SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

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

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.)
1300 POST OAK BLVD., SUITE 1500, HOUSTON, TX (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	77056 (ZIP CODE)

Registrant's telephone number, including area code: (281) 556-7400

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
Class A Common Stock, $.01 Par Value
(TITLE OF CLASS)

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ____

The aggregate market value of the voting stock held by nonaffiliates (affiliates being, for these purposes only, directors, executive officers and holders of more than 5% of the Company's Class A Common Stock) of the Registrant as of February 28, 1997 was approximately $16,045,000.

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 February 28, 1997 was 4,274,495 and 5,566,650, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement in connection with the 1997 annual meeting of shareholders, incorporated in Part III of this Report.

PART I

ITEM 1. BUSINESS

THE COMPANY

Carriage Services, Inc. (the "Company") believes that it is the sixth largest provider of death care services and products in the United States based on 1996 revenues. The Company provides a complete range of funeral services and products to meet families' needs, including consultation, removal and preparation of remains, sale of caskets and related funeral merchandise, transportation services and the use of funeral home facilities for visitation. The Company also offers cemetery products and services, including rights to interment in cemetery sites, interment services and related cemetery merchandise. As of December 31, 1996, the Company operated 76 funeral homes and 10 cemeteries in 16 states. Funeral services constituted approximately 93% of revenues in 1995 and 1996.

Since the Company's formation in 1991, management has undertaken a disciplined approach to growth that has allowed the Company the necessary time to integrate acquisitions, develop effective operating, administrative and

financial systems and controls, recruit an experienced operating management team and promote a decentralized, entrepreneurial service culture. From 1992 through 1995, the Company acquired 42 funeral homes and four cemeteries for consideration ranging from approximately $9 million to $14 million in each of the four years. The Company believes that the infrastructure it developed during this period positioned the Company to pursue an accelerated growth strategy beginning in late 1995. As a result, the Company acquired 38 funeral homes and seven cemeteries for consideration of $68 million during 1996 and an additional 16 funeral homes and two cemeteries for consideration of $55 million through February 28, 1997. In addition, as of February 28, 1997, the Company had letters of intent to acquire eight funeral homes for consideration of $10 million.

The Company was incorporated in Delaware on December 29, 1993. The Company's principal executive office is located at 1300 Post Oak Blvd., Suite 1500, Houston, Texas 77056, and its telephone number is (281) 556-7400.

DEATH CARE INDUSTRY

Death care companies provide products and services to families in three principal areas: (i) ceremony and tribute, generally in the form of a funeral or memorial service; (ii) disposition of remains, either through burial or cremation; and, (iii) memorialization, generally through monuments, markers or inscriptions. The death care industry in the United States is characterized by the following fundamental attributes:

HIGHLY FRAGMENTED OWNERSHIP. A significant majority of death care operators consist of small, family-owned businesses that control one or several funeral homes or cemeteries in a single community. Management estimates that there are approximately 22,000 funeral homes and 9,600 commercial (as opposed to religious, family, fraternal, military or municipal) cemeteries in the United States. Less than 20% of the 1995 United States death care industry revenues are represented by the Company and the four largest publicly traded domestic death care companies.

BARRIERS TO ENTRY. Death care businesses have traditionally been transferred to successive generations within a family and in most cases have developed a local heritage and tradition that act as a formidable barrier for those wishing to enter an existing market. Heritage and tradition afford an established funeral home or cemetery a local franchise and provides the opportunity for repeat business. Other difficulties faced by entities desiring to enter a market include local zoning restrictions, substantial capital requirements, increasing regulatory burdens and scarcity of cemetery land in certain urban areas. In addition, established firms' backlog of preneed, prefunded funerals or presold cemetery and mausoleum spaces also makes it difficult for new entrants to gain entry into the marketplace.

STABILITY. The death rates in the United States are fairly predictable, thereby affording stability to the death care industry. Since 1980, the number of deaths in the United States has increased at a compounded rate of approximately 1% per year. According to a 1993 report prepared by the U.S. Department of

Commerce Bureau of the Census, the number of deaths in the United States is expected to increase by approximately 1% per year between 1997 and 2010. Because the industry is relatively stable, non-cyclical and fairly predictable, business failures are uncommon. As a result, ownership of funeral home and cemetery businesses generally has not experienced significant turnover, and the aggregate number of funeral homes and cemeteries in the United States has remained relatively constant.

INCREASED CONSOLIDATION. In the past several years the industry has experienced a trend toward consolidation of small death care operations with large, primarily publicly owned death care providers that can benefit from economies of scale, improved managerial control and more effective strategic planning and greater financial resources. This trend appears to result principally from increased regulation, a desire on the part of small, family operated funeral businesses to address family succession and estate planning issues, a desire for liquidity, and the increasing competitive threat posed by the large death care providers. The active acquisition market for funeral homes and cemeteries provides a source of potential liquidity that was not as readily available to individual owners in the past. The consolidation trend has accelerated in recent years as several large death care companies have expanded their operations significantly through acquisitions.

CLUSTERED OR COMBINED OPERATIONS. The death care industry has also witnessed a trend by companies to cluster their funeral home and cemetery operations. Clusters refer to funeral homes and/or cemeteries which are grouped together in a geographical region. Clusters provide a company with the ability to generate cost savings through the sharing of personnel, vehicles and other resources. Firms also are increasingly combining funeral home and cemetery operations at a single site to allow cross-marketing opportunities and for further cost reductions through shared resources. The ability to offer the full range of products and services at one location or to cluster funeral home and cemetery operations and cross-market the full range of death care services has proven to be a competitive advantage which tends to increase the market share and profitability of both the funeral home and cemetery.

PRENEED MARKETING. In addition to sales at the time of death or on an "at need" basis, an increasing number of death care products and services are being sold prior to the time of death or on a "preneed" basis by death care providers who have developed sophisticated marketing organizations to actively promote such products and services. At the same time, consumers are becoming more aware of the benefits of advanced planning, such as the financial assurance and peace of mind achieved by establishing in advance a fixed price and type of service, and the elimination of the emotional strain of making death care plans at the time of need. Effective marketing of preneed products and services assures a backlog of future business.

CREMATION. In recent years, there has been steady, gradual growth in the number of families in the United States that have chosen cremation as an alternative to traditional methods of burial. According to industry studies, cremations represented approximately 21% of the United States burial market in 1995, as compared to approximately 10% in 1980. Many parts of the Southern and Midwestern United States and many non-metropolitan communities exhibit significantly lower rates of cremation as a result of religious and cultural traditions. Cremation historically has been marketed as a less costly alternative to interment. However, cremation is increasingly marketed as part of a complete death care package that includes traditional funeral services and memorialization.

BUSINESS STRATEGY

The Company's objective is to become the preferred succession planning alternative for premier funeral homes throughout the United States while continuing to promote a decentralized, entrepreneurial service culture. Management believes that the Company's reputation and collaborative operating style have allowed it to successfully pursue attractive acquisition candidates. The Company also has been successful in implementing programs to increase profitability at newly acquired properties.

OPERATING STRATEGY. Since its formation, the Company has focused on becoming a succession planning alternative to the larger death care providers. The Company believes that its decentralized operating style, which provides autonomy and flexibility to local management, is attractive to owners of funeral homes seeking to sell their operations. Management believes that its operating style is also a key

component in its ability to attract and retain quality managers. While the Company's management style allows local operators significant responsibility in the daily operating decisions, financial parameters, jointly established during the budgeting process, are monitored by senior management through the Company's management and accounting systems. The Company utilizes computer systems linked to most of the Company's funeral home locations. These systems enable a location to function on its own by maintaining accounts receivables and payables locally, at a cluster processing site, or at the Company's centralized processing center at the option of the local manager. The same information is provided to the Company's senior management which allows the Company, on a timely basis, to access critical operating and financial data from a site in order to analyze the performance of individual locations and institute corrective action if necessary.

The Company has established a compensation structure that is designed to maintain and create a sense of ownership. Local management is awarded meaningful cash bonuses and stock options for exceptional performance when achieving specified earnings objectives. The Company has also structured a stock option program which awards options over a two year period to most full-time employees based upon the performance of their local business during the period. As a result, all management and most full-time employees have the opportunity to increase their personal net worth through strong local and corporate performance.

Management also believes that implementing its operating strategy in newly acquired businesses leads to enhanced profitability of acquired operations. The Company has an extensive merchandising and training program that is designed to educate local funeral home operators about opportunities to improve marketing of products and services, to share sales leads and other cross-marketing opportunities, and to become familiar with, and adopt, the Company's business objectives. The larger size of the Company, as compared to local operators, also allows favorable pricing and terms to be achieved from vendors through volume discounts on significant expenditures, such as caskets, vaults, memorials and vehicles. In addition, while operational functions and management autonomy are retained at the local level, centralizing certain financial, accounting, legal, administrative and employee benefit functions allows for more efficient and cost-effective operations. The Company also has recently greatly expanded its preneed sales programs in selected local markets to maintain or increase market presence and assure a backlog of future business.

ACQUISITION STRATEGY. The Company believes that significant acquisition opportunities currently exist in the death care industry that the Company intends to aggressively pursue. In evaluating specific acquisition candidates, the Company considers such factors as the property's location, reputation, heritage, physical size, volume of business, profitability, name recognition, aesthetics, potential for development or expansion, competitive market position, pricing structure and quality of operating management. The Company will continue to aggressively pursue the acquisition of premier funeral homes that have a strong local market presence and that conduct from 100 to 600 funeral services per year, as well as funeral homes in close proximity to the Company's existing businesses. In addition, although the Company traditionally has not focused on acquiring cemetery operations, the Company intends to more aggressively pursue cemetery acquisitions in markets where the Company operates, or plans to operate, funeral homes to take advantage of cross-marketing opportunities. The Company is also pursuing larger acquisition transactions which provides significant strategic benefits to the Company, such as new market penetration. For example, in January 1997, the Company merged with CNM, a premier California-based company which operates 10 funeral homes and one cemetery. This operation as a whole performs 2,100 funerals and 1,470 interments annually and represents the Company's first entry into California. The Company also seeks to issue, and has been successful in issuing, equity securities to the previous owners of acquired businesses. Since inception through March 10, 1997, the Company has issued 37,775,608 shares of redeemable preferred stock (convertible into 1,361,338 shares of Class A Common Stock and 1,227,812 shares of Class B Common Stock) and 225,857 shares of Class A Common Stock in conjunction with acquisition transactions. As of March 10, 1997, a total of 16,039,116 shares of redeemable preferred stock have converted into shares of Class A and Class B Common Stock. Management believes that its success in issuing equity securities in conjunction with acquisitions reflects in large part previous owners' desires to remain affiliated with and to be invested in the Company.

In purchasing the premier location in a particular market, management believes that the Company is able to attract the most talented personnel, minimize downside risk of loss of volume to competitors and provide opportunities for increased profitability when such operations are coupled with the Company's management techniques. In addition, the Company generally retains the former owners and other key personnel of acquired funeral homes and provides them with significant operating responsibility to assure the continuation of high quality services and the maintenance of the acquired firm's reputation and heritage. In nearly all cases, acquired funeral homes continue operations under the same trade name as those of the prior owners. In addition, the Company views experienced management of certain acquired operations as potential corporate management candidates. Management believes that this potential for advancement with the Company, combined with the Company's decentralized operating structure and incentive-based compensation system, makes it a particularly attractive acquirer to some independent owners. The Company also will continue to analyze the possibility of acquiring additional funeral homes in present markets so that personnel and vehicles can be shared and profit margins enhanced.

The Company follows a disciplined approach to acquisitions utilizing specific operating and financial criteria. The Company develops pro forma financial statements for acquisition targets reflecting estimates of revenue and costs under the Company's ownership and then utilizes such information to determine a purchase price which it believes is reasonable. The Company anticipates that the consideration for future acquisitions will consist of a combination of cash, deferred purchase price and preferred and common equity. The Company also will typically enter into management, consulting and non-competition agreements with former owners and key executive personnel of acquired businesses.

Although the Company has not historically focused on acquiring cemetery operations, as a result of the increased access to capital and the Company's enhanced profile in the industry, the Company is encountering significant cemetery acquisition opportunities. The Company will continue to pursue cemetery acquisitions in markets where they operate funeral homes to take advantage of cross-marketing opportunities and in markets where a funeral home acquisition strategy is viable.

While the Company focuses its efforts on identifying individual acquisition candidates with the potential for a negotiated, non-competitive acquisition process, the Company also competes for more broadly marketed acquisition opportunities. In many cases, the Company has been successful in acquiring operations where it has not been the highest bidder because of the Company's reputation, operating strategy and corporate culture. Management believes that the issuance of equity securities to fund certain funeral home acquisitions has been, and will continue to be, attractive to select acquisition candidates.

The Company has successfully executed this acquisition strategy since its inception, as demonstrated in the table set forth below.

YEAR	CONSIDERATION	FUNERAL HOMES(1)	CEMETERIES(2)
	(DOLLARS IN THOUSANDS)		
1992	$ 11,832	14	2
1993	13,843	11	1
1994	9,153	9	1
1995	12,191	8	0
1996(3)	68,181	38	7
	$115,200	80	11

(1) The Company subsequently divested four of these funeral homes.

(2) The Company subsequently divested one of these cemeteries.

(3) From January 1, 1997 through March 10, 1997, the Company has acquired 16 funeral homes and two cemeteries for aggregate consideration of $55 million.

OPERATIONS

The Company's funeral home operations, cemetery operations and preneed programs are managed by service-minded professionals with extensive death care industry experience. In response to the rapid growth experienced in 1996, the Company increased operations staffing, including a new transition team, to provide local managers with the additional support and direction needed during the integration of newly acquired properties.

Although certain financial management and policy matters are centralized, local funeral home and cemetery managers have substantial autonomy in determining the manner in which their services and products are marketed and delivered and their funeral homes are managed. The Company believes that this strategy permits each local firm to maintain its unique style of operation and to capitalize on its reputation and heritage while the Company maintains centralized supervisory controls and provides specialized services at the corporate level.

FUNERAL HOME OPERATIONS. As of December 31, 1996, the Company operated 76 funeral homes in 16 states. Funeral home revenues accounted for approximately 93% of the Company's net revenues for each of the years ended December 31, 1995 and 1996. The Company's funeral home operations are managed by a team of experienced death care industry professionals.

The Company's funeral homes offer a complete range of services to meet family's funeral needs, including consultation, the removal and preparation of remains, the sale of caskets and related funeral merchandise, the use of funeral home facilities for visitation and worship, and transportation services. Most of the Company's funeral homes have a non-denominational chapel on the premises, which permits family visitation and religious services to take place at one location, which reduces transportation costs to the Company and inconvenience to the family.

CEMETERY OPERATIONS. As of December 31, 1996, the Company operated 10 cemeteries in six states. Cemetery revenues accounted for approximately 7% of the Company's net revenues for each of the years ended December 31, 1995 and 1996.

As of December 31, 1996, the Company employed a staff of approximately 70 cemetery sales counselors for the sale of interment rights and merchandise. As a result of a growing number of potential cemetery acquisition candidates, the Company has made additional investments in the cemetery operations infrastructure. During the fourth quarter of 1996, experienced preneed marketing professionals were added at the national and regional levels. This investment in additional preneed sales management should allow the Company to increase preneed sales at existing cemetery properties and will position the Company to more effectively integrate future cemetery acquisitions.

The Company's cemetery products and services include interment services, the rights to interment in cemetery sites (including grave sites, mausoleum crypts and niches) and related cemetery merchandise such as memorials and vaults. Cemetery operations generate revenues through sales of interment rights, memorials, fees for interment and cremation services, memorial installations, interest income from installment sales contracts and investment income from preneed cemetery merchandise and perpetual care trusts.

PRENEED PROGRAMS. In addition to sales of funeral merchandise and services and cemetery interment rights, merchandise and services at the time of need, the Company also markets funeral and cemetery services and products on a preneed basis. Preneed funeral or cemetery contracts enable families to establish in advance the type of service to be performed, the products to be used and the cost of such products and services in accordance with prices prevailing at the time the contract is signed rather than when the products and services are delivered. Preneed contracts permit families to eliminate the emotional strain of making death care plans at the time of need and enable the Company to establish a portion of its future market

share. Proceeds from the sale of preneed funeral contracts are not recognized as revenues until the time the funeral service is performed. The Company sold 2,610 and 3,760 preneed funeral contracts in the years ended December 31, 1995 and 1996, respectively. At December 31, 1996, the Company had a backlog of 22,925 preneed funeral contracts to be delivered in the future.

Preneed funeral contracts are usually paid on an installment basis. The performance of preneed funeral contracts is usually secured by placing the funds collected in trust for the benefit of the customer or by the purchase of a life insurance policy, the proceeds of which will pay for such services at the time of need. Insurance policies intended to fund preneed funeral contracts cover the original contract price and generally include built-in escalation clauses designed to offset future inflationary cost increases.

In addition to preneed funeral contracts, the Company also offers "preplanned" funeral arrangements whereby a client determines in advance substantially all of the details of a funeral service without any financial commitment or other obligation on the part of the client, until the actual time of need. Preplanned funeral arrangements permit families to avoid the emotional strain of making death care plans at the time of need and enable a funeral home to establish relationships with clients that frequently lead to at need sales.

Preneed cemetery sales are usually financed by the Company through installment sale contracts, generally with terms of five years. Preneed sales of cemetery interment rights and other related services and merchandise are recorded as revenues when the contract is signed, with concurrent recognition of related costs. The Company typically receives an initial payment at the time the contract is signed. Allowances for customer cancellations and refunds are accrued at the date of sale based upon historical experience. Preneed cemetery sales represented approximately 42% and 67% of the Company's net cemetery revenues for the years ended December 31, 1995 and 1996, respectively.

COMPETITION

The acquisition environment in the death care industry is highly competitive. The four major publicly held death care companies, Service Corporation International ("SCI"), The Loewen Group, Inc., Stewart Enterprises, Inc. and Equity Corporation International, are substantially larger than the Company and have significantly greater financial and other resources than the Company. In addition, a number of smaller companies are actively acquiring funeral homes and cemeteries. Prices for funeral homes and cemeteries have increased substantially in recent years, and, in some cases, competitors have paid acquisition prices substantially in excess of the prices offered by the Company. Accordingly, no assurance can be given that the Company will be successful in expanding its operations through acquisitions or that funeral homes and cemeteries will be available at reasonable prices or on reasonable terms.

The Company's funeral home and cemetery operations generally face competition in the markets that they serve. Market share for funeral homes and cemeteries is largely a function of reputation and heritage, although competitive pricing, professional service and attractive, well-maintained and conveniently located facilities are also important. The sale of preneed funeral services and cemetery property has increasingly been used by many companies as an important marketing tool to build market share. Due to the importance of reputation and heritage, market share increases are usually gained over a long period of time.

TRUST FUNDS

GENERAL. The Company has established a variety of trusts in connection with its funeral home and cemetery operations as required under applicable state law. Such trusts include (i) preneed funeral trusts; (ii) preneed cemetery merchandise and service trusts; and, (iii) perpetual care trusts. These trusts are typically administered by independent financial institutions selected by the Company. The Company also uses independent professional managers to advise the Company on investment matters.

