, and (c) make available for inspection and copying by the Company at the Company's expense true and complete copies of any documents relating to the foregoing. All such written information and records shall be provided in a reasonably timely manner following the receipt of a written request therefor.

4.2. RECORD RETENTION. Allen shall retain, until the applicable statutes of limitations (including any waivers or extensions) have expired, copies of all Tax Returns, supporting work schedules and other records or information which may be relevant to such Tax Returns for all taxable periods or portions thereof affected by the Note Termination Transactions, and shall not destroy or otherwise dispose of any such records prior to four years after filing the applicable return without first providing the Company with a reasonable opportunity to review and copy the same.

4.3. CONFIDENTIALITY. Each party shall hold in strict confidence from any person all documents and information concerning the other party furnished to it by the other party in connection with this Agreement or the transactions contemplated hereby, unless (a) required to disclose any such information by judicial or administrative process or (b) disclosed in an action or proceeding brought by any party in pursuit of its rights or in the exercise of its remedies under this Agreement. Notwithstanding the foregoing, this Section 4.3 shall not apply to such documents or information that were (i) in the public domain through no fault of such receiving party, or (ii) later acquired by such receiving party from another source if such receiving party is not aware that such source is under an obligation to the other party to keep such documents and information confidential.

4.4. FURTHER ACTION.

(A) Upon the terms and subject to the conditions of this Agreement, the parties shall use all reasonable efforts to take, or cause to be taken, all reasonable actions, and to do, or cause to be done, all other things reasonably necessary, proper or advisable to consummate and make effective as promptly as reasonably practicable the matters contemplated by this Agreement and otherwise to satisfy or cause to be satisfied in all material respects all conditions precedent to their obligations under this Agreement.

(B) Upon request, each of the parties will use its or his reasonable efforts to obtain any certificate or other document from the IRS or any other person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the matters contemplated by this Agreement).

ARTICLE V

MISCELLANEOUS

5.1 ENTIRE AGREEMENT; ASSIGNMENT. This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, of the parties with respect to the subject matter hereof and thereof. Neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of each other party hereto in their sole and absolute discretion. Any such assignment without the express written consent of the other parties shall be void ab initio. No assignment of this Agreement shall relieve the assigning party of the obligations hereunder.

5.2. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, each of which shall remain in full force and effect.

5.3 NOTICES. All notices, requests, clause, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, by overnight courier or telecopier to the respective parties as follows:

If to the Company: Carriage Services, Inc.
1900 St. James Place - 4th Floor
Houston, Texas 77056
Attn: Chief Executive Officer

If to Allen: Mr. Russell W. Allen
11301 Lake Forest Drive
Conroe, Texas 77384

or to such other address as the person to whom notice is given may have previously furnished to the other in writing in the manner set forth above; provided that notice of any change of address shall be effective only upon receipt thereof.

5.4. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

5.5. DESCRIPTIVE HEADINGS. The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

5.6. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

5.7. PARTIES IN INTEREST. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their respective successors, heirs and permitted assigns, and nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

5.8. MODIFICATION OR AMENDMENT. The parties hereto may modify or amend this Agreement only by written agreement executed and delivered by the parties.

5.9. SEVERABILITY. If any provision of this Agreement or the application thereof to any person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party. Upon any such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

5.10. NO WAIVER. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by both parties. The failure or delay of either party to require performance by the other party of any provision of this Agreement shall not affect its right to require performance of such provision unless and until such performance has been waived by such party in writing in accordance with the terms hereof. No waiver by either party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by law or otherwise afforded, shall be cumulative and not alternative.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its respective officer thereunto duly authorized, all as of the day and year first above written.

/s/ Russell W. Allen

RUSSELL W. ALLEN

CARRIAGE SERVICES, INC.

BY /s/ Melvin C. Payne

MELVIN C. PAYNE, Chief Executive Officer

EXHIBIT 11.1

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

Earnings per share for the three month periods ended March 31, 2000 and 2001 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 month periods ended March 31, 2000 and 2001:

	THREE MONTHS ENDED MARCH 31, 2000	THREE MONTHS ENDED MARCH 31, 2001
Net income before cumulative effect on prior years of the change in accounting principle	$ 1,760	$ 3,798
Cumulative effect on prior years of the change in accounting principle	(38,993)	--
Net income (loss)	(37,233)	$ 3,798
Preferred stock dividends	21	20
Net income (loss) available to common stockholders for basic EPS computation	(37,254)	3,778
Effect of dilutive securities	21	20
Net income (loss) available to common stockholders for diluted EPS computation	$ (37,233)	$ 3,798
Weighted average number of common shares outstanding for basic EPS computation	15,977	16,511
Effect of dilutive securities:		
Stock options	--	469
Assumed conversion of preferred stock	258	388
Weighted average number of common and common equivalent shares outstanding for diluted EPS computation	16,235	17,368
Basic earnings (loss) per common share:		
Net income (loss) before cumulative effect on prior years of the change in accounting principle	$ .11	$ .23
Cumulative effect of the change in accounting principle, net	(2.44)	--
Net income (loss)	$ (2.33)	$ .23
Diluted earnings (loss) per common share:		
Net income (loss) before cumulative effect on prior years of the change in accounting principle	$ .11	$ .22
Cumulative effect of the change in accounting principle, net	(2.44)	--
Net income (loss)	$ (2.33)	$ .22

EXHIBIT 12

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

	1996*	1997	1998	1999	2000**	THREE MONTHS ENDED MARCH 31, 2001
Fixed charges:						
Interest expense	$ 4,347	$ 5,889	$ 9,720	$ 17,358	$ 20,705	$ 5,327
Amortization of capitalized expenses related to debt	150	200	150	242	1,026	190
Rental expense	308	629	720	876	1,606	379
Total fixed charges before capitalized interest and preferred stock dividends	4,805	6,718	10,590	18,476	23,337	5,896
Capitalized interest	250	450	600	686	770	125
Total fixed charges	5,055	7,168	11,190	19,162	24,107	6,021
Preferred stock dividends	1,037	1,627	1,082	167	88	25
Total fixed charges plus preferred dividends	6,092	8,795	12,272	19,329	24,195	6,046
Earnings (loss) available for fixed charges:						
Earnings (loss) before income taxes, extraordinary item and cumulative effect of change in accounting principle	345	8,217	17,023	19,361	(101,035)	4,748
Add fixed charges before capitalized interest and preferred stock dividends	4,805	6,718	10,590	18,476	23,337	5,896
Total earnings (loss) available for fixed charges	$ 5,150	$ 14,935	$ 27,613	$ 37,837	$ (77,698)	$ 10,644
Ratio of earnings (loss) to fixed charges (1)	1.02	2.08	2.47	1.97	(3.22)	1.77
Ratio of earnings (loss) to fixed charges plus dividends (1)	0.85	1.70	2.25	1.96	(3.21)	1.76

(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 $942,000 for 1996.

** Earnings were inadequate to cover fixed charges. The coverage deficiency was $101,893,000 for 2000.