PRENEED FUNERAL TRUSTS. Preneed funeral sales are facilitated by deposits to a trust or purchase of a third-party insurance product. All preneed funeral sales are deferred until the service is performed. The trust income earned and any increase in insurance benefits are also deferred until the service is performed in order to offset possible inflation in cost when providing the service in the future. Although direct marketing costs and commissions incurred for the sale of preneed funeral contracts are a current use of cash, such costs

are also deferred and amortized over 12 years, which approximates the expected timing of the performance of the services related to the preneed funeral contracts. Since the Company does not have access to the trust fund principal or earnings, the related assets and liabilities are not reflected on the Company's balance sheet. In most states, the Company is not permitted to withdraw principal or investment income from such trusts until the funeral service is performed. Some states, however, allow for the retention of percentage (generally 10%) of the receipts to offset any administrative and selling expenses, which the Company defers until the service is provided. The aggregate balance of the Company's preneed funeral contracts held in trust was approximately $36.4 million as of December 31, 1996.

PRENEED CEMETERY MERCHANDISE AND SERVICE TRUSTS. The Company is generally required under applicable state laws to deposit a specified amount (which varies from state to state, generally 110% of wholesale cost) into a merchandise and service trust fund for cemetery merchandise and services sold on a preneed basis. The related trust fund income is recognized in current revenues as trust earnings. These earnings are offset by any current period inflation costs accrued related to the merchandise that has not yet been purchased. Liabilities for undelivered cemetery merchandise and services, including accruals for inflation increases, are reflected in the balance sheet net of the merchandise and service trust balance. The Company is permitted to withdraw the trust principal and the accrued income when the merchandise is purchased or service is provided by the Company or when the contract is canceled. The merchandise and service trust fund balances, in the aggregate, were approximately $1.1 million as of December 31, 1996.

PERPETUAL CARE TRUSTS. In certain states, regulations require a portion, generally 10%, of the sale amount of cemetery property and memorials to be placed in trust. These perpetual care trusts provide the funds necessary to maintain cemetery property and memorials in perpetuity. The related trust fund income is recognized in current revenues as trust earnings. While the Company is entitled to withdraw the income from its perpetual care trust to provide for the maintenance of the cemetery and memorials, they are not entitled to withdraw any of the principal balance of the trust fund, and therefore, none of the principal balances are reflected in the Company's balance sheet. The Company's perpetual care trust balances were approximately $2.0 million as of December 31, 1996.

For additional information with respect to the Company's trusts, see Note 1 of the Consolidated Financial Statements.

REGULATION

The Company's funeral home operations are subject to substantial regulation by the Federal Trade Commission (the "FTC"). Certain regulations contain minimum standards for funeral industry practices, require extensive price and other affirmative disclosures to the customer at the time of sale and impose mandatory itemization requirements for the sale of funeral products and services.

The Company is subject to the requirements of the federal Occupational Safety and Health Act ("OSHA") and comparable state statutes. The OSHA hazard communication standard, the United States Environmental Protection Agency community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and similar state statutes require the Company to organize information about hazardous materials used or produced in its operations. Certain of this information must be provided to employees, state and local governmental authorities and local citizens. The Company is also subject to the Federal Americans with Disabilities Act and similar laws which, among other things, may require that the Company modify its facilities to comply with minimum accessibility requirements for disabled persons.

The Company's operations, including its preneed sales and trust funds, are also subject to extensive regulation, supervision and licensing under numerous other Federal, state and local laws and regulations. See "-- Trust Funds."

The Company believes that it is in substantial compliance with all such laws and regulations. Federal and state legislatures and regulatory agencies frequently propose new laws, rules and regulations some of which, if enacted, could have a material adverse effect on the Company's results of operations. The

Company cannot predict the outcome of any proposed legislation or regulations or the effect that any such legislation or regulations might have on the Company.

EMPLOYEES

As of December 31, 1996, the Company and its subsidiaries employed 387 full-time employees, 392 part-time employees and 135 preneed sales counselors. All of the Company's funeral directors and embalmers possess licenses required by applicable regulatory agencies. Management believes that its relationship with its employees is good. No employees of the Company or its subsidiaries are members of a collective bargaining unit.

ITEM 2. PROPERTIES

At December 31, 1996, the Company operated 76 funeral homes and 10 cemeteries in 16 states. The Company owns the real estate and buildings of 54 of its funeral homes and all of its cemeteries and leases facilities in connection with 22 of its funeral homes. The 10 cemeteries operated by the Company cover a total of approximately 370 acres. The Company's inventory of unsold developed lots totaled approximately 44,000 at December 31, 1996. In addition, approximately 175 acres, or approximately 47% of the total acreage, is available for future development. The Company does not anticipate any shortage of available space in any of its current cemeteries for the foreseeable future.

The following table sets forth certain information as of December 31, 1996 regarding the Company's funeral homes and cemeteries by state:

	NUMBER OF FUNERAL HOMES		
STATE	OWNED	LEASED(1)	CEMETERIES
Texas	9(2)	1	3
Kentucky	6	4	1
Ohio	9	2	0
Idaho	5(3)	0	3
Georgia	3	3	0
South Carolina	5	0	1
Michigan	3	2	0
Florida	2	1	1
Illinois	0	4	0
Tennessee	3	1	0
Connecticut	2	1	0
Indiana	1	2	0
North Carolina	1	1	1
Kansas	2	0	0
Washington	2	0	0
Alabama	1	0	0
Total(4)	54	22	10

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

(2) One of these funeral homes is located on property contiguous to and operated in combination with a Company cemetery.

(3) Two of these funeral homes are located on property contiguous to and operated in combination with Company cemeteries.

(4) From January 1, 1997 through March 10, 1997, the Company has acquired ten funeral homes and one cemetery in California, four funeral homes in Ohio, one funeral home in Tennessee, one funeral home in Rhode Island and one cemetery in Indiana for an aggregate consideration of $55 million.

The Company's corporate headquarters occupy approximately 19,700 square feet of leased office space in Houston, Texas.

At December 31, 1996, the Company operated 309 vehicles, of which 234 were owned and 75 were leased.

The specialized nature of the Company's business requires that its facilities be well-maintained. Management believes that this standard is met.

ITEM 3. LEGAL PROCEEDINGS

The Company and certain of its subsidiaries are parties to a number of legal proceedings that arise from time to time in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the Company.

The Company carries insurance with coverages and coverage limits that it believes to be customary in the funeral home and cemetery industries. Although there can be no assurance that such insurance will be sufficient to protect the Company against all contingencies, management believes that its insurance protection is reasonable in view of the nature and scope of the Company's operations.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Class A Common Stock is traded in the over-the-counter market and quoted on the Nasdaq National Market under the symbol "CRSV". The following table presents the quarterly high and low sale prices as reported by the Nasdaq National Market since the shares became publicly traded on August 9, 1996 at an initial price of $13.50. These quotations reflect the inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

1996	HIGH	LOW
Third Quarter (beginning August 9, 1996).....	$ 22.75	$ 14.25
Fourth Quarter.....	$ 23.50	$ 18.375

As of February 28, 1997, there were 4,274,495 shares of the Company's Class A Common Stock and 5,566,650 shares of the Company's Class B Common Stock outstanding. The holders of Class A Common Stock are entitled to one vote for each share held on all matters submitted to a vote of Common stockholders. The holders of Class B Common Stock are entitled to ten votes for each share held on all matters submitted to a vote of Common stockholders. The Class A Common Stock shares outstanding are held by approximately 136 stockholders of record. The Company believes there are approximately 2,000 beneficial owners of the Class A Common Stock.

The Company has never paid a cash dividend on its Class A or Class B Common Stock. The Company currently intends to retain earnings to finance the growth and development of its business and does not anticipate paying any cash dividends on its common stock in the foreseeable future. Any future change in the Company's dividend policy will be made at the discretion of the Company's Board of Directors in light of the financial condition, capital requirements, earnings and prospects of the Company and any restrictions under credit agreements, as well as other factors the Board of Directors may deem relevant.

RECENT SALES OF UNREGISTERED SECURITIES

On January 1, 1994, the Company sold an aggregate of 2,520,000 shares of Common Stock to C. Byron Snyder, Melvin C. Payne, Mark W. Duffey and Reid A. Millard in exchange for shares of capital stock of three entities. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting these transactions.

On October 12, 1994, the Company sold one share of Common Stock for $8.00 to a former owner of an acquired funeral home. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting this transaction.

On December 31, 1994, the Company sold one share of Common Stock in exchange for one share of the capital stock of a subsidiary. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting this transaction.

From January 18, 1994 to February 28, 1994, the Company sold in a private placement an aggregate of 7,000,000 shares of Preferred Stock. The Company acted as its own placement agent. Such shares were purchased for $1.00 per share. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting this placement.

From October 28, 1994 to May 29, 1996, the Company sold an aggregate of 715,000 shares of Preferred Stock, valued at $1.00 per share, to the former owners of acquired funeral homes. Consideration for such shares consisted of ownership interests in funeral home businesses and contract rights. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting these transactions.

On September 25, 1995, the Company sold in a private placement an aggregate of 8,500,000 shares of Preferred Stock. The Chicago Corporation acted as placement agent in connection with this

offering. Such shares were purchased for $1.00 per share. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting the placement.

From March 8, 1996 to September 6, 1996, the Company sold an aggregate of 17,775,616 shares of Series D Preferred Stock, valued at $1.00 per share, to the former owners of acquired funeral homes. Consideration for such shares consisted of ownership interests in funeral home businesses. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting these transactions.

On May 28, 1996, an employee exercised options to purchase 1,000 shares of Common Stock pursuant to the Company's 1995 Stock Incentive Plan at an exercise price of $10.00 per share. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting this transaction.

From August 30, 1996 to February 28, 1997, the Company sold an aggregate of 225,857 shares of Class A Common Stock, valued at market prices, to the former owners of acquired funeral homes. Consideration for such shares consisted of ownership interests in funeral home businesses. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting these transactions.

On January 7, 1997, the Company sold 19,999,992 shares of Series F Preferred Stock, valued at $1.00 per share, to the former owners of acquired funeral homes. Consideration for such shares consisted of ownership interests in funeral home businesses. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting this transaction.

ITEM 6. SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,				
	1992	1993	1994	1995	1996
	(IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA)				
INCOME STATEMENT DATA:					
Revenues, net:					
Funeral	$ 1,625	$ 10,651	$ 17,368	$ 22,661	$ 37,445
Cemetery	178	614	1,036	1,576	2,903
Total net revenues	1,803	11,265	18,404	24,237	40,348
Gross profit:					
Funeral	(88)	917	2,856	3,740	6,804
Cemetery	113	143	158	250	362
Total gross profit	25	1,060	3,014	3,990	7,166
General and administrative expenses	490	985	1,266	2,106	2,474
Operating income (loss)	(465)	75	1,748	1,884	4,692
Interest expense, net	295	1,745	2,671	3,684	4,347
Income (loss) before income taxes	(760)	(1,670)	(923)	(1,800)	345
Provision for income taxes	-- (1)	-- (1)	40	694	138
Income (loss) before extraordinary item	(760)	(1,670)	(963)	(2,494)	207
Extraordinary item, net	--	--	--	--	(498)
Loss after extraordinary item	(760)	(1,670)	(963)	(2,494)	(291)
Preferred stock dividends	--	--	--	--	622
Net loss attributable to common stockholders	$ (760)	$ (1,670)	$ (963)	$ (2,494)	$ (913)
Loss per common share					
Continuing operations	$ (.30)(1)	$ (.66)(1)	$ (.28)	$ (.66)	$ (.09)
Extraordinary item	--	--	--	--	(.10)
Net loss per common share	$ (.30)	$ (.66)	$ (.28)	$ (.66)	$ (.19)
Weighted average number of common and common equivalent shares outstanding	2,543 (1)	2,543 (1)	3,406	3,781	4,869
OPERATING AND FINANCIAL DATA:					
Funeral homes at end of period	14	25	34	41	76
Funeral services performed during period	389	2,265	3,529	4,414	7,181
Preneed funeral contracts sold	451	644	762	2,610	3,760
Backlog of preneed funeral contracts	2,576	5,170	6,855	8,676	22,925
Depreciation and amortization	$ 261	$ 947	$ 1,476	$ 1,948	$ 3,629
BALANCE SHEET DATA:					
Working capital	$ 678	$ (142)	$ 4,271	$ 6,472	$ 5,089
Total assets	13,089	28,784	44,165	61,746	131,308
Long-term debt, net of current maturities	12,656	26,270	32,622	42,057	42,733
Redeemable preferred stock	--	--	--	--	17,251
Stockholders' equity (deficit)	$ (958)	$ (2,626)	$ 3,429	$ 9,151	$ 57,043

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(1) Prior to January 1, 1994, the Company consisted of three entities whose owners contributed their equity in these entities in exchange for 2,520,000 shares of common stock of the Company effective January 1, 1994. Accordingly, shares of common stock shown outstanding for these periods assume the exchange had taken place at the beginning of the periods presented. In 1992 and 1993, the entities were subchapter S corporations, and taxes were the direct responsibility of the owners. Thus, the tax provisions reflected above for these periods are based on assumptions about what tax provisions (benefits) would have been if the Company had been a taxable entity. In the opinion of management, no pro forma tax provision (benefit) was appropriate for these periods because the Company followed a policy of not recognizing the benefits associated with net operating losses during such periods.

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

OVERVIEW

The Company was formed in 1991 in order to take advantage of the attractive fundamentals and significant opportunities to consolidate the death care industry. From 1992 through 1995, the Company acquired 42 funeral homes and four cemeteries, for consideration ranging from approximately $9 million to $14 million in each of the four years. The Company intentionally took a disciplined, deliberate approach to acquisitions that allowed management the time to integrate early acquisitions, to develop and implement systems, including operational procedures, administrative policies, financial systems and related controls, and to promote a decentralized service culture.

Management believes that the Company's focus on controlled growth while implementing operational and administrative systems and related controls to effectively manage a highly decentralized management structure positioned it to pursue an accelerated growth strategy beginning in late 1995. The Company significantly expanded its corporate development and acquisition activities in 1996 and early 1997, thus requiring additions to the corporate infrastructure. During 1996, the Company acquired 38 funeral homes and seven cemeteries for an aggregate consideration of approximately $68 million. Sixteen funeral homes and two cemeteries were acquired in January and February 1997 for approximately $55 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 February 28, 1997, the Company had letters of intent to acquire eight funeral homes for an aggregate consideration of approximately $10 million. The Company will continue to pursue attractive acquisition candidates as further consolidation of the industry occurs.

Upon acquisition, the operations team focuses on increasing historic operating income by improving the merchandising approach, pricing structure and marketing strategy of acquired businesses. These enhancements, complemented by discounts from consolidated purchasing, generally result in improved margins of the acquired businesses within the first 12 months following acquisition.

In certain instances, a review of the marketing strategy of an acquired business results in increased preneed funeral and cemetery sales efforts to secure or gain future market share. Preneed funeral sales are affected by deposits to a trust or purchases of third party insurance products. Since the Company does not have access to these funds, the sale is not recorded until the service is performed nor are the related assets and liabilities reflected on the Company's consolidated balance sheet. The trust income earned and increases in insurance benefits are also deferred until the service is performed in order to offset possible inflation in cost to provide the service in the future. Unlike preneed funeral sales, the Company has access to the funds related to preneed cemetery sales. Therefore, preneed cemetery sales and the related estimated costs are recorded at the time of sale. Trust fund requirements relate only to the estimated costs of providing merchandise and service. Any income from the merchandise and service trust funds is recorded as cemetery revenue in the period earned. These earnings are offset by any inflation in the cost of providing the merchandise and services in the future. These estimated costs are reviewed at least annually, and any significant increase in estimated costs are recorded at that time. Due to the Company's small number of cemetery operations, the impact of these trust earnings and any inflation in estimated costs have not historically been significant.

Certain matters discussed herein may contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, but are not limited to, the following: the Company's ability to sustain its rapid acquisition rate, to manage an increasing number of funeral homes and cemeteries, and to obtain adequate performance from acquired businesses; the economy and financial market conditions, including stock prices, interest rates and credit availability; and death rates and competition in the Company's markets.

FACTORS AFFECTING HISTORICAL FINANCIAL RESULTS

Prior to 1995, the Company's corporate infrastructure required only modest additions to support its disciplined approach to acquisitions. As a result, general and administrative expenses declined as a percentage of revenues over these years. In anticipation of accelerating its acquisition activity, the Company began in 1995 to significantly expand its corporate infrastructure to support more rapid growth. As a result, general and administrative expenses in 1995 increased as a percentage of revenues over 1994. Although general and administrative expenses have continued to increase in response to the Company's acceleration of its acquisition activities, in 1996 these expenses grew at a lower rate relative to revenues compared to 1995 (6.1% of revenues in 1996 as compared to 8.7% of revenues in 1995). Management anticipates that general and administrative expenses as a percentage of revenues will continue to decline.

The Company achieved positive net income in the fourth quarter of 1996 due to several factors, including the repayment of higher rate debt from proceeds of the Company's initail public offering (the "IPO"), the improved performances of existing and newly acquired businesses and the lower interest rates under its credit facility used to fund the acquisitions. In response to the acceleration of acquisition activity and the accompanying increase in the number of operations to be managed, the Company further strengthened its corporate staff. To support an operating style which continues to focus heavily on service and careful integration of newly acquired operations, management additions were made to the funeral home operations group, and financial and administrative personnel were added. Additionally, near the end of 1996, the prearranged funeral and cemetery sales organization was significantly restructured and expanded.

The Company believes its increased recognition in the death care industry as an established purchaser of funeral homes and cemeteries has improved its ability to finance its acquisitions with debt and equity, thereby reducing the negotiated value of agreements not to compete. Since the Company's agreements not to compete have generally been amortized over four to ten years, whereas any purchase price allocated to names and reputations is amortized over 40 years, any reduction in the non-competition agreement payments (assuming the same purchase price) results in a reduction in operating expense during the amortization period of the agreements not to compete. Since mid-1995, the Company has experienced a reduction in the operating expenses for amortization of agreements not to compete compared to prior years.

As a result of this significant increase in operating scale and substantially improved capital structure, the Company believes that the financial results prior to the fourth quarter of 1996 are not necessarily comparable to those periods subsequent to its IPO. The Company's future results of operations will depend in large part on the Company's ability to continue to make acquisitions on attractive terms and to successfully integrate and manage the acquired properties.

RESULTS OF OPERATIONS

The following table sets forth certain income statement data for the Company expressed as a percentage of net revenues for the periods presented:

	YEAR ENDED DECEMBER 31,		
	1994	1995	1996
Total revenues, net	100.0%	100.0%	100.0%
Total gross profit	16.4	16.5	17.8
General and administrative expenses	6.9	8.7	6.1
Operating income	9.5	7.8	11.6
Interest expense, net	14.5	15.2	10.8
Income (loss) before extraordinary item	(5.2)	(10.3)	0.5

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

	YEAR ENDED DECEMBER 31,		
	1994	1995	1996
Funeral homes at beginning of period	25	34	41
Acquisitions	9	8	38
Divestitures	0	1	3
Funeral homes at end of period	34	41	76
Cemeteries at beginning of period	2	3	3
Acquisitions	1	0	7
Divestitures	0	0	0
Cemeteries at end of period	3	3	10

The following is a discussion of the Company's results of operations for 1994, 1995 and 1996. For purposes of this discussion, funeral homes and cemeteries owned and operated for the entirety of each year being compared are referred to as "existing operations." Operations acquired or opened during either year being compared are referred to as "acquired operations."

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

The following table sets forth certain information regarding the net revenues and gross profit of the Company from its operations during the years ended December 31, 1995 and 1996:

	YEAR ENDED DECEMBER 31,		CHANGE	
	1995	1996	AMOUNT	PERCENT
	(DOLLARS IN THOUSANDS)			
Net revenues:				
Existing operations	$ 21,482	$ 20,921	$ (561)	(2.6%)
Acquired operations	2,755	19,427	16,672	*
Total net revenues	$ 24,237	$ 40,348	$16,111	66.5%
Gross profit:				
Existing operations	$ 3,451	$ 3,481	$ 30	0.9%
Acquired operations	539	3,685	3,146	*
Total gross profit	$ 3,990	$ 7,166	$ 3,176	79.6%

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* Not meaningful.

Total net revenues for the year ended December 31, 1996 increased $16.1 million or 66.5% over 1995. The higher net revenues reflect an increase of $16.7 million in net revenues from acquired operations and a decrease in net revenues of $561,000 or 2.6% from existing operations. The decrease in net revenues for the existing operations primarily resulted from fewer funeral services being performed, which was partially offset by a 3.9% increase in the average revenue per funeral service. Fewer services were performed in 1996 due to the divestiture of three funeral homes and a longer than normal seasonal decline in the number of deaths in certain of the Company's markets. This seasonal decline in the number of services ended in mid-November. At December 31, 1996, the Company operated 10 cemeteries. The net revenues and gross profit of cemeteries represented less than eight percent of the Company's total operations.

Total gross profit for the year ended December 31, 1996 increased $3.2 million or 79.6% over 1995. The higher total gross profit reflected an increase of $3.1 million from acquired operations and an increase of $30,000 or 0.9% from existing operations. Gross profit for existing operations increased due to the efficiencies gained by consolidation and the increasing effectiveness of the Company's merchandising

strategy, which was partially offset by lower revenues. Total gross margin increased from 16.5% for 1995 to 17.8% for 1996 due to these factors. As a result of the acceleration of the Company's acquisition program in 1996, the profit contribution from acquired properties exceeded that of existing operations even though most were not owned for the entire year. The acquisition and integration of these new properties received the majority of the corporate operations group's management focus during the year. During the fourth quarter, significant additional management resources were added to this group to provide assistance in increasing revenue and profit margins from existing ongoing operations and to more rapidly achieve targeted margins for acquired businesses.

General and administrative expenses for the year ended December 31, 1996 increased $368,000 or 17.5% over 1995 due primarily to the increased personnel expense necessary to support a higher rate of growth and acquisition activity. However, general and administrative expenses as a percentage of net revenues decreased from 8.7% for 1995 to 6.1% for 1996, reflecting economies of scale realized by the Company as the expenses were spread over a larger operations revenue base.

Interest expense for the year ended December 31, 1996 increased $663,000 over 1995 principally due to increased borrowings for acquisitions. In August 1996, the Company utilized the net proceeds from the IPO and borrowings under a new credit facility to repay the majority of its outstanding debts. In connection with repayment of debt, the Company recognized an extraordinary charge of approximately $498,000, net of income tax benefit of approximately $332,000, to reflect the write-off of the deferred loan costs associated with the early retirement of debt. The new credit facility reflects substantially improved terms and reduced interest costs compared to the previous arrangements.

During 1996, the Company issued approximately $18 million of redeemable preferred stock to fund a portion of its acquisition program. Dividends on the majority of this preferred stock range from 6-7% per annum. Preferred dividends of $622,000 were subtracted from the $207,000 of income before extraordinary item in computing earnings attributable to common stockholders resulting in a net loss of $415,000 for purposes of computing primary earnings per common share. Approximately $16 million of redeemable preferred stock converted into Common Stock subsequent to December 31, 1996.

For 1996, the Company provided for income taxes on net income before income taxes and extraordinary item at a combined state and federal tax rate of 40%. Prior to 1996, the Company experienced net operating losses. The tax benefits associated with these net operating loss carryforwards were reserved. The Company continues to analyze the benefits associated with these losses and will adjust the recorded valuation allowance as appropriate in future periods.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

The following table sets forth certain information regarding the net revenues and gross profit of the Company from its operations during the years ended December 31, 1994 and 1995:

	YEAR ENDED DECEMBER 31,		CHANGE	
	1994	1995	AMOUNT	PERCENT
	(DOLLARS IN THOUSANDS)			
Net revenues:				
Existing operations	$ 16,593	$ 16,838	$ 245	1.5%
Acquired operations	1,811	7,399	5,588	*
Total net revenues	$ 18,404	$ 24,237	$ 5,833	31.7%
Gross profit:				
Existing operations	$ 2,685	$ 2,792	$ 107	4.0%
Acquired operations	329	1,198	869	*
Total gross profit	$ 3,014	$ 3,990	$ 976	32.4%

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* Not meaningful.

Total net revenues for the year ended December 31, 1995 increased $5.8 million or 31.7% over 1994. The higher net revenues were due primarily to an increase of $5.6 million in net revenues from acquired operations. Net revenues from existing operations increased $245,000 or 1.5% over 1994. The increase in net revenues from existing operations resulted from a 4.4% increase in average revenue per funeral service which was partially offset by fewer funeral services being performed primarily as a result of the divestiture of one funeral home and the planned divestiture of two additional funeral homes. At December 31, 1995, the Company operated three cemeteries, the net revenues and gross profit of which were not significant.

Total gross profit for the year ended December 31, 1995 increased $976,000 or 32.4% over 1994. The higher total gross profit reflects an increase of $869,000 from acquired operations and an increase of $107,000 or 4.0% from existing operations. The gross profit increase for the existing operations was due to the efficiencies gained by consolidation and implementation of a new merchandising strategy. Total gross margin remained relatively consistent between years.

General and administrative expense for the year ended December 31, 1995 increased $840,000 over 1994 and increased as a percentage of net revenues to 8.7% for 1995 from 6.9% for 1994. These increases resulted primarily from increased personnel expense necessary to support a higher rate of growth and increased acquisition activity.

Interest expense for the year ended December 31, 1995 increased $1.0 million over 1994, principally due to increased borrowings for acquisitions.

Although the Company experienced net operating losses before tax, the Company reserved the operating loss carryforwards creating a tax provision of $40,000 in 1994 and $694,000 in 1995.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled $1.7 million at December 31, 1996, representing a decrease of $5.9 million from December 31, 1995. For the year ended December 31, 1996, cash provided by operations was $314,000 as compared to $997,000 for the year ended December 31, 1995. The decrease in cash provided by operations was due in part to the payment of commissions on the sale of preneed funeral contracts, which was offset by the positive cash flow from acquired operations. Cash used in investing activities was $46 million for the year ended December 31, 1996 compared to $12 million in 1995, due primarily to the significant increase in acquisitions. In 1996, cash flow provided by financing activities amounted to approximately $40 million, primarily due to the net proceeds of approximately $48 million from the issuance of Class A Common Stock in the Company's IPO.

Historically, the Company has financed its acquisitions with proceeds from debt and the issuance of preferred stock. As of December 31, 1996, the Company has 17,253,116 shares of Series D Preferred Stock issued and outstanding of which 1,200,000 shares are convertible into Class A Common Stock and 16,053,116 shares are 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 when such shares were issued. Commencing on the second anniversary of the completion of the IPO (August 8, 1998), the Company may, at its option, redeem all or any portion of the shares of Series D Preferred Stock then 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 A or 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. As of February 28, 1997, holders of 15,570,616 shares of Series D Preferred Stock elected to convert their shares into 88,888 shares of Class A and 1,064,481 shares of Class B Common Stock leaving 1,682,500 shares of Series D Preferred Stock outstanding all which are convertible into the Class B Common Stock.

In conjunction with the closing of the IPO, the Company entered into a new credit facility (the "Credit Facility") which provides for a $75 million revolving line of credit with both LIBOR and base rate interest options. The facility is unsecured with a term of three 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, which may effectively limit the Company's borrowing capacity. At December 31, 1996, the Company believes that it was in compliance with all financial covenants and ratios. As of December 31, 1996, $36.5 million was outstanding under the Credit Facility with an average effective interest rate of 7.17%.

In August 1996, the Company used the net proceeds from the IPO, along with funding from the Credit Facility, to pay down all previously existing debt from Provident Services, Inc., Texas Commerce Bank N.A., and C. Byron Snyder (one of the Company's directors). In connection with the repayment of this debt, the Company recognized an extraordinary charge of approximately $498,000, net of income tax benefit of approximately $332,000, to reflect the write-off of the deferred loan costs associated with the early retirement of debt.

The Company issued 188,413 shares of Class A Common Stock and approximately 20,000,000 shares of Series F Preferred Stock and paid $27 million in cash to fund acquisitions in January and February 1997. The Series F Preferred Stock is convertible into an aggregate of 1,272,450 shares of Class A Common Stock based on exercise prices at February 28, 1997. The holders of the Series F Preferred Stock are entitled to receive cash dividends at the annual rate initially of $.04 per share, with the annual rate increasing by 5% per year commencing January 1, 1998 until January 1, 2001, at which time the annual rate becomes fixed at $.0486 per share. On December 31, 2007, the Company must redeem all shares of Series F Preferred Stock, as discussed above, then outstanding at a redemption price of $1.00 per share, together with all accrued and unpaid dividends. The Company does not have the option to redeem any Series F Preferred Stock prior to December 31, 2007.

The balance outstanding under the Credit Facility as of February 28, 1997 was $64 million. The Company has had discussions with various financial institutions that lead it to believe that it has the ability to increase the amount available under the Credit Facility. The Company intends to fund future acquisitions through borrowings under the Credit Facility and additional issuances of Class A Common Stock or additional preferred stock. As of February 28, 1997, the Company had letters of intent for acquisitions involving an aggregate purchase price of $10 million. The Company has budgeted $125 million for its acquisition program in 1997.

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. In addition, the Company currently expects to incur less than $5 million of capital expenditures during 1997, primarily for upgrading funeral home facilities. The Company believes that cash flow from operations, borrowings under the 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 for the remainder of 1997. However, 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 to maintain 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

Although the death care business is relatively stable and fairly predictable, 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 during the last three years.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item 8 are incorporated under Item 14 in Part IV of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated by reference to the Registrant's definitive proxy statement relating to its 1997 annual meeting of shareholders, which proxy statement will be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act") within 120 days after the end of the last fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to the Registrant's definitive proxy statement relating to its 1997 annual meeting of shareholders, which proxy statement will be filed pursuant to Regulation 14A of the Exchange Act within 120 days after the end of the last fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated by reference to the Registrant's definitive proxy statement relating to its 1997 annual meeting of shareholders, which proxy statement will be filed pursuant to Regulation 14A of the Exchange Act within 120 days after the end of the last fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated by reference to the Registrant's definitive proxy statement relating to its 1997 annual meeting of shareholders, which proxy statement will be filed pursuant to Regulation 14A of the Exchange Act within 120 days after the end of the last fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A)1 FINANCIAL STATEMENTS

The following financial statements and the Report of Independent Public Accountants are filed as a part of this report on the pages indicated:

	PAGE
Report of Independent Public Accountants	24
Consolidated Balance Sheets as of December 31, 1995 and 1996	25
Consolidated Statements of Operations for the Years Ended December 31, 1994, 1995 and 1996	26
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 1994, 1995 and 1996	27
Consolidated Statements of Cash Flows for the Years Ended December 31, 1994, 1995 and 1996	28
Notes to Consolidated Financial Statements	29

(A)2 FINANCIAL STATEMENT SCHEDULES

The following Financial Statement Schedule and the Report of Independent Accountants on Financial Statement Schedule are included in this report on the pages indicated:

	PAGE
Report of Independent Public Accountants on Financial Statement Schedule	42
Financial Statement Schedule II -- Valuation and Qualifying Accounts	43

All other schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

(A)3 EXHIBITS

The exhibits to this report have been included only with the copies of this report filed with the Securities and Exchange Commission. Copies of individual exhibits will be furnished to stockholders upon written request to the Company and payment of a reasonable fee.

EXHIBIT NO.		DESCRIPTION
*3.1	--	Amended and Restated Certificate of Incorporation, as amended, of the Company
3.2	--	Amended and Restated Bylaws of the Company, incorporated by reference herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.1	--	1995 Stock Incentive Plan, as amended, incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.2	--	1996 Stock Incentive Plan, incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.3	--	1996 Nonemployee Directors' Stock Option Plan, incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.4	--	Asset Purchase Agreement dated May 10, 1995 among Carriage Funeral Holdings, Inc., West End Funeral Home, Inc., and James C. Hirsch and Cynthia Hirsch, incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.5	--	Agreement and Plan of Merger dated March 8, 1996 among Carriage Funeral Services, Inc., Hennessy-Bagnoli Funeral Home, Inc., Hennessy Funeral Home, Inc., Terrance P. Hennessy and Lawrence Bagnoli, incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.6	--	Real Property Purchase Agreement dated the Closing Date among Hennessy-Bagnoli Funeral Home, Inc., Hennessy and Patricia Hennessy, and Bagnoli and Brenda Bagnoli, incorporated herein by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.7	--	Stock Purchase Agreement dated January 4, 1996 among Carriage Funeral Holdings, Inc., The Lusk Funeral Home, Incorporated and Gerald T. McFarland, Jr., incorporated herein by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.8	--	Stock Purchase Agreement dated February 29, 1996 among Carriage Funeral Holdings, Inc., James E. Drake Funeral Home, Inc., and James E. Drake and Patricia A. Drake, incorporated herein by reference to Exhibit 10.12 to the Company's registration Statement on Form S-1 (File No. 333-05545)
10.9	--	Asset Purchase Agreement dated April 10, 1996 between CFS Funeral Services, Inc. and SCI Texas Funeral Services, Inc., incorporated herein by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.10	--	Asset Purchase Agreement dated April 10, 1996 between CFS Funeral Services, Inc. and SCI Funeral Services of Florida, Inc., incorporated herein by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-05545)

10.11	--	Asset Purchase Agreement dated April 10, 1996 between CFS Funeral Services, Inc. and Fort Myers Memorial Gardens, Inc., incorporated herein by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.12	--	Asset Purchase Agreement dated April 10, 1996 between CFS Funeral Services, Inc. and SCI Funeral Services of Florida, Inc., incorporated herein by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.13	--	Stock and Real Property Purchase Agreement dated March 29, 1996 among Carriage Funeral Holdings, Inc., Dwayne R. Spence Funeral Home, Inc., Dwayne R. Spence, Patricia Spence and James H. Sheridan, incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.14	--	Merger Agreement dated March 22, 1996 among Carriage Funeral Services, Inc., Carriage Funeral Services of Idaho, Inc., Merchant Funeral Home, Inc., Coeur d'Alene Memorial Gardens, Inc., Lewis Clark Memorial Park, Inc., Robert D. Larrabee, I. Renee Larrabee and Larrabee Land Company, Inc., incorporated herein by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.15	--	Real Property Purchase Agreement dated March 22, 1996 among Carriage Funeral Services, Inc. and Larrabee Investments, L.L.C., incorporated herein by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.16	--	Merger Agreement dated July 3, 1996 among Carriage Services, Inc., CSI Funeral Services of Connecticut, Inc., C. Funk & Son Funeral Home, Incorporated and Ronald F. Duhaime and Christopher J. Duhaime, incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.17	--	Merger Agreement dated July 3, 1996 among Carriage Services, Inc., CFS Funeral Services of Connecticut, Inc., O'Brien Funeral Home, Incorporated and Thomas P. O'Brien, incorporated herein by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.18	--	Merger Agreement dated June 26, 1996 among Carriage Services, Inc., Carriage Funeral Services of South Carolina, Inc., Forest Lawn of Chesnee Inc. and shareholders, incorporated herein by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.19	--	Employment Agreement with Melvin C. Payne, incorporated herein by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.20	--	Employment Agreement with Mark W. Duffey, incorporated herein by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.21	--	Employment Agreement with Russell W. Allen, incorporated herein by reference to Exhibit 10.25 to the Company's Registration Statement on Form S-1 (File No. 333-05545)
10.22	--	Merger Agreement dated October 17, 1996 among Carriage Services, Inc., Carriage Funeral Services of California, Inc., CNM and the shareholders of CNM, incorporated by reference to Exhibit 10.22 to the Company's Current Report on Form 8-K/A dated January 7, 1997.
*10.23	--	Amended and Restated 1995 Stock Incentive Plan
*10.24	--	Amended and Restated 1996 Stock Option Plan
*10.25	--	Amended and Restated 1996 Directors' Stock Option Plan
*10.26	--	Employment Agreement with Gary O'Sullivan
*10.27	--	Employment Agreement with Thomas C. Livengood

*21.1	--	Subsidiaries of the Company
*27.1	--	Financial Data Schedule

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(*) Filed herewith.

(B) REPORTS ON FORM 8-K

There were no reports filed on Form 8-K during the three months ended December 31, 1996.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED ON MARCH 17, 1997.

CARRIAGE SERVICES, INC.

By: /s/ MELVIN C. PAYNE
MELVIN C. PAYNE
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ MELVIN C. PAYNE MELVIN C. PAYNE	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 17, 1997
/s/ MARK W. DUFFAY MARK W. DUFFEY	President and Director	March 17, 1997
/s/ THOMAS C. LIVENGOOD THOMAS C. LIVENGOOD	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	March 17, 1997
_____ C. BYRON SNYDER	Director	
/s/ ROBERT D. LARRABEE ROBERT D. LARRABEE	Director	March 17, 1997
/s/ BARRY K. FINGERHUT BARRY K. FINGERHUT	Director	March 17, 1997
/s/ STUART W. STEDMAN STUART W. STEDMAN	Director	March 17, 1997
/s/ RONALD A. ERICKSON RONALD A. ERICKSON	Director	March 17, 1997
/s/ MARK F. WILSON MARK F. WILSON	Director	March 17, 1997

CARRIAGE SERVICES, INC.
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Carriage Services, Inc.:

We have audited the accompanying consolidated balance sheets of Carriage Services, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1995 and 1996 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Carriage Services, Inc., and subsidiaries as of December 31, 1995 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 28, 1997

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

	DECEMBER 31,	
	1995	1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,573	$ 1,712
Accounts receivable --		
Trade, net of allowance for doubtful accounts of $305 in 1995 and $530 in 1996	2,637	5,665
Other	505	673
	3,142	6,338
Marketable securities, available for sale	864	53
Inventories and other current assets	2,106	3,297
Total current assets	13,685	11,400
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	4,416	9,640
Buildings and improvements	14,200	31,750
Furniture and equipment	5,365	8,817
	23,981	50,207
Less -- accumulated depreciation	(2,311)	(4,095)
	21,670	46,112
CEMETERY PROPERTY, at cost	496	4,061
NAMES AND REPUTATIONS, net of accumulated amortization of $959 in 1995 and $2,007 in 1996	22,559	62,568
DEFERRED CHARGES AND OTHER NONCURRENT ASSETS	3,336	7,167
	$ 61,746	$ 131,308
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,041	$ 2,192
Accrued liabilities	2,957	3,033
Current portion of long-term debt and obligations under capital leases	3,215	1,086
Total current liabilities	7,213	6,311
PRENEED LIABILITIES, net	709	3,664
LONG-TERM DEBT, net of current portion	42,057	42,733
OBLIGATIONS UNDER CAPITAL LEASES, net of current portion	716	557
DEFERRED INCOME TAXES	1,900	3,749
Total liabilities	52,595	57,014
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE PREFERRED STOCK	--	17,251
STOCKHOLDERS' EQUITY:		
Preferred Stock, $.01 par value, 50,000,000 shares authorized; 15,660,000 and none issued and outstanding in 1995 and 1996, respectively	157	--
Class A Common Stock, $.01 par value; 15,000,000 shares authorized; none and 3,990,000 issued and outstanding in 1995 and 1996, respectively	--	40
Class B Common Stock; $.01 par value; 15,000,000 shares authorized; 2,520,000 and 4,502,000 issued and outstanding in 1995 and 1996, respectively	25	45
Contributed capital	15,100	63,966
Unrealized loss on marketable securities, available for sale	(36)	--
Retained deficit	(6,095)	(7,008)
Total stockholders' equity	9,151	57,043
	$ 61,746	$ 131,308

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

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

	FOR THE YEARS ENDED DECEMBER 31,		
	1994	1995	1996
REVENUES, net			
Funeral	$ 17,368	$ 22,661	$ 37,445
Cemetery	1,036	1,576	2,903
	18,404	24,237	40,348
COSTS AND EXPENSES			
Funeral	14,512	18,921	30,641
Cemetery	878	1,326	2,541
	15,390	20,247	33,182
Gross profit	3,014	3,990	7,166
GENERAL AND ADMINISTRATIVE EXPENSES	1,266	2,106	2,474
Operating income	1,748	1,884	4,692
INTEREST EXPENSE, net	2,671	3,684	4,347
Income (loss) before income taxes and extraordinary item	(923)	(1,800)	345
PROVISION FOR INCOME TAXES	40	694	138
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(963)	(2,494)	207
Extraordinary item -- loss on early extinguishment of debt, net of income tax benefit of $332	--	--	(498)
NET (LOSS)	(963)	(2,494)	(291)
Preferred stock dividend requirements	--	--	622
NET (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (963)	$ (2,494)	$ (913)
(LOSS) PER SHARE:			
(Loss) per common and common equivalent share before extraordinary item attributable to common stockholders	$ (.28)	$ (.66)	$ (.09)
Extraordinary item	--	--	(.10)
Net (loss) per common and common equivalent share attributable to common stockholders	$ (.28)	$ (.66)	$ (.19)
Weighted average number of common and common equivalent shares outstanding	3,406	3,781	4,869

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

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

	NUMBER OF SHARES	PREFERRED STOCK	NUMBER OF SHARES	COMMON STOCK	CONTRIBUTED CAPITAL (DEFICIT)	UNREALIZED GAIN (LOSS)	RETAINED DEFICIT	TOTAL
BALANCE -- DECEMBER 31, 1993.....	--	$ --	2,520	$ 25	$ (13)	$--	$ (2,638)	$(2,626)
Net loss -- 1994.....	--	--	--	--	--	--	(963)	(963)
Issuance of preferred stock.....	7,160	72	--	--	7,005	--	--	7,077
Unrealized net loss -- available for sale securities.....	--	--	--	--	--	(59)	--	(59)
BALANCE -- DECEMBER 31, 1994.....	7,160	72	2,520	25	6,992	(59)	(3,601)	3,429
Net loss -- 1995.....	--	--	--	--	--	--	(2,494)	(2,494)
Issuance of preferred stock.....	8,500	85	--	--	8,108	--	--	8,193
Unrealized net gain -- available for sale securities.....	--	--	--	--	--	23	--	23
BALANCE -- DECEMBER 31, 1995.....	15,660	157	2,520	25	15,100	(36)	(6,095)	9,151
Net loss -- 1996.....	--	--	--	--	--	--	(291)	(291)
Issuance of preferred stock.....	555	5	--	--	540	--	--	545
Issuance of common stock.....	--	--	3,947	40	47,942	--	--	47,982
Conversion of preferred stock to common stock.....	(16,045)	(160)	1,980	20	140	--	--	--
Conversion of redeemable preferred stock to common stock.....	--	--	39	--	522	--	--	522
Unrealized net gain -- available for sale securities.....	--	--	--	--	--	36	--	36
Purchase of treasury stock.....	(170)	(2)	--	--	(339)	--	--	(341)
Exercise of stock options.....	--	--	6	--	61	--	--	61
Preferred dividends.....	--	--	--	--	--	--	(622)	(622)
BALANCE -- DECEMBER 31, 1996.....	--	$ --	8,492	$ 85	$63,966	$--	$ (7,008)	$57,043

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

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

	FOR THE YEARS ENDED DECEMBER 31,		
	1994	1995	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)	$ (963)	$ (2,494)	$ (291)
Adjustments to reconcile net (loss) to net cash provided by operating activities --			
Depreciation and amortization	1,476	1,948	3,629
Provision for losses on accounts receivable	510	488	683
Loss on early extinguishment of debt, net of income taxes	--	--	498
Deferred income taxes	(27)	659	54
Changes in assets and liabilities net of effects from acquisitions:			
Increase in accounts receivable	(708)	(1,125)	(3,440)
Decrease (increase) in inventories and other current assets	(91)	115	(465)
Increase in other deferred charges	--	(144)	(1,146)
Increase (decrease) in accounts payable	(214)	45	1,151
Increase (decrease) in accrued liabilities	1,098	1,461	(403)
Increase (decrease) in preneed liabilities	(4)	44	44
Net cash provided by operating activities	1,077	997	314
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions, net of cash acquired	(9,073)	(12,191)	(42,707)
Disposition of businesses formerly owned	--	--	393
Purchase of marketable securities available for sale	(4,417)	(1,795)	--
Disposal of marketable securities available for sale	--	5,312	976
Purchase of property, plant and equipment	(1,179)	(3,019)	(4,630)
Net cash used in investing activities	(14,669)	(11,693)	(45,968)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	7,781	11,563	59,849
Payments on long-term debt and obligations under capital leases	(1,705)	(2,273)	(65,925)
Proceeds from subordinated notes	390	--	--
Proceeds from sale of preferred stock	6,992	8,192	--
Proceeds from issuance of common stock	--	--	47,694
Preferred stock dividends	--	--	(622)
Exercise of stock options	--	--	61
Purchase of treasury stock	--	--	(341)
Payment of deferred debt charges	(45)	(49)	(923)
Net cash provided by financing activities	13,413	17,433	39,793
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(179)	6,737	(5,861)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,015	836	7,573
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 836	$ 7,573	$ 1,712
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid through issuance of new debt	$ 231	$ 644	$ --
Retirement of debt through issuance of stock	$ --	$ 500	$ --
Cash interest paid	$ 2,038	$ 3,127	$ 4,466

Retirement of debt through disposition of business.....	$ --	$ --	$ 2,642
Non-cash consideration for acquisitions.....	$ --	$ --	$ 25,474

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BUSINESS

Carriage Services, Inc. (the "Company") was organized under the laws of the State of Delaware on December 29, 1993. The Company owns and operates funeral homes and cemeteries throughout the United States. The Company provides professional services related to funerals and interments at its funeral homes and cemeteries. Prearranged funerals and preneed cemetery property are marketed in the geographic markets served by the Company's locations.

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The financial statements include the consolidated financial statements of Carriage Services, Inc. and its subsidiaries. In consolidation, all significant intercompany balances and transactions have been eliminated. The consolidated financial statements have been restated as of the earliest period presented to reflect a one for two reverse stock split as further discussed in Note 7. Certain prior year amounts in the consolidated financial statements have been reclassified to conform with current year presentation.

FUNERAL AND CEMETERY OPERATIONS

The Company records the sale of funeral merchandise and services upon performance of the funeral service. The Company records the sale of the right of cemetery interment or mausoleum entombment and related merchandise at the time of sale. The cost for cemetery merchandise and services sold, but not yet provided, is accrued as an expense at the same time the cemetery revenue is recognized. Allowances for customer cancellations, refunds and bad debts are provided at the date of sale based on the historical experience of the Company. Accounts receivable-trade, net consists of approximately $2,546,000 and $4,977,000 of funeral receivables and approximately $91,000 and $688,000 of current cemetery receivables at December 31, 1995 and 1996, respectively. Noncurrent cemetery receivables, those payable after one year, are included in Deferred Charges and Other Noncurrent Assets on the Consolidated Balance Sheets (see Note 3).

PRENEED FUNERAL ARRANGEMENTS

Preneed funeral sales are effected by deposits to a trust or purchase of a third-party insurance product. Since the Company does not have access to these funds, the sale is not recorded until the service is performed, nor generally, are the related assets and liabilities reflected on the Consolidated Balance Sheets. The trust income earned and the increases in insurance benefits on the insurance products are also deferred until the service is performed in order to offset inflation in cost to provide the service in the future. The preneed funeral trust assets were approximately $14,934,000 and $36,523,000 at December 31, 1995 and 1996, respectively, which in the opinion of management, exceed the future obligations under such arrangements.

The following summary reflects the composition of the assets held in trust to satisfy the Company's future obligations under preneed funeral arrangements:

	HISTORICAL COST BASIS	UNREALIZED GAIN (LOSS)	FAIR VALUE
		(IN THOUSANDS)	
As of December 31, 1995 --			
Cash and cash equivalents	$10,275	$ --	$10,275
Fixed income investment contracts	1,396	--	1,396
Mutual funds, corporate bonds and stocks	3,206	57	3,263
Total	$14,877	$ 57	$14,934
As of December 31, 1996			
Cash and cash equivalents	$16,022	$ --	$16,022
Fixed income investment contracts	8,434	--	8,434
Mutual funds, corporate bonds and stocks	11,965	102	12,067
Total	$36,421	$ 102	$36,523

CEMETERY MERCHANDISE AND SERVICE TRUST

The Company is also generally required by certain states to deposit a specified amount into a merchandise and service trust fund for cemetery merchandise and service contracts sold on a preneed basis. The principal and accumulated earnings of the trust may be withdrawn by the Company upon maturity (generally, the death of the purchaser) or cancellation of the contracts. Trust fund investment income is recognized in current revenues as trust earnings accrue, net of current period inflation costs recognized related to the merchandise that has not yet been purchased. Merchandise and service trust fund balances, in the aggregate, were approximately $60,000 and $1,134,000 at December 31, 1995, and 1996, respectively, and are included in Preneed Liabilities, net on the accompanying Consolidated Balance Sheets.

PERPETUAL AND MEMORIAL CARE TRUST

In accordance with respective state laws, the Company is required to deposit a specified amount into perpetual and memorial care trust funds for each interment/entombment right and memorial sold. Income from the trust fund is used to provide care and maintenance for the cemeteries and mausoleums and is periodically distributed to the Company and recognized as revenue upon distribution. The perpetual and memorial care trust assets were approximately $599,000 and $2,002,000 at December 31, 1995 and 1996, respectively, which, in the opinion of management, will cover future obligations to provide care and maintenance for the Company's cemeteries and mausoleums. The Company does not have the right to withdraw any of the principal balances of these funds and, accordingly, these trust fund balances are not reflected in the accompanying Consolidated Balance Sheets.

DEFERRED OBTAINING COSTS

Deferred obtaining costs consist of sales commissions and other net direct marketing costs applicable to preneed funeral sales. These costs are deferred and amortized in funeral costs and expenses over 12 years which approximates the expected timing of the performance of the services covered by the preneed funeral contracts. These amounts were not significant prior to 1995 (see Note 3).

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

MARKETABLE SECURITIES

The Company accounts for marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, and all of the Company's investment securities are classified as available for sale securities. At December 31, 1995 and 1996, the Company had gross unrealized gains of approximately $4,000 and $0 and gross unrealized losses of approximately $40,000 and $0, respectively. The Company does not use derivative financial instruments or participate in hedging activities.

INVENTORY

Inventory is recorded at the lower of its cost basis (determined by the specific identification method) or net realizable value.

NAMES AND REPUTATIONS

The excess of the purchase price over the fair value of net identifiable assets acquired, as determined by management in transactions accounted for as purchases, is recorded as Names and Reputations. Such amounts are amortized over 40 years. Many of the Company's acquired funeral homes have provided high quality service to families for generations. The resulting loyalty often represents a substantial portion of the value of a funeral business. The Company reviews the carrying value of Names and Reputations at least quarterly on a location-by-location basis to determine if facts and circumstances exist which would suggest that this intangible asset may be impaired or that the amortization period needs to be modified. If indicators are present which indicate impairment is probable, the Company will prepare a projection of the undiscounted cash flows of the location and determine if the intangible assets are recoverable based on these undiscounted cash flows. If impairment is indicated, then an adjustment will be made to reduce the carrying amount of the intangible asset to its fair value. At December 31, 1996, no impairment was deemed to have occurred.

The Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of," as of January 1, 1996, and such adoption did not have a material impact on the Company's consolidated financial position or results of operations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. The costs of ordinary maintenance and repairs are charged to operations as incurred, while renewals and betterments are capitalized. Capitalized interest was minimal in 1994 and 1995 and $162,000 in 1996. Depreciation of property, plant and equipment is computed based on the straight-line method over the following estimated useful lives of the assets:

	YEARS
Buildings and improvements	15 to 40
Furniture and fixtures	5 to 10
Machinery and equipment	5 to 10
Automobiles	5

INCOME TAXES

The Company files a consolidated U.S. federal income tax return. The Company records deferred taxes for temporary differences between the tax basis and financial reporting basis of assets and liabilities.

LOSS PER COMMON SHARE

For 1994 and 1995, the loss per common share is computed by dividing net loss by the weighted average number of common and common equivalent shares outstanding during each period, as calculated pursuant to various SEC pronouncements for companies contemplating an initial public offering (see

Note 9). For 1996, loss per share is computed by dividing the net loss after deduction of preferred stock dividends by the weighted average number of common and common equivalent shares outstanding.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that carrying value approximates fair value for cash and cash equivalents and marketable equity securities which are designated as available-for-sale. Additionally, the carrying amount of its floating rate credit facility approximates its fair value.

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 1996, the Company acquired 38 funeral homes and seven cemeteries through the purchase of stock and assets. In 1995, the Company acquired eight funeral homes through the purchase of stock and assets. These transactions have been accounted for utilizing the purchase method of accounting, and the results of operations of the acquired businesses have been included in the results of the Company from the respective dates of acquisition.

In accordance with APB Opinion 16, purchase prices were allocated to the net assets acquired based on management's estimate of the fair value of the acquired assets and liabilities at the date of acquisition. Many of the Company's acquired funeral homes have provided high quality service to families for generations. The resulting loyalty often represents a substantial portion of the value of a funeral business. As a result, the excess of the consideration paid over the fair value of net tangible and other identifiable intangible assets is allocated to Names and Reputations. Future adjustments to the allocation of the purchase price may be made during the 12 months following the date of acquisition due to resolution of uncertainties existing at the acquisition date, which may include obtaining additional information regarding asset and liability valuations. There were no material purchase price allocation adjustments made during 1994, 1995 or 1996.

The effect of the above acquisitions on the Consolidated Balance Sheets at December 31, 1995 and 1996 was as follows:

	1995	1996
	(IN THOUSANDS)	
Current Assets	$ 291	$ 3,532
Cemetery Property	--	3,610
Property, Plant and Equipment	2,727	22,574
Deferred Charges and Other Noncurrent Assets	210	1,542
Names and Reputations	9,349	43,139
Current Liabilities	(67)	(1,025)
Debt	(87)	--
Other Liabilities	(232)	(5,191)
	12,191	68,181
Consideration:		
Redeemable preferred stock issued	--	(17,775)
Debt	--	(6,582)
Preferred stock issued	--	(555)
Cash acquired in acquisitions	--	(274)
Common Stock issued	--	(288)
Cash used for acquisitions	$ 12,191	$ 42,707

The following table reflects, on an unaudited pro forma basis, the combined operations of the Company and the businesses acquired during 1995 and 1996 as if such acquisitions had taken place at the beginning of 1995. Appropriate adjustments have been made to reflect the accounting basis used in recording these acquisitions. 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 combination been in effect on the date indicated, that have resulted since the respective dates of acquisition or that may result in the future.

	1995	1996
	(UNAUDITED AND IN THOUSANDS)	
Revenues, net	$ 49,696	$ 51,868
(Loss) before income taxes	(4,419)	(1,160)
Net (loss) attributable to common stockholders	(3,739)	(2,282)
Net (loss) per common and common equivalent share	(.99)	(.47)

3. DEFERRED CHARGES AND OTHER NONCURRENT ASSETS:

Deferred charges and other noncurrent assets at December 31, 1995 and 1996 were as follows (in thousands):

	1995	1996
Agreements not to compete, net of accumulated amortization of $1,198 and $1,722 respectively	$ 2,269	$ 3,297
Deferred debt expense, net of accumulated amortization of $337 and $78, respectively	492	511
Noncurrent cemetery and notes receivable	443	2,114
Deferred obtaining costs, net of accumulated amortization of $12 and $44, respectively	132	1,245
	$ 3,336	$ 7,167

The cost of agreements not to compete with former owners of businesses acquired is amortized over the term of the respective agreements, ranging from four to 10 years. Deferred debt expense is being amortized over the term of the related debt. Noncurrent cemetery receivables result from the multi-year payment terms in the underlying contracts. These cemetery receivables are recorded net of allowances for customer cancellations, refunds and bad debts.

4. LONG-TERM DEBT:

The Company's long-term debt consisted of the following at December 31 (in thousands):

	1995	1996
Credit Facility, unsecured floating rate $75 million line, interest is due on a quarterly basis at prime to prime plus .25% or at the applicable eurodollar rate plus .75% to 2.0% (weighted average interest rate was 7.17% at December 31, 1996), matures in September, 1999	$ --	$ 36,500
Notes payable, secured by deeds of trust and security agreements covering certain real property, bearing interest rates of 7.31% to 9.75%. Notes were repaid on August 14, 1996	36,316	--
Subordinated notes payable to stockholder, with interest at a predetermined rate plus 3% which is subject to adjustment under certain conditions. Interest is payable in the form of cash if certain conditions are met, otherwise interest is paid in the form of additional subordinated notes issued annually. Notes were repaid on August 14, 1996	7,016	--
Acquisition debt	--	6,395
Other	1,542	574
Less -- Current portion	(2,817)	(736)
	$ 42,057	$ 42,733

In conjunction with the closing of the initial public offering (the "IPO") in August 1996, the Company entered into a new floating rate $75 million credit facility (the "Credit Facility") with a group of financial institutions. The Credit Facility contains provisions regarding minimum net worth and cash flow leverage ratio (as defined), as well as other financial covenants. The Credit Facility also contains restrictions regarding other borrowings, payment of dividends, capital expenditures and acquisitions. The Company was in compliance with all covenants at December 31, 1996. In August 1996, the Company repaid a majority of the Company's outstanding indebtedness with the proceeds from the issuance of its Class A Common Stock in connection with the Company's IPO (see Note 7) and utilization of the Credit Facility. In connection with repayment of debt, the Company recognized an extraordinary loss of approximately $498,000, net of

income tax benefit of approximately $332,000 for the write-off of the deferred loan costs associated with the early retirement of debt. At February 28, 1997, approximately $64 million was outstanding under the Credit Facility.

Acquisition debt primarily consists of deferred purchase price, seller held debt and subordinated notes bearing interest at 0%, discounted at imputed interest rates ranging from 6% to 8%, with maturities from 10 to 15 years.

The aggregate maturities of long-term debt for the year ended December 31, 1997 and for the subsequent four years, are approximately $736,000, $463,000, $37,758,000, $477,000, $507,000, respectively and $3,528,000 thereafter.

5. COMMITMENTS AND CONTINGENCIES:

LEASES

The Company leases certain office facilities, vehicles and equipment under operating leases for terms ranging from one to fifteen years. Certain of these leases provide for an annual adjustment. Rent expense was approximately $734,000, $951,000 and $924,000 for 1994, 1995 and 1996, respectively.

Assets acquired under capital leases are included in property, plant and equipment on the accompanying Consolidated Balance Sheets.

At December 31, 1996 minimum lease payments were as follows:

	MINIMUM LEASE PAYMENTS	
	OPERATING LEASES	CAPITAL LEASES
	(IN THOUSANDS)	
Years ended December 31,		
1997	$ 1,038	$ 402
1998	994	281
1999	933	155
2000	702	63
2001	646	39
Thereafter	2,282	64
Total minimum lease payments	$ 6,595	1,004
Less: amount representing interest		96
Long-term obligations under capital leases		$ 908

AGREEMENTS AND EMPLOYEE BENEFITS

The Company has entered into various employment and agreements not to compete with key employees and former owners of businesses acquired. Payments for such agreements are not made in advance. These agreements are generally for one to ten years and provide for future payments annually, quarterly or monthly. The aggregate payments due under these agreements for the subsequent five years, are approximately $1,118,000, $1,112,000, $1,099,000, $858,000 and $711,000, respectively and $2,277,000 thereafter. In conformity with industry practice, these agreements are not included in the accompanying Consolidated Balance Sheets.

The Company sponsors one defined contribution plan for the benefit of its employees. The expense for this plan has not been significant for the periods presented. In addition, the Company does not offer any other post-retirement or post-employment benefits.

LITIGATION

The Company is, from time to time, subject to routine litigation arising in the normal course of its business. Management, with the advice of legal counsel, believes that the results of any litigation or other pending legal proceedings will not have a material effect on the Company's consolidated financial position or results of operations.

6. INCOME TAXES:

Prior to January 1, 1994, the Company was an S corporation, was not subject to federal income taxes, and instead, the owners were taxed on the Company's income in a manner similar to partnerships. On January 1, 1994, the Company became a C corporation and adopted SFAS No. 109. Accordingly, a charge to income taxes in 1994 for approximately $57,000 was made to establish deferred taxes payable. The Company did not pay any federal taxes in 1994, 1995 or 1996. The provision (benefit) for income taxes for 1994, 1995 and 1996 consisted of:

	1994	1995	1996
	(IN THOUSANDS)		
Current:			
U. S. Federal	$ --	$ --	$ --
State	10	35	84
Total current provision	10	35	84
Deferred:			
U. S. Federal	(35)	585	48
State	8	74	6
Total deferred (benefit) provision	(27)	659	54
Provision resulting from change in tax status	57	--	--
Total income tax provision	$ 40	$ 694	$ 138

A reconciliation of taxes to the U.S. federal statutory rate to those reflected in the Consolidated Statements of Operations for 1994, 1995 and 1996 is as follows:

	1994	1995	1996
Federal statutory rate	(34.0)%	(34.0)%	34.0%
Effect of state income taxes	(2.6)	(6.0)	4.0
Effect of nondeductible expenses	6.2	3.9	57.3
Effect of valuation allowance	30.3	74.7	(55.3)
Effect of change in tax status	4.4	--	--
	4.3%	38.6%	40.0%

The tax effects of temporary differences that give rise to significant deferred tax assets and liabilities at December 31, 1995 and 1996 were as follows:

	1995	1996
	(IN THOUSANDS)	
Deferred tax assets:		
Net operating loss carryforwards	$ 1,536	$ 2,369
Reserves not currently deductible	117	200
Accrued liabilities and other	130	104
Amortization of non-compete agreements	292	387
Accrued interest not currently deductible	190	--
	2,265	3,060
Valuation allowance	(1,517)	(1,442)
Total deferred tax assets	$ 748	$ 1,618
Deferred tax liability:		
Amortization and depreciation	(2,229)	(5,063)
Total deferred tax liabilities	(2,229)	(5,063)
Net deferred tax liability	(1,481)	(3,445)
Current net deferred asset	419	304
Noncurrent net deferred liability	(1,900)	(3,749)
	$ (1,481)	$ (3,445)

The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets for which realization is uncertain. At December 31, 1996, the Company has approximately $5,723,000 of federal net operating loss ("NOL") carryforwards which will expire between 2009 and 2011, if not utilized, and $8,700,000 of state NOL carryforwards which will expire between the years 2000 and 2011, if not utilized. As a result of the IPO (see Note 7), there may be a limitation placed on the Company's utilization of its NOL's by Section 382 of the Internal Revenue Code. The Company reviews the valuation allowance at the end of each quarter and makes adjustments if it is determined that it is more likely than not that the NOL's will be realized.

7. STOCKHOLDERS' EQUITY:

INITIAL PUBLIC OFFERING

On August 8, 1996, the Company completed its IPO of 3,910,000 shares of its Class A Common Stock at $13.50 per share for net proceeds of approximately $48 million, after selling commissions and related expenses of approximately $5 million. The net proceeds of the IPO were used to repay outstanding indebtedness of the Company. In connection with the IPO, the Company performed a recapitalization of its common stock into two classes of common stock (Class A and Class B), provided separate voting rights to each class and converted existing common stock to Class B Common Stock. The holders of Class A Common Stock are entitled to one vote for each share held on all matters submitted to a vote of common stockholders. The holders of Class B Common Stock are entitled to ten votes for each share held on all matters submitted to a vote of common stockholders. The Series A, B and C Preferred Stocks automatically converted into Class B Common Stock upon the closing of the IPO. Series D Preferred Stock remained outstanding after the IPO (see Note 8).

PREFERRED STOCK

Prior to the IPO, the Company had four classes of preferred stock outstanding, Series A, B, C and D. The Series A, B and C preferred stocks automatically converted into shares of Class B Common Stock at the effective date of the IPO (August 8, 1996). The Series D preferred stock remains outstanding at December 31, 1996 (see Note 8).

TREASURY STOCK

During 1996, the Company purchased 170,000 shares of Series B Preferred Stock for total cash consideration of $341,000. Such shares have been canceled.

STOCK OPTION PLANS

The Company has three stock option plans currently in effect under which future grants may be issued: the 1995 Stock Incentive Plan (the "1995 Plan"), the 1996 Stock Option Plan (the "1996 Plan") and the 1996 Nonemployee Director Stock Option Plan (the "Directors' Plan").

Options granted under the 1995 Plan have a ten-year term. All options granted under the 1995 Plan prior to the IPO vest immediately, while those issued in conjunction with and after the IPO vest over a four-year period at 25% per year. Options issued under this plan prior to the Company's IPO are satisfied with shares of Class B Common Stock, but options issued after that date are satisfied with shares of Class A Common Stock. A total of 400,000 shares are reserved for issuance under the 1995 Plan of which 194,500 were outstanding at December 31, 1996.

Options granted under the 1996 Plan and the Directors' Plan have ten-year terms and vest 8.33% per year on the first through fourth anniversary dates of the grant date and 16.66% per year on the fifth through eighth anniversary dates of the grant date; provided, however, the options scheduled to vest in years 5-8 from the grant date (i.e., 66 2/3 of the total grant) vest immediately if the average of the daily high and low prices of the Class A Common Stock for 20 consecutive trading days exceeds $27.99 prior to the fourth anniversary of the grant date. A total of 600,000 shares of Class A Common Stock are reserved for issuance under the 1996 Plan and 200,000 shares of Class A Common Stock are reserved for issuance under the Directors' Plan. Options to purchase a total of 560,000 and 95,000 shares of Class A Common Stock were outstanding under the 1996 Plan and Directors' Plan, respectively.

The Company accounts for these plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for these plans been determined consistent with SFAS No. 123, the Company's net loss and loss per share would have been the following pro forma amounts:

	YEAR ENDED DECEMBER 31,	
	1995	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Net (loss) attributable to common stockholders		
As reported	$ (2,494)	$ (913)
Pro forma	(2,721)	(1,122)
Net (loss) per common and common equivalent share attributable to common stockholders:		
As reported	(.66)	(.19)
Pro forma	(.72)	(.23)

Each of the plans is administered by a stock option committee appointed by the Board of Directors. The plans allow for options to be granted as non-qualified options, incentive stock options, reload options, alternative appreciation rights and stock bonus options. As of December 31, 1996, only non-qualified

options and incentive stock options have been issued. The options are granted with an exercise price equal to the then fair market value of the Company's common stock as determined by the Board of Directors.

A summary of the status of the plans at December 31, 1995 and 1996 and changes during the year ended is presented in the table and narrative below:

	YEAR ENDED DECEMBER 31,			
	1995		1996	
	SHARES (000)	WTD AVG. EX PRICE	SHARES (000)	WTD AVG. EX PRICE
Outstanding at beginning of period.	--	$--	50	$ 9.80
Granted	50	9.80	818	13.90
Exercised	--	--	(5)	10.43
Canceled	--	--	(13)	10.11
Outstanding at end of year	50	9.80	850	13.74
Exercisable at end of year	50	9.80	74	10.34
Weighted average fair value of options granted	$ 4.57		$ 8.00	

All of the options outstanding at December 31, 1996 have exercise prices between $8.00 and $20.875, with a weighted average exercise price of $13.74 and a weighted average remaining contractual life of 9.7 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1995 and 1996, respectively: risk-free interest rates of 6.27% and 6.67%; expected dividend yields of 0% and 0%; expected lives of ten years and ten years; expected volatility of 0% and 30.45%.

During 1996, in fulfillment of a previous contractual obligation, the Company repurchased 106,470 shares of Class B Common Stock from an executive officer of the Company. Concurrently therewith, the Company sold such shares to several members of management at the same price, which price approximated the fair market value of the Company's common stock at the date of contract.

REVERSE STOCK SPLIT

On July 18, 1996, the Company's Board of Directors and stockholders approved an amendment to the Company's Certificate of Incorporation which authorized a one for two reverse stock split. The Consolidated Financial Statements have been restated as if the reverse stock split had occurred at the beginning of the earliest period presented. For each two shares of Class B Common Stock at $.01 par, the stockholder received one share of Class B Common Stock at $.01 par. Upon completion of the IPO, the Series A, B and C Preferred Stocks automatically converted into Class B Common Stock. The number of shares held by each Series A, B and C Preferred stockholder remained the same; however, the conversion prices for Class B Common Stock on those preferred shares doubled in conjunction with the above-mentioned reverse stock split. In addition, the exercise prices on outstanding stock options also doubled related to this reverse stock split, and the number of shares of Class B Common Stock covered by such options decreased by 50%.

8. REDEEMABLE PREFERRED STOCK:

The Company has 20,000,000 authorized shares of Series D Preferred Stock with a par value of $.01 per share, of which approximately 17,253,000 shares were issued and outstanding at December 31, 1996. The Series D Preferred Stock is convertible at any time into common stock at an initial conversion base price of $13.50 per share through February 28, 1997. Thereafter, the conversion price increases every six months by $1.00 until February 28, 1998 whereupon the conversion price is the average market price for the ten days preceding the date of delivery of notice of conversion on the principal securities market on which the Class A Common Stock is then traded. The holders of Series D Preferred Stock are entitled to receive preferential dividends at an annual rate ranging from $0.06 to $0.07 per share, payable quarterly. Dividends are payable quarterly as long as the stock is outstanding. The Series D Preferred Stock is redeemable, in whole or in part, at the option of the Company, at any time during the period commencing with the second anniversary of the

Company's IPO (August 8, 1998) and ending December 31, 2001. 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.

Concurrent with every issuance of Series D Preferred Stock, an irrevocable standby letter of credit, issued by a financial institution and guaranteed by the Company, was given to the holder (or a designated beneficiary) and can be drawn upon if certain events occur, including the following: the Company has failed to pay preferred stock dividends, the Company has failed to redeem the preferred stock shares on the designated mandatory redemption date or a liquidation, dissolution or winding up of affairs of the Company occurs. As of December 31, 1996, letters of credit of approximately $10.0 million were outstanding relative to Series D Preferred Stock. This stock is classified as Redeemable Preferred Stock on the Consolidated Balance Sheets of the Company.

9. LOSS PER SHARE:

For 1994 and 1995, the loss per share is calculated based on the weighted average number of common and common equivalent shares outstanding during each year using guidance provided by the SEC for companies that are contemplating an initial public offering. For 1996, loss per share is computed by dividing the net loss, after deduction of preferred stock dividends, by the weighted average number of common and common equivalent shares outstanding. Loss per common and common equivalent share for 1994, 1995 and 1996 was as follows:

	1994	1995	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net (loss)	$ (963)	$ (2,494)	$ (291)
Preferred stock dividend requirements	--	--	622
Net (loss) attributable to common stockholders	$ (963)	$ (2,494)	$ (913)
Common shares outstanding	2,520	2,520	4,869
Common equivalent shares:			
Stock options, treasury stock method(a)	23	23	--
Assumed conversion of preferred stock(b)	863	1,238	--
Total weighted average common and common equivalent shares outstanding	3,406	3,781	4,869
(Loss) per common and common equivalent share before extraordinary item attributable to common stockholders	$ (.28)	$ (.66)	$ (.09)
Extraordinary item	--	--	(.10)
Net (loss) per common and common equivalent share attributable to common stockholders	$ (.28)	$ (.66)	$ (.19)
Weighted average number of common and common equivalent shares outstanding (in thousands)	3,406	3,781	4,869

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(a) In accordance with the SEC's Staff Accounting Bulletin No. 83, the loss per share presented assumes that all stock options granted by the Company within one year prior to the Company's IPO were outstanding for 1994 and 1995. The effect of such stock options was calculated using the "treasury stock" method, using the IPO price of $13.50 per share and was included in the calculation of common equivalent shares outstanding despite the fact that the effect of the assumed exercise of such options is anti-dilutive.

(b) Pursuant to the terms of their respective agreements, the Company's Series A, B and C Preferred Stock automatically converted to common stock upon the Company's IPO. Therefore, in accordance with the SEC's position relative to securities with these conversion characteristics, the effect of such conversions was reflected from the respective dates of issuance of the preferred stocks in common equivalent shares outstanding, despite the fact that the effect of the assumed exercise of stock options is anti-dilutive.

10. EVENTS SUBSEQUENT TO DECEMBER 31, 1996:

ACQUISITIONS

The Company closed six transactions in January and February of 1997 which included 16 funeral homes and two cemeteries, for total consideration of approximately $55 million. These include CNM, a California corporation which through its subsidiaries owns and operates the ten Wilson & Kratzer funeral homes located in Alameda and Contra Costa Counties, California and the Rolling Hills Memorial Park Cemetery located in Richmond, California. The combined operations of CNM perform 2,100 funerals and 1,470 interments annually.

The Company issued 19,999,992 shares of Series F Preferred Stock in conjunction with the merger with CNM. These shares are convertible into an aggregate of 1,272,450 shares of Class A Common Stock. Of the issued and outstanding shares, 5,388,315 shares are "designated" meaning they are convertible at $15.00 per share through March 31, 1997. The remaining 14,611,677 shares are convertible at $16.00 per share until January 1, 1998 at which time the conversion price increases to $17.00 per share and increases by $1.00 per share each January 1 thereafter until January 1, 2002 at which time the conversion base price will be equal to the market price of the Class A Common Stock.

The holders of
Series F Preferred Stock are entitled to receive preferential dividends at an annual rate initially of $.04 per share, with the annual rate increasing by 5% per year commencing January 1, 1998 until January 1, 2001, at which time the annual rate becomes fixed at $.0486 per share. On December 31, 2007, the Company must redeem all shares of Series F Preferred Stock then outstanding at a redemption price of $1.00 per share, together with all accrued and unpaid dividends. The Company does not have the option to redeem any Series F Preferred Stock prior to December 31, 2007.

SERIES D PREFERRED CONVERSION

As of February 28, 1997, holders of 15,570,616 shares of Series D Preferred Stock have elected to convert their shares into shares of the Company's common stock, leaving 1,682,500 shares of Series D Preferred Stock outstanding.

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

The table below sets forth consolidated operating results by fiscal quarter for the years ended December 31, 1995 and 1996 (in thousands, except per share data):

	FIRST	SECOND	THIRD	FOURTH
	(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)			
1995(1)				
Revenues, net	$5,715	$5,786	$ 6,028	$ 6,708
Gross profit	1,250	922	862	956
Net (loss)	(331)	(367)	(859)	(937)
Net (loss) per common share	$(0.09)	$(0.10)	$ (0.24)	$ (0.21)
1996(1)				
Revenues, net	$7,635	$9,290	$10,145	$13,278
Gross profit	1,670	1,719	994	2,783
Income (loss) before extraordinary item	(193)	(468)	(414)	1,282
Extraordinary item	--	--	(498)	--
Preferred stock dividend requirements	10	91	250	271
Net income (loss)	(203)	(559)	(1,162)	1,011
Net income (loss) per common share:				
Continuing operations	$(0.08)	$(0.22)	$ (0.11)	$ 0.12
Extraordinary item	--	--	(0.09)	--
Net income (loss) per common share	$(0.08)	$(0.22)	$ (0.20)	$ 0.12

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(1) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share amounts does not equal the total computed for the year due to stock transactions which occurred during the periods presented.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

To Carriage Services, Inc.:

We have audited in accordance with generally accepted auditing standards, the Consolidated Financial Statements of Carriage Services, Inc. and subsidiaries included in this Form 10-K, and have issued our report thereon dated February 28, 1997. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Part IV, Item 14 (a)(2) for Carriage Services, Inc. and subsidiaries is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Houston, Texas
February 28, 1997

CARRIAGE SERVICES, INC.
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE END OF YEAR
Year ended December 31, 1994:				
Allowance for bad debts and contract cancellations	$ 196	$ 510	$ 501	$ 205
Year ended December 31, 1995:				
Allowance for bad debts and contract cancellations	$ 205	$ 488	$ 388	$ 305
Year ended December 31, 1996:				
Allowance for bad debts and contract cancellations	$ 305	$ 683	$ 458	$ 530

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
CARRIAGE SERVICES, INC.

(Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware)

Carriage Services, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify as follows:

1. The name of the Corporation is Carriage Services, Inc. and the name under which the Corporation was originally incorporated was Carriage Funeral Services, Inc. The date of filing of the Corporation's original Certificate of Incorporation was December 29, 1993.

2. This Amended and Restated Certificate of Incorporation (the "Restated Certificate of Incorporation") restates and integrates and further amends the Certificate of Incorporation of the Corporation.

3. The text of the Certificate of Incorporation as amended or supplemented heretofore is further amended hereby to read in full as set forth herein and in Exhibits A, B, C and D hereto containing the Amended and Restated Certificates of Designation, Preferences, Rights and Limitations of the Corporation's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, respectively:

ARTICLE I.

The name of the Corporation is Carriage Services, Inc.

ARTICLE II

The registered office of the Corporation in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the registered agent of the Corporation at such address is The Corporation Trust Company.

ARTICLE III

The purpose for which the Corporation is organized is to engage in any and all lawful acts and activity for which corporations may be organized under the General Corporation Law of Delaware. The Corporation will have perpetual existence.

ARTICLE IV.

The total number of shares of stock that the Corporation shall have authority to issue is, 80,000,000 shares of capital stock, consisting of (i) 50,000,000 shares of preferred stock, par value $.01 per share ("Preferred Stock"); (ii)15,000,000 shares of Class A Common Stock, par value $.01 per share ("Class A Common Stock"); and (iii) 15,000,000 shares of Class B Common Stock, par value $.01 per share ("Class B Common Stock"; the Class A Common Stock and the Class B Common Stock are collectively referred to as "Common Stock").

Effective upon filing of this Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, 1996, each issued and outstanding share of previously authorized common stock of the Corporation ("Old Common Stock") shall represent one validly issued, fully paid and non-assessable share of Class B Common Stock. Each certificate which theretofore represented shares of Old Common Stock shall thereafter represent that number of shares of Class B Common Stock; PROVIDED, HOWEVER, that each person holding of record a stock certificate or certificates which represented shares of Old Common Stock shall receive, upon surrender of such certificate or certificates, a new certificate or certificates evidencing and representing the number of shares of Class B Common Stock to which such person is entitled.

The designations and the powers, preferences, rights, qualifications, limitations, and restrictions of the Common Stock and the Preferred Stock are as follows:

1. Provisions Relating to the Common Stock.

(a) DIVIDENDS. Subject to the prior rights and preferences, if any, applicable to shares of the Preferred Stock or any class or series thereof, each share of Common Stock shall entitle the holder of record thereof to receive dividends out of funds legally available therefor, when, as and if declared by the board of directors of the Corporation with respect to any of such class of stock. No dividend shall be declared or paid in respect of any Common Stock unless the holders of both the Class A Common Stock and the Class B Common Stock receive the same per share dividend, payable in the same amount and type of consideration, as if such classes constituted a single class, except that if any dividend is declared that is payable in shares of Class A Common Stock or Class B Common Stock, such dividend shall be declared and paid at the same rate per share with respect to the Class A Common Stock and the Class B Common Stock, and the dividend payable on shares of Class A Common Stock shall be payable only in shares of Class A Common Stock and the dividend payable on shares of Class B Common Stock shall be payable only in shares of Class B Common Stock.

(b) LIQUIDATION RIGHTS. The holders of Common Stock shall be entitled to participate in the net assets of the Corporation remaining after any dissolution, liquidation or winding up of the affairs of the Corporation, whether voluntary or involuntary, and after payment or provision for the payment of the debts and liabilities of the Corporation and payment of the liquidation preference of any shares of capital stock of the Corporation having such a preference, distributing such proceeds pro-rata among the holders of Common Stock. The holders of the Class A Common Stock and the Class B Common Stock

shall participate in such assets as if such classes constituted a single class of stock. A dissolution, liquidation or winding-up of the Corporation, as such terms are used in this paragraph (b), shall not be deemed to be occasioned by or to include any consolidation or merger of the Corporation with or into any other corporation or

corporations or other entity or a sale, lease, exchange, or conveyance of all or a part of the assets of the Corporation.

(c) VOTING RIGHTS.

(i) Except as may otherwise be expressly required by the General Corporation Law of Delaware, the holders of shares of Class A Common Stock and the holders of shares of Class B Common Stock shall vote together as a single class, provided, however, that with respect to each matter properly brought before the shareholders for their consideration and vote, each share of Class A Common Stock shall entitle the registered holder thereof to one vote on all matters brought before the common stockholders of the Corporation for a vote and each share of Class B Common Stock shall entitle the registered holder thereof to ten votes on all matters brought before the common stockholders of the Corporation for a vote.

(ii) In the case of each share of Class B Common Stock held of record by a bank, voting trustee, broker, dealer, clearing agency, or any nominee thereof, or by any other nominee of the beneficial owner of such share, the registered holder of such share will be entitled, notwithstanding the foregoing limitation, to cast ten votes with respect to such share if such holder shall establish to the satisfaction of the Corporation that such share has been beneficially owned continuously from the date of issuance by the original beneficial owner (whose name and address must be specified to the Corporation), or by a Permitted Transferee (as defined in paragraph 1(e) of Article IV hereof) of such original beneficial owner. Any such registered holder who wishes to cast ten votes per share shall file with the transfer agent for the Class B Common Stock a certificate, on a form that will be mailed to such holder by such transfer agent on request, certifying as to the information specified in the preceding sentence and specifying the date on which such holder desires to exercise voting rights (the "Voting Date"). Any such certificate shall be deemed filed only if received by the transfer agent not less than ten nor more than 30 days prior the Voting Date. If such certificate shall not establish to the satisfaction of the Corporation that the registered holder is entitled to cast ten votes per share, then, within five business days after the receipt thereof by the transfer agent, the Corporation shall mail to the person filing such certificate a notice that describes the deficiency and, unless the Corporation determines that such person shall have a reasonable opportunity to cure such deficiency prior to the Voting Date, notifies such person that such person shall be entitled to only one vote per share on the Voting Date.

(d) CONVERSION BY REGISTERED HOLDER.

(i) Each share of Class B Common Stock shall be convertible at any time, at the option of the registered holder thereof, into one fully paid and nonassessable share of Class A Common Stock of the Corporation.

(ii) No fractional shares of Class A Common Stock shall be issued upon such conversion, but in lieu thereof the Corporation shall pay to the holder an amount in cash equal to the fair market value of such fractional share.

(iii) To convert shares of Class B Common Stock under this paragraph 1(d), the registered holder thereof shall surrender the certificate or certificates representing such shares,

duly endorsed to the Corporation or in blank (which endorsement shall correspond exactly with the name or names of the registered holder or holders set forth on the face of the certificates and on the stock transfer records of the Corporation), at the office of the transfer agent for the shares of Class B Common Stock (which may be either the Corporation or any third party retained by it for such purpose), and shall give written notice to the transfer agent and the Corporation that such holder elects to convert all or part of the shares represented thereby, stating therein the names or names (with the address or addresses) in which the certificate or certificates for shares of Class A Common Stock are to be issued.

(iv) If the registered holder fully complies with paragraph (iii), the Corporation shall, as soon as practicable thereafter, instruct the transfer agent to deliver to such holder, or to such holder's nominee or nominees, a certificate or certificates for the number of shares of Class A Common Stock to which such holder shall be entitled, rounded to the nearest whole number of shares, and a check for any amount payable hereunder in lieu of a fractional share, along with a certificate representing any shares of Class B Common Stock that the holder has not elected to convert hereunder but which constituted part of the shares of Class B Common Stock represented by the certificate or certificates surrendered.

(v) Shares of Class B Common Stock shall be deemed to have been converted as of the close of business on the date of the due surrender of the certificates representing the shares to be converted as provided above, and the person or persons entitled to receive the shares of Class A Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Class A Common Stock at such time.

(vi) If the Corporation shall in any manner split or subdivide the outstanding shares of Class A Common Stock or Class B Common Stock, the outstanding shares of the other such class of Common Stock shall be split or subdivided in the same manner, proportionately and on the same basis per share.

(vii) When shares of Class B Common Stock have been converted pursuant to this paragraph (d), they shall be irrevocably canceled and not reissued.

(e) AUTOMATIC CONVERSION. Any shares of Class B Common Stock outstanding on December 31, 2001, without further action of the holder thereof, shall be automatically converted into shares of Class A Common Stock and certificates formerly representing outstanding shares of Class B Common Stock shall thereupon and thereafter represent the like number of shares of Class A Common Stock.

(f) TRANSFERS OF CLASS B COMMON STOCK. No person holding any share of Class B Common Stock shall transfer, and the Corporation shall not register (nor permit the transfer agent for the Class B Common Stock to register) the transfer of, any shares of Class B Common Stock or any interest therein, whether by sale, assignment, gift, bequest, pledge, hypothecation, encumbrance, or any other disposition, except to a "Permitted Transferee" of such person (as defined below in this paragraph). If a holder of shares of Class B Common Stock transfers any such shares to any person or entity other than a "Permitted Transferee," such transfer, without any further action of the parties or the Corporation, shall automatically and irrevocably convert

such shares into an equal number of shares of Class A Common Stock from the date of such transfer. The term "Permitted Transferee" shall mean only:

(i) the spouse and any lineal descendant (including adopted children) of any person duly holding shares of Class A Common Stock (a "Qualified Holder"), and any spouse of any such lineal descendant (all such spouses and lineal descendants being hereinafter referred to as "Family Members");

(ii) the trustee of a trust for the sole benefit of a Qualified Holder or Family Members;

(iii) a partnership made up exclusively of Qualified Holders or Family Members or a corporation or limited liability company wholly owned by Qualified Holders or Family Members, provided, however, that as of the date that such partnership, corporation or company no longer comprised of or owned exclusively by Qualified Holders or Family Members, such partnership, corporation or company will no longer be a Permitted Transferee and any Class B Common Stock held by it shall automatically and irrevocably be converted into Class A Common Stock without any further action of the parties or the Corporation; or

(iv) the executor, administrator or personal representative of the estate of a qualified holder or of any Family Member, or the guardian or conservator of a Qualified Holder or any Family Member who has been adjudged disabled by a court of competent jurisdiction.

2. Provisions Relating to the Preferred Stock.

(a) The Preferred Stock may be issued from time to time in one or more classes or series, the shares of each class or series to have any designations and powers, preferences, and rights, and qualifications, limitations, and restrictions thereof as are stated and expressed in this Article IV and in the resolution or resolutions providing for the issue of such class or series adopted by the board of directors of the Corporation as hereafter prescribed.

(b) Authority is hereby expressly granted to and vested in the board of directors of the Corporation to authorize the issuance of the Preferred Stock from time to time in one or more classes or series, and with respect to each class or series of the Preferred Stock, to state by the resolution or resolutions from time to time adopted providing for the issuance thereof the following:

(i) whether or not the class or series is to have voting rights, special, or limited, or is to be without voting rights, and whether or not such class or series is to be entitled to vote as a separate class either alone or together with the holders of one or more other classes or series of stock;

(ii) the number of shares to constitute the class or series and the designations thereof;

(iii) the preferences and relative, participating, optional, or other special rights, if any, and the qualifications, limitations, or restrictions thereof, if any, with respect to any class or series;

(iv) whether or not the shares of any class or series shall be redeemable at the option of the Corporation or the holders thereof or upon the happening of any specified event, and, if redeemable, the redemption price or prices (which may be payable in the form of cash, notes, securities, or other property), and the time or times at which, and the terms and conditions upon which, such shares shall be redeemable and the manner of redemption;

(v) whether or not the shares of a class or series shall be subject to the operation of retirement or sinking funds to be applied to the purchase or redemption of such shares for retirement, and, if such retirement or sinking fund or funds are to be established, the periodic amount thereof, and the terms and provisions relative to the operation thereof;

(vi) the dividend rate, whether dividends are payable in cash, stock of the Corporation, or other property, the conditions upon which and the times when such dividends are payable, the preference to or the relation to the payment of dividends payable on any other class or classes or series of stock, whether or not such dividends shall be cumulative or noncumulative, and if cumulative, the date or dates from which such dividends shall accumulate;

(vii) the preferences, if any, and the amounts thereof which the holders of any class or series thereof shall be entitled to receive upon the voluntary or involuntary dissolution of, or upon any distribution of the assets of, the Corporation;

(viii) whether or not the shares of any class or series, at the option of the Corporation or the holder thereof or upon the happening of any specified event, shall be convertible into or exchangeable for the shares of any other class or classes or of any other series of the same or any other class or classes of stock, securities, or other property of the Corporation and the conversion price or prices or ratio or ratios or the rate or rates at which such conversion or exchange may be made, with such adjustments, if any, as shall be stated and expressed or provided for in such resolution or resolutions; and

(ix) any other special rights and protective provisions with respect to any class or series as may to the board of directors of the Corporation seem advisable.

(c) The shares of each class or series of the Preferred Stock may vary from the shares of any other class or series thereof in any or all of the foregoing respects and in any other manner. The board of directors of the Corporation may increase the number of shares of the Preferred Stock designated for any existing class or series by a resolution adding to such class or series authorized and unissued shares of the Preferred Stock not designated for any other class or series. The board of directors of the Corporation may decrease the number of shares of the Preferred Stock designated for any existing class or series by a resolution subtracting from such class or series authorized and unissued shares of the Preferred Stock designated for such existing class or series, and the shares so subtracted shall become authorized, unissued, and undesignated shares of the Preferred Stock.

3. General.

(a) Subject to the foregoing provisions of this Restated Certificate of Incorporation, the Corporation may issue shares of its Preferred Stock and Common Stock from time to time for such consideration (not less than the par value thereof) as may be fixed by the board of directors of the Corporation, which is expressly authorized to fix the same in its absolute discretion subject to the foregoing conditions. Shares so issued for which the consideration shall have been paid or delivered to the Corporation shall be deemed fully paid stock and shall not be liable to any further call or assessment thereon, and the holders of such shares shall not be liable for any further payments in respect of such shares.

(b) The Corporation shall have authority to create and issue rights and options entitling their holders to purchase shares of the Corporation's capital stock of any class or series or other securities of the Corporation, and such rights and options shall be evidenced by instrument(s) approved by the board of directors of the Corporation. The board of directors of the Corporation shall be empowered to set the exercise price, duration, times for exercise, and other terms of such rights or options; PROVIDED, HOWEVER, that the consideration to be received for any shares of capital stock subject thereto shall not be less than the par value thereof.

ARTICLE V.

The number, classification, and terms of the board of directors of the Corporation and the procedures to elect directors, to remove directors, and to fill vacancies in the board of directors shall be as follows:

(a) The number of directors that shall constitute the whole board of directors shall from time to time be fixed exclusively by the board of directors by a resolution adopted by a majority of the whole board of directors serving at the time of that vote. In no event shall the number of directors that constitute the whole board of directors be fewer than three. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Directors of the Corporation need not be elected by written ballot unless the by-laws of the Corporation otherwise provide.

(b) The board of directors of the Corporation shall be divided into three classes designated Class I, Class II, and Class III, respectively, all as nearly equal in number as possible, with each director then in office receiving the classification that at least a majority of the board of directors designates. The initial term of office of directors of Class I shall expire at the annual meeting of stockholders of the Corporation in 1997, of Class II shall expire at the annual meeting of stockholders of the Corporation in 1998, and of Class III shall expire at the annual meeting of stockholders of the Corporation in 1999, and in all cases as to each director until his successor is elected and qualified or until his earlier death, resignation or removal. At each annual meeting of stockholders beginning with the annual meeting of stockholders in 1997, each director elected to succeed a director whose term is then expiring shall hold his office until the third annual meeting of stockholders after his election and until his successor is elected and qualified or until his earlier death, resignation or removal. If the number of directors that constitutes the whole board of directors is changed as permitted by this Article V, the majority of the whole board of directors that adopts the change shall also fix and determine the number of directors comprising

each class; provided, however, that any increase or decrease in the number of directors shall be apportioned among the classes as equally as possible.

(c) Vacancies in the board of directors resulting from death, resignation, retirement, disqualification, removal from office, or other cause and newly-created directorships resulting from any increase in the authorized number of directors may be filled by no less than a majority vote of the remaining directors then in office, though less than a quorum, who are designated to represent the same class or classes of stockholders that the vacant position, when filled, is to represent or by the sole remaining director (but not by the stockholders except as required by law), and each director so chosen shall receive the classification of the vacant directorship to which he has been appointed or, if it is a newly-created directorship, shall receive the classification that at least a majority of the board of directors designates and shall hold office until the first meeting of stockholders held after his election for the purpose of electing directors of that classification and until his successor is elected and qualified or until his earlier death, resignation, or removal from office.

(d) A director of any class of directors of the Corporation may be removed before the expiration date of that director's term of office, only for cause, by an affirmative vote of the holders of not less than eighty percent (80%) of the votes of the outstanding shares of the class or classes or series of stock then entitled to be voted at an election of directors of that class or series, voting together as a single class, cast at the annual meeting of stockholders or at any special meeting of stockholders called by a majority of the whole board of directors for this purpose.

(e) Notwithstanding any other provisions of this Restated Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by this Restated Certificate of Incorporation, the affirmative vote of the holders of not less than eighty percent (80%) of the votes of the outstanding shares of the Corporation then entitled to be voted in an election of directors, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article V.

ARTICLE VI.

All of the power of the Corporation, insofar as it may be lawfully vested by this Restated Certificate of Incorporation in the board of directors, is hereby conferred upon the board of directors of the Corporation. In furtherance of and not in limitation of that power or the powers conferred by law, (1) a majority of directors then in office (or such higher percentage as may be specified in the by-laws with respect to any provision thereof) shall have the power to adopt, amend, and repeal the by-laws of the Corporation; (2) the stockholders of the Corporation shall have no power to appoint or remove directors as members of committees of the board of directors, nor to abrogate the power of the board of directors to establish any such committees or the power of any such committee to exercise the powers and authority of the board of directors; (3) the stockholders of the Corporation shall have no power to elect or remove officers of the Corporation nor to abrogate the power of the board of directors to elect and remove officers of the Corporation; and (4) notwithstanding any other provision of this Restated Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no

vote, but in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by this Restated Certificate of Incorporation, the by-laws of the Corporation shall not be adopted, altered, amended or repealed by the stockholders of the Corporation except in accordance with the provisions of the by-laws and by the vote of the holders of not less than a majority of the outstanding shares of stock then entitled to vote upon the election of directors, voting together as a single class, or such higher vote as is set forth in the by-laws. In the event of a direct conflict between the by-laws of the Corporation and this Restated Certificate of Incorporation, the provisions of this Restated Certificate of Incorporation shall be controlling. Notwithstanding any other provisions of this Restated Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by this Restated Certificate of Incorporation, the affirmative vote of the holders of not less than eighty percent (80%) of the votes of the shares of the Corporation then entitled to be voted in an election of directors, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article VI.

ARTICLE VII.

Any action required or permitted to be taken by the stockholders of the Corporation may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

ARTICLE VIII.

Special meetings of the stockholders of the Corporation, and any proposals to be considered at such meetings, may be called and proposed exclusively by the board of directors, pursuant to a resolution approved by a majority of the members of the board of directors at the time in office, and no stockholder of the Corporation shall require the board of directors to call a special meeting of common stockholders or to propose business at a special meeting of stockholders. Except as otherwise required by law or regulation, no business proposed by a stockholder to be considered at an annual meeting of the stockholders (including the nomination of any person to be elected as a director of the Corporation) shall be considered by the stockholders at that meeting unless, no later than sixty (60) days before the annual meeting of stockholders or (if later) ten days after the first public notice of that meeting is sent to stockholders, the Corporation receives from the stockholder proposing that business a written notice that sets forth (1) the nature of the proposed business with reasonable particularity, including the exact text of any proposal to be presented for adoption, and the reasons for conducting that business at the annual meeting; (2) with respect to each such stockholder, that stockholder's name and address (as they appear on the records of the Corporation), business address and telephone number, residence address and telephone number, and the number of shares of each class of stock of the Corporation beneficially owned by that stockholder; (3) any interest of the stockholder in the proposed business; (4) the name or names of each person nominated by the stockholder to be elected or re-elected as a director, if any; and (5) with respect to each nominee, that nominee's name, business address and telephone number, and residence address and

telephone number, the number of shares, if any, of each class of stock of the Corporation owned directly and beneficially by that nominee, and all information relating to that nominee that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (or any provision of law subsequently replacing Regulation 14A), together with a duly acknowledged letter signed by the nominee stating his or her acceptance of the nomination by that stockholder, stating his or her intention to serve as director if elected, and consenting to being named as a nominee for director in any proxy statement relating to such election. The person presiding at the annual meeting shall determine whether business (including the nomination of any person as a director) has been properly brought before the meeting and, if the facts so warrant, shall not permit any business (or voting with respect to any particular nominee) to be transacted that has not been properly brought before the meeting. Notwithstanding any other provisions of this Restated Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by this Restated Certificate of Incorporation, the affirmative vote of the holders of not less than eighty percent (80%) of the shares of the Corporation then entitled to be voted in an election of directors, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article VIII.

ARTICLE IX.

No contract or transaction between the Corporation and one or more of its directors, officers, or stockholders or between the Corporation and any person (as used herein "person" means any corporation, partnership, association, firm, trust, joint venture, political subdivision, or instrumentality) or other organization in which one or more of its directors, officers, or stockholders are directors, officers, or stockholders, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or any committee thereof which authorizes the contract or transaction, or solely because his, her, or their votes are counted for such purpose, if: (i) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board of directors or the committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by majority vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved, or ratified by the board of directors, a committee thereof, or the stockholders. Interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes the contract or transaction.

ARTICLE X

The Corporation shall indemnify and hold harmless any person who was, is, or is threatened to be made a party to a proceeding (as hereinafter defined) by reason of the fact that he or she (i) is or was a director or officer of the Corporation or (ii) while a director or officer

of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise, to the fullest extent permitted under the Delaware General Corporation Law, as the same exists or may hereafter be amended. Such right shall be a contract right and as such shall run to the benefit of any director or officer who is elected and accepts the position of director or officer of the Corporation or elects to continue to serve as a director or officer of the Corporation while this Article X is in effect. Any repeal or amendment of this Article X shall be prospective only and shall not limit the rights of any such director or officer or the obligations of the Corporation with respect to any claim arising from or related to the services of such director or officer in any of the foregoing capacities prior to any such repeal or amendment to this Article X. Such right shall include the right to be paid by the Corporation expenses incurred in defending any such proceeding in advance of its final disposition to the maximum extent permitted under the Delaware General Corporation Law, as the same exists or may hereafter be amended. If a claim for indemnification or advancement of expenses hereunder is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim, and if successful in whole or in part, the claimant shall also be entitled to be paid the expenses of prosecuting such claim. It shall be a defense to any such action that such indemnification or advancement of costs of defense are not permitted under the Delaware General Corporation Law, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its board of directors, independent legal counsel, or stockholders) to have made its determination prior to the commencement of such action that indemnification of, or advancement of costs of defense to, the claimant is permissible in the circumstances nor an actual determination by the Corporation (including its board of directors, independent legal counsel, or stockholders) that such indemnification or advancement is not permissible shall be a defense to the action or create a presumption that such indemnification or advancement is not permissible. In the event of the death of any person having a right of indemnification under the foregoing provisions, such right shall inure to the benefit of his or her heirs, executors, administrators, and personal representatives. The rights conferred above shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, bylaw, resolution of stockholders or directors, agreement, or otherwise.

The Corporation may additionally indemnify any employee or agent of the Corporation to the fullest extent permitted by law.

As used herein, the term "proceeding" means any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, arbitrative, or investigative, any appeal in such an action, suit, or proceeding, and any inquiry or investigation that could lead to such an action, suit, or proceeding.

ARTICLE XI

Elections of directors need not be by written ballot unless the by-laws of the Corporation shall so provide.

ARTICLE XII

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or amendment of this Article XI by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation arising from an act or omission occurring prior to the time of such repeal or amendment. In addition to the circumstances in which a director of the Corporation is not personally liable as set forth in the foregoing provisions of this Article XI, a director shall not be liable to the Corporation or its stockholders to such further extent as permitted by any law hereafter enacted, including, without limitation, any subsequent amendment to the Delaware General Corporation Law.

4. This Amended and Restated Certificate of Incorporation was duly adopted by vote of the stockholders in accordance with Sections 228, 242 and 245 of the General Corporation Law of the state of Delaware.

IN WITNESS WHEREOF, said Carriage Services, Inc. has caused this Amended and Restated Certificate of Incorporation to be signed by Melvin C. Payne, its President, this day of July, 1996.

Carriage Services, Inc.

By: _____
Melvin C. Payne, President

CERTIFICATE OF CORRECTION
TO THE
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
CARRIAGE SERVICES, INC.

Carriage Services, Inc., a Delaware corporation organized and existing under and by virtue of The General Corporation Law of the State of Delaware, and originally incorporated under the name of Carriage Funeral Services, Inc., DOES HEREBY CERTIFY:

1. The name of the corporation is Carriage Services, Inc.

2. An Amended and Restated Certificate of Incorporation was filed with the Secretary of State of Delaware on July 3, 1996, and said Amended and Restated Certificate of Incorporation requires correction as permitted by subsection (f) of Section 103 of The General Corporation Law of the State of Delaware.

3. The inaccuracy or defect of the Amended and Restated Certificate of Incorporation to be corrected is as follows: (i) the letter "A" following the word Class contained in the second line of Section 1(f)(i) of Article IV should be deleted and the letter "B" inserted in lieu thereof.

4. Section 1(f)(i) of Article IV of the Amended and Restated Certificate of Incorporation is corrected to read as follows:

> "(i) the spouse and any lineal descendant (including adopted children) of any person duly holding shares of Class B Common Stock (a "Qualified Holder"), and any spouse of any such lineal descendant (all such spouses and lineal descendants being hereinafter referred to as "Family Members");"

IN WITNESS WHEREOF, the undersigned authorized officer has executed this Certificate of Correction the _____ day of September, 1996.

CARRIAGE SERVICES, INC.

By:_____
Melvin C. Payne, President

Exhibit A

AMENDED AND RESTATED
CERTIFICATE OF DESIGNATION, PREFERENCES,
RIGHTS AND LIMITATIONS

OF

SERIES A PREFERRED STOCK

OF

CARRIAGE SERVICES, INC.

Pursuant to authority conferred upon the Board of Directors of the Corporation by its Certificate of Incorporation, and pursuant to the provisions of Section 151(g) of the General Corporation Law of Delaware, such Board of Directors by written unanimous consent dated January 14, 1994, duly adopted a resolution providing for the issuance of a series of Seven Million (7,000,000) shares of the Corporation's Preferred Stock, $.01 par value per share, to be designated "Series A Preferred Stock", and fixing the voting powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations or restrictions thereof. The following is a restatement of the original Certificate of Designation, Preferences, Rights and Limitations to reflect amendments to the original resolution that were adopted by the stockholders of the Corporation, including the holders of the Series A Preferred Stock, by written consent pursuant to Section 228 of the General Corporation Law of Delaware:

There shall be established and authorized for issuance a series of the Corporation's Preferred Stock, $.01 par value per share, designated "Series A Preferred Stock" (herein referred to as "Series A Preferred Stock"), consisting of Seven Million (7,000,000) shares, each of the par value of $.01 per share, and having the voting powers, preferences and relative, participating, optional and other rights, and the qualifications, limitations or restrictions set forth below:

1. DEFINITIONS. For purposes hereof, the following terms shall have the following definitions or shall be subject to the following rules of construction:

(a) "Act" means the General Corporation Law of Delaware, as amended, or any successor state statute.

(b) "Board of Directors" means the Board of Directors of the Corporation.

(c) "Common Stock" means (i) shares of Class A Common Stock, or (ii) shares of Class B Common Stock, as applicable. "Class A Common Stock" means the Corporation's Class A Common Stock, par value $.01 per share. "Class B Common Stock" means the Corporation's Class B Common Stock, par value $.01 per share.

(d) "Fiscal Year" means the fiscal year of the Corporation determined from time to time by the Board of Directors for financial reporting purposes.

(e) "Initial Public Offering" means an underwritten public offering of either Class A Common Stock or Class B Common Stock pursuant to a registration statement filed under the Securities Act (other than any registration statement relating to warrants, options or shares of capital stock of the Corporation granted or to be granted or sold primarily to employees, directors, or officers of the Corporation, a registration statement filed pursuant to Rule 145 under the Securities Act or any successor rule, a registration statement relating to employee benefit plans or interests therein or any registration statement covering securities issued in connection with any debt financing of the Corporation).

(f) "Major Transaction" means a single transaction involving, or a series of transactions having the cumulative effect of, the sale of all or substantially all of the assets or the outstanding capital stock of the Corporation, or a merger or consolidation of the Corporation with or into another corporation or other entity in which the Corporation is not the survivor, or any combination of the foregoing involving the Corporation or one or more of its subsidiaries.

(g) The term "outstanding", when used with reference to shares of capital stock, shall mean issued shares, excluding shares held by the Corporation or a subsidiary of the Corporation.

(h) "Preferred Stock" means shares of any series of the Corporation's Preferred Stock, $.01 par value per share.

(i) "Return Amount" means an amount expressed in dollars computed by multiplying the Return Percentage times $1.00 (in the case of Series A Preferred Stock) or the initial Conversion Price under Section 5(c) below (in the case of Class B Common Stock), as the case may be.

(j) "Return Percentage" means, for any given period of time, the aggregate percentage computed at the rate of five percent (5%) per annum from the date of issuance of the Series A Preferred Stock through the date in question.

(k) "Securities Act" means the Securities Act of 1933, as amended.

(l) "Series A Preferred Stock" means the series of Preferred Stock designated by the Corporation as its Series A Preferred Stock, $.01 par value per share.

(m) All accounting terms used herein and not expressly defined herein shall have the meanings given to them in accordance with generally accepted accounting principles consistently applied and in effect as of the date of the relevant calculation.

(n) Whenever any reference is made herein to the outstanding shares of Common Stock determined "on a fully diluted basis," such reference shall mean the total number of shares of Common Stock which would be outstanding after giving effect to the full conversion, exercise or exchange of all capital stock, convertible notes, warrants, options and other securities convertible or exercisable into or exchangeable with the Common Stock, including (without limitation) the Series A Preferred Stock, without regard to vesting rights and other similar contingencies.

2. DIVIDENDS. The holders of shares of Series A Preferred Stock shall be entitled to receive dividends on account of such shares only when and as declared by the Board of Directors.

3. REDEMPTION.

(a) MANDATORY REDEMPTION. On December 31, 2003, the Corporation shall redeem all of the shares of Series A Preferred Stock then outstanding (subject, however, to the right of the holders of the Series A Preferred Stock to convert their shares pursuant to Section 5), at a redemption price of $1.50 per share.

(b) GENERAL. From and after the setting aside of the funds necessary for redemption, notwithstanding that any certificate for shares of Series A Preferred Stock so called for redemption shall not have been surrendered for cancellation, the shares to be redeemed shall no longer be deemed outstanding, and the holders of certificates representing such shares shall have with respect to such shares no rights in or with respect to the Corporation except the right to receive, upon the surrender of such certificates, the redemption price therefor. Shares of Series A Preferred Stock redeemed by the Corporation pursuant to this Section 3, or shares of Series A Preferred Stock otherwise purchased by the Corporation, shall not be reissued and shall be cancelled and retired in the manner provided by the laws of the State of Delaware, and no shares of Series A Preferred Stock shall be issued in lieu thereof.

4. PREFERENCE ON LIQUIDATION, DISSOLUTION OR WINDING UP.

(a) DEFINITION. A consolidation or merger of the Corporation, a sale or transfer of substantially all of its assets as an entirety, or any purchase or redemption of capital stock of the Corporation of any class, shall not be regarded as "liquidation, dissolution or winding up of the affairs of the Corporation" within the meaning of this Section 4, unless pursuant to such event or transaction the Corporation is permanently or indefinitely ceasing its business activities in the funeral service industry.

(b) SERIES A PREFERRED STOCK. During any proceedings for the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of the Series A Preferred Stock shall be entitled to receive, before any distribution of the assets of the Corporation shall be made in respect of the outstanding Common Stock, an amount in cash for each share of Series A Preferred Stock equal to (i) $1.25, if such proceedings occur on or before December 31, 1998, or (ii) $1.00 plus the Return Amount, if such proceedings occur after December 31, 1998 (in either event the "Liquidation Preference"), or funds necessary for such payment shall have been set aside in trust for the account of the holders of the outstanding Series A Preferred Stock so as to be and continue available therefor. If upon such liquidation, dissolution or winding up, the assets distributable to the holders of the Series A Preferred Stock shall be insufficient to permit the payment to them of such Liquidation Preference per share, the assets of the Corporation shall be distributed to the holders of the Series A Preferred Stock ratably until they shall have received the full amount to which they would otherwise be entitled. If the assets of the Corporation are sufficient to permit the payment of such amounts to the holders of the Series A Preferred Stock, the remainder of the assets of the Corporation, if any, after the distributions as aforesaid shall be distributed and divided ratably among the holders of the Common Stock then outstanding according to their respective shares.

5. CONVERSION. The Series A Preferred Stock shall be convertible into Class B Common Stock in accordance with the following provisions of this Section 5.

(a) OPTIONAL CONVERSION. Subject to and upon compliance with the provisions of this Section 5, each holder of shares of Series A Preferred Stock shall have the right at such holder's option, at any time prior to December 31, 2003, to convert all or any portion of such holder's shares of Series A Preferred Stock into fully paid and nonassessable shares of Class B Common Stock, at the Conversion Price (hereafter defined) in effect on the Conversion Date (hereafter defined), upon the terms hereinafter set forth. In the event of any mandatory redemption of Series A Preferred Stock under Section 3, each holder of Series A Preferred Stock may elect to convert all or any portion of such holder's shares into Class B Common Stock pursuant to this Section 5, in which case the

provisions of this Section 5 shall govern and control as to the shares so converted.

(b) AUTOMATIC CONVERSION. On the date that either (i) a registration statement that has been filed with the Securities and Exchange Commission with respect to an Initial Public Offering shall become effective under the Securities Act, in which the public offering price per share is at least equal to one hundred twenty-five percent (125%) of the Conversion Price then in effect, or (ii) a Major Transaction has occurred, in which the net proceeds that the Board of Directors in good faith determines will be paid to a holder of Common Stock therefrom is anticipated to be at least equal to one hundred twenty-five percent (125%) of the Conversion Price then in effect, then in either such event each share of Series A Preferred Stock then outstanding shall be automatically converted into shares of Class B Common Stock in accordance with the following provisions of this Section 5. In the case of net proceeds from a Major Transaction other than in cash, the value of such proceeds shall be determined by the Board of Directors, and for purposes of this paragraph (b) and paragraph (f)(vii) below, the good faith determination of the Board of Directors shall be conclusive. Notwithstanding that any certificates for shares of Series A Preferred Stock shall not have been surrendered for cancellation, the shares of Series A Preferred Stock so converted shall no longer be deemed outstanding, and the holders of certificates representing such shares of Series A Preferred Stock shall have, from and after the date referred to above, the same rights in or with respect to the Corporation has holders of shares of the number of shares of Class B Common Stock into which such shares of Series A Preferred Stock have been so converted. Each such holder shall have the right, upon surrender of such certificates, to receive from the Corporation a certificate or certificates representing the number of shares of Class B Common Stock calculated in accordance with the following provisions of this Section 5 registered in the name of such holder. Within 30 days following the effective date of such registration statement or the consummation of such Major Transaction, the Corporation shall deliver to each holder whose shares of Series A Preferred Stock have been converted into Class B Common Stock as provided hereunder a written notice setting forth the fact and effective date of such conversion, the number of shares of Class B Common Stock into which such holder's shares of Series A Preferred Stock were converted, and a statement that such holder is entitled to receive a new certificate representing such number of shares of Class B Common Stock in exchange for the certificates representing such holder's shares of Series A Preferred Stock; provided, however, that the failure of the Corporation to provide such notice to any holder or any deficiency in any such notice shall not impair or affect the automatic conversion of such holder's Series A Preferred Stock into Class B Common Stock as provided herein.

(c) CONVERSION PRICE. The shares of Series A Preferred Stock to be converted shall be convertible into the number of shares of Class B

Common Stock as is determined by multiplying the number of shares of Series A Preferred Stock to be converted by a fraction, the numerator of which is $1.00 and the denominator of which is the Conversion Price in effect on the Conversion Date. The Conversion Price at which shares of Class B Common Stock shall initially be issuable upon conversion of shares of Series A Preferred Stock shall be $3.57-1/7 per share (subject to adjustment for certain events including subdivisions and combinations of the Common Stock and as provided below, hereafter the "Conversion Price").

(d) MECHANICS OF CONVERSION. The holder of any shares of Series A Preferred Stock may exercise the conversion right specified in paragraph (a) above by surrendering to the Corporation or any transfer agent of the Corporation the certificate or certificates for the shares to be converted, accompanied by written notice stating that the holder elects to convert all or a specified portion of the shares represented thereby. Optional conversion under paragraph (a) shall be deemed to have been effected on the date when notice of an election to convert and certificates for the shares to be converted has been delivered, and automatic conversion under paragraph (b) shall be deemed to have been effected as therein provided; any such date is referred to herein as the "Conversion Date". As promptly as practicable thereafter the Corporation shall issue and deliver to or upon the written order of such holders a certificate or certificates for the number of full shares of Class B Common Stock to which such holders are entitled rounded down to the next whole share as provided in paragraph (e) below. The person in whose name the certificate or certificates of Class B Common Stock are to be issued shall be deemed to have become a holder of record of such Class B Common Stock on the Conversion Date.

(e) FRACTIONAL SHARES. No fractional shares of Class B Common Stock or scrip shall be issued upon conversion of shares of Series A Preferred Stock. Instead of any fractional shares of Class B Common Stock which would otherwise be issuable upon conversion of any shares of Series A Preferred Stock, the number of full shares of Class B Common Stock issuable upon conversion thereof shall be reduced to the next lowest number of whole shares, and the Corporation will pay a cash adjustment in respect of any surrendered shares of Series A Preferred Stock not converted into Class B Common Stock in an amount equal to $1.00 per share of Series A Preferred Stock.

(f) CONVERSION PRICE ADJUSTMENTS. The Conversion Price and the number of shares of Class B Common Stock issuable upon conversion ("Conversion Shares") shall be subject to adjustment from time to time as follows:

(i) CERTAIN ISSUANCES OF EQUITY STOCK. If, at any time following issuance of any Series A Preferred Stock, the

Corporation issues any Common Stock, or any security or evidence of indebtedness which is convertible into or exchangeable for Common Stock, or any warrant, option or other right to subscribe for or purchase Common Stock or any security or evidence of indebtedness which is convertible or exchangeable for Common Stock (hereinafter, "Equity Stock"), other than Excluded Stock (as defined in clause (D) below), for a consideration per share less than the Conversion Price in effect immediately prior to such issuance, then the Conversion Price shall immediately be reduced to a price per share determined by dividing (x) an amount equal to the sum of (i) the number of shares of Equity Stock of the Corporation outstanding immediately prior to such issue or sale multiplied by the then existing Conversion Price and (ii) the consideration, if any, received by the Corporation upon such issue or sale, by (y) the total number of shares of Equity Stock of the Corporation outstanding immediately after such issue or sale. The number of shares of Equity Stock outstanding at any given time for the purposes of the foregoing computation means the shares of Common Stock outstanding together with all shares of Common Stock issuable upon conversion or exercise of any such Equity Stock, excluding any shares of Common Stock previously outstanding that have been reacquired by the Corporation and constitute treasury shares.

For purposes of any adjustment of the Conversion Price pursuant to this subparagraph (i) of this Section 5(f), the following provisions shall be applicable:

(A) CASH. In the case of the issuance of Equity Stock for cash, the amount of the consideration received by the Corporation shall be deemed to be the amount of the cash proceeds received by the Corporation for such Equity Stock before deducting therefrom any discounts, commissions, taxes, legal and accounting fees or other expenses allowed, paid or incurred by the Corporation in connection with the issuance and sale thereof.

(B) CONSIDERATION OTHER THAN CASH. In the case of the issuance of Equity Stock (other than as described in clause (C) below) for a consideration in whole or in part other than cash, including securities acquired in exchange therefor (other than securities by their terms so exchangeable), the consideration other than cash shall be deemed to be the fair market value thereof as reasonably determined by the Board of Directors in good faith.

(C) OPTIONS AND CONVERTIBLE SECURITIES, ETC. In the case of the issuance of (i) options, warrants or other rights to purchase or acquire Common Stock or other Equity Stock (whether or not at the time exercisable), (ii) securities by their terms convertible into or exchangeable for Common Stock or other Equity Stock (whether or not at the time so convertible or exercisable) or (iii) options, warrants or rights to purchase such convertible or exchangeable securities (whether or not at the time exer- cisable):

(1) the aggregate maximum number of shares of Common Stock deliverable upon exercise of such options, warrants or other rights to purchase or acquire Common Stock shall be deemed to have been issued at the time such options, warrants or rights were issued and for a consideration equal to the aggregate consideration (determined in the manner provided in clauses (A) and (B) above), if any, received by the Corporation upon the issuance of such options, warrants or rights plus the aggregate minimum purchase price provided in such options, warrants or rights for the Common Stock covered thereby;

(2) the aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities, or upon the exercise of options, warrants or other rights to purchase or acquire such convertible or exchangeable securities and the subsequent conversion or exchange thereof, shall be deemed to have been issued at the time such securities were issued or such options, warrants or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for any such securities and related options, warrants or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the Corporation upon the conversion or exchange of such securities and the exercise of any related options, warrants or rights (the consideration in each case to be determined in the manner provided in clauses (A) and (B) above);

(3) on any change in the number of shares of Common Stock deliverable upon exercise

of any such options, warrants or rights or conversion of or exchange for such convertible or exchangeable securities or any change in the consideration to be received by the Corporation upon such exercise, conversion or exchange, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Conversion Price as then in effect shall forthwith be readjusted to such Conversion Price as would have been obtained had an adjustment been made upon the issuance of such options, warrants or rights not exercised prior to such change, or securities not converted or exchanged prior to such change, on the basis of the terms of such options, warrants, rights or convertible or exchangeable securities as so changed;

(4) on the expiration or cancellation of any such options, warrants or rights, or the termination of the right to convert or exchange such convertible or exchangeable securities, if the Conversion Price shall have been adjusted upon the issuance thereof, the Conversion Price shall forthwith be readjusted to such Conversion Price as would have been obtained had an adjustment been made upon the issuance of such options, warrants, rights or securities on the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options, warrants or rights, or upon the conversion or exchange of such securities; and

(5) regardless of whether the Conversion Price shall have been adjusted upon the issuance of any such options, warrants, rights or convertible or exchangeable securities, no further adjustment of the Conversion Price shall be made for the actual issuance of Common Stock upon the exercise, conversion or exchange thereof;

PROVIDED, HOWEVER, that no adjustment pursuant to this clause (C) shall have the effect of increasing the Conversion Price above the initial Conversion Price.

(D) EXCLUDED STOCK. For purposes hereof, "Excluded Stock" means shares of Common Stock issued or reserved for issuance by the Corporation (i) upon conversion of the Series A Preferred Stock, (ii) pursuant to a stock dividend, subdivision or split-up covered by paragraph (ii)

of this Section 5(f), (iii) to any one or more unaffiliated persons with whom the Corporation or one or more of its subsidiaries effect a business combination (however structured), whether issued in shares of Common Stock or other securities convertible into or exchangeable with the Common Stock, and (iv) upon exercise of options issued to employees of the Corporation or its subsidiaries (other than employees who were the record holders of any Common Stock on December 31, 1993) entitling them to acquire Common Stock at a price per share less than the Conversion Price, provided that such exercise price per share is not less than the fair market value per share of Common Stock determined in good faith by the Board of Directors at the time such options are granted.

(ii) STOCK DIVIDENDS. If the number of shares of Class B Common Stock outstanding at any time after the issuance of any Series A Preferred Stock is increased by a stock dividend payable in shares of Class B Common Stock or by a subdivision or split-up of shares of Class B Common Stock, then immediately after the record date fixed for the determination of holders of Class B Common Stock entitled to receive such stock dividend or the effective date of such subdivision or split-up, as the case may be, the Conversion Price shall be appropriately decreased and the number of Conversion Shares proportionately increased so that the holders of any shares of Series A Preferred Stock shall be entitled to receive the number of shares of Class B Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series A Preferred Stock been converted immediately prior thereto.

(iii) COMBINATION OF STOCK. If the number of shares of Class B Common Stock outstanding at any time after issuance of any class of Series A Preferred Stock is decreased by a combination of the outstanding shares of Class B Common Stock, then, immediately after the effective date of such combination, the Conversion Price shall be appropriately increased and the number of Conversion Shares proportionately decreased so that the holders of any shares of Series A Preferred Stock shall be entitled to receive the number of shares of Class B Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series A Preferred Stock been converted immediately prior thereto.

(iv) REORGANIZATIONS. In case of any capital reorganization of the Corporation, or of any reclassification of the Common Stock, or in case of the consolidation of the Corporation with or the merger of the Corporation with or into any other

corporation, partnership or other business entity in which the Corporation is not the survivor, or of the sale, lease or other transfer of all or substantially all of the assets of the Corporation to any other corporation, partnership or other business entity, or in the case of any distribution of cash (other than dividends not exceeding net income earned in the current fiscal year to the date on which such dividend is declared) or other assets or of notes or other indebtedness of the Corporation or any other securities of the Corporation (except Common Stock) to the holders of its Common Stock, each share of Series A Preferred Stock shall, after such capital reorganization, reclassification, consolidation, merger, sale, lease or other transfer or such distribution, be convertible into the number of shares of stock or other securities or property to which the Class B Common Stock issuable (at the time of such capital reorganization, reclassification, consolidation, merger, sale, lease or other transfer or such distribution) upon conversion of such share of Series A Preferred Stock would have been entitled upon such capital reorganization, reclassification, consolidation, merger, sale, lease or other transfer or such distribution in place of (or in addition to, in the case of any such event after which Class B Common Stock remains outstanding) the shares of Class B Common Stock into which such share of Series A Preferred Stock would otherwise have been convertible; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the holders of the shares of Series A Preferred Stock shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any share of stock or other securities or property thereafter deliverable on the conversion of the shares of Series A Preferred Stock. The subdivision or combination of shares of Class B Common Stock issuable upon conversion of shares of Series A Preferred Stock at any time outstanding into a greater or lesser number of shares of Class B Common Stock (whether with or without par value) shall not be deemed to be a reclassification of the Class B Common Stock of the Corporation for the purposes of this subparagraph (iii).

(v) ROUNDING OF CALCULATIONS; MINIMUM ADJUSTMENT. All calculations under this paragraph (f) shall be made to the nearest cent or to the nearest one hundredth (1/100th) of a share, as the case may be. Any provision of this paragraph (f) to the contrary notwithstanding, no adjustment in the Conversion Price shall be made if the amount of such adjustment would be less than $0.10, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of and together with any subsequent adjustment which, together with such amount and

any other amount or amounts so carried forward, shall aggregate $0.10 or more.

(vi) TIMING OF ISSUANCE OF ADDITIONAL CLASS B COMMON STOCK UPON CERTAIN ADJUSTMENTS. In any case in which the provisions of this paragraph (f) requires that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event issuing to the holder of any shares of Series A Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Class B Common Stock or other property issuable or deliverable upon exercise by reason of the adjustment required by such event over and above the shares of Class B Common Stock or other property issuable or deliverable upon such conversion before giving effect to such adjustment; PROVIDED, HOWEVER that the Corporation upon request shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares or other property, and such cash, upon the occurrence of the event requiring such adjustment.

(vii) ADJUSTMENT IF NO INITIAL PUBLIC OFFERING OR MAJOR TRANSACTION. If on or before December 31, 2000 there has not occurred an Initial Public Offering or a Major Transaction in which the public offering price per share in the Initial Public Offering, or the net proceeds that the Board of Directors in good faith determines will be paid to a holder of Common Stock from the Major Transaction, as the case may be, is at least equal to the Conversion Price then in effect plus the Return Amount, then the Conversion Price then in effect for the Series A Preferred Stock shall be automatically reduced effective as of such date to a price per share determined by reducing the initial Conversion Price under paragraph (c) above to $2.65 per share, and then adjusting the initial Conversion Price (as so reduced) to give effect to any other adjustments to the Conversion Price under this paragraph (f) which have occurred after the date of issuance of the Series A Preferred Stock and prior to the date of adjustment under this subparagraph (vii).

(g) STATEMENT REGARDING ADJUSTMENTS. Whenever the Conversion Price shall be adjusted as provided in paragraph (f), the Corporation shall forthwith file, at the office of any transfer agent for the Series A Preferred Stock and at the principal office of the Corporation, a statement showing in detail the facts requiring such adjustment and the Conversion Price that shall be in effect after such adjustment, and the Corporation shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each holder of the Series A Preferred Stock at his or its address appearing on the Corporation's records. Each such

statement shall be signed by the Corporation's chief financial officer. Where appropriate, such copy may be given in advance and may be included as part of a notice required to be mailed under the provisions of subparagraph (g) below.

(h) NOTICE TO HOLDERS. In the event the Corporation proposes to take any action of the type described in subparagraph (i), (ii) or (iii) of paragraph (f) above, the Corporation shall give notice to each holder of the Series A Preferred Stock in the manner set forth in subparagraph (f) above, which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth such facts with respect thereto as shall be reasonably necessary to indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Conversion Price and the number, kind or class of shares or other securities or property which shall be deliverable or purchasable upon the occurrence of such action or deliverable upon conversion of the Series A Preferred Stock. In the case of any action which would require the fixing of a record date, such notice shall be given at least 10 days prior to the date so fixed, and in case of all other action, such notice shall be given at least 15 days prior to the taking of such proposed action.

(i) COSTS. The Corporation shall pay all documentary, stamp, transfer or other transactional taxes attributable to the issuance or delivery of shares of Class B Common Stock of the Corporation or other securities or property upon conversion of the shares of Series A Preferred Stock; PROVIDED, HOWEVER, that the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares or securities in the name other than that of the holder of the shares of Series A Preferred Stock in respect of which such shares are being issued.

(j) RESERVATION OF SHARES. The Corporation shall reserve at all times so long as any shares of Series A Preferred Stock remain outstanding, free from preemptive rights, out of its treasury stock or its authorized but unissued shares of Class B Common Stock, or both, solely for the purpose of effecting the conversion of shares of Series A Preferred Stock, sufficient shares of Class B Common Stock to provide for the conversion of all outstanding shares of Series A Preferred Stock and set aside and keep available any other property deliverable upon conversion of all outstanding shares of Series A Preferred Stock.

(k) APPROVALS. If any shares of Class B Common Stock or other securities to be reserved for the purpose of conversion of shares of Series A Preferred Stock require registration with or approval of any governmental authority under any Federal or state law before such shares or other securities may be validly issued or delivered upon conversion,

then the Corporation will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be.

(l) VALID ISSUANCE. All shares of Class B Common Stock or other securities which may be issued upon conversion of the shares of Series A Preferred Stock will upon issuance by the Corporation be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issuance thereof and the Corporation shall take no action which will cause a contrary result.

6. VOTING RIGHTS.

(a) GENERAL. Except as otherwise provided by law and as provided in paragraph (b) below, the holders of Series A Preferred Stock shall have no right or power to vote on the election of directors or on any other question or in any proceedings involving the Corporation.

(b) SPECIAL VOTING REQUIREMENTS. Without the consent of the holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting together as a single class, the Corporation shall not (i) amend, alter or repeal any provision of this Certificate of Designation so as to adversely affect the rights or powers of any of the Series A Preferred Stock, or (ii) issue any additional shares of another class or series of Preferred Stock that has a liquidation preference which is superior to the preference given to Series A Preferred Stock under Section 4 herein.

(c) NOTICE OF CERTAIN STOCKHOLDER ACTIONS. If any action is taken by the written consent of less than all of the stockholders of the Corporation based upon any proposal submitted for consideration by the Board of Directors, then the Corporation shall, prior to the time such action by written consent is to become effective, send a written notice, by mail, first class postage prepaid, to each holder of the Series A Preferred Stock, at his or its address appearing on the Corporation's records, setting forth a description of the action to be so taken. The failure of the Corporation to give the foregoing notice shall not affect or impair the validity of the action so taken. The foregoing notice requirement shall not confer upon any holder of the Series A Preferred Stock any voting rights that are not otherwise expressly granted herein.

7. EXCLUSION OF OTHER RIGHTS. Unless otherwise required by law, neither the shares of Series A Preferred Stock nor the shares of Common Stock shall have any voting powers, preferences or relative, participating, optional or other special rights other than those specifically set forth herein.

Exhibit B

AMENDED AND RESTATED
CERTIFICATE OF DESIGNATION, PREFERENCES,
RIGHTS AND LIMITATIONS

OF

SERIES B PREFERRED STOCK

OF

CARRIAGE SERVICES, INC.

Pursuant to authority conferred upon the Board of Directors of the Corporation by its Certificate of Incorporation, and pursuant to the provisions of Section 151(g) of the General Corporation Law of Delaware, such Board of Directors by written unanimous consent dated October 26, 1994, duly adopted a resolution providing for the issuance of a series of One Million (1,000,000) shares of the Corporation's Preferred Stock, $.01 par value per share, to be designated "Series B Preferred Stock", and fixing the voting powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations or restrictions thereof. The following is a restatement of the original Certificate of Designation, Preferences, Rights and Limitations to reflect amendments to the original resolution that were adopted by the stockholders of the Corporation, including the holders of the Series B Preferred Stock, by written consent pursuant to Section 228 of the General Corporation Law of Delaware:

There shall be established and authorized for issuance a series of the Corporation's Preferred Stock, $.01 par value per share, designated "Series B Preferred Stock" (herein referred to as "Series B Preferred Stock"), consisting of One Million (1,000,000) shares, each of the par value of $.01 per share, and having the voting powers, preferences and relative, participating, optional and other rights, and the qualifications, limitations or restrictions set forth below:

8. DEFINITIONS. For purposes hereof, the following terms shall have the following definitions or shall be subject to the following rules of construction:

(a) "Act" means the General Corporation Law of Delaware, as amended, or any successor state statute.

(b) "Board of Directors" means the Board of Directors of the Corporation.

(c) "Common Stock" means (i) shares of Class A Common Stock, or (ii) shares of Class B Common Stock, as applicable. "Class A Common Stock" means the Corporation's Class A Common Stock, par value $.01 per share. "Class B Common Stock" means the Corporation's Class B Common Stock, par value $.01 per share.

(d) "Fiscal Year" means the fiscal year of the Corporation determined from time to time by the Board of Directors for financial reporting purposes.

(e) "Initial Public Offering" means an underwritten public offering of either Class A Common Stock or Class B Common Stock pursuant to a registration statement filed under the Securities Act (other than any registration statement relating to warrants, options or shares of capital stock of the Corporation granted or to be granted or sold primarily to employees, directors, or officers of the Corporation, a registration statement filed pursuant to Rule 145 under the Securities Act or any successor rule, a registration statement relating to employee benefit plans or interests therein or any registration statement covering securities issued in connection with any debt financing of the Corporation).

(f) "Major Transaction" means a single transaction involving, or a series of transactions having the cumulative effect of, the sale of all or substantially all of the assets or the outstanding capital stock of the Corporation, or a merger or consolidation of the Corporation with or into another corporation or other entity in which the Corporation is not the survivor, or any combination of the foregoing involving the Corporation.

(g) The term "outstanding", when used with reference to shares of capital stock, shall mean issued shares, excluding shares held by the Corporation or a subsidiary of the Corporation.

(h) "Preferred Stock" means shares of any series of the Corporation's Preferred Stock, $.01 par value per share.

(i) "Securities Act" means the Securities Act of 1933, as amended.

(j) "Senior Stock" means the series of Preferred Stock designated by the Corporation as its Series A Preferred Stock, $.01 par value per share, and the series of Preferred Stock designated by the Corporation as its Series C Preferred Stock, $.01 par value per share.

(k) "Series B Preferred Stock" means the series of Preferred Stock designated by the Corporation as its Series B Preferred Stock, $.01 par value per share.

(l) All accounting terms used herein and not expressly defined herein shall have the meanings given to them in accordance with generally accepted accounting principles consistently applied and in effect as of the date of the relevant calculation.

9. DIVIDENDS. The holders of shares of Series B Preferred Stock shall be entitled to receive dividends on account of such shares only when and as declared by the Board of Directors out of funds legally available therefor. The declaration or payment of dividends in respect of any other class or series of the Corporation's stock by authority of the Board of Directors shall not confer upon the holders of the Series B Preferred Stock any right or preference to receive any dividend in respect of such shares.

10. PREFERENCE ON LIQUIDATION, DISSOLUTION OR WINDING UP.

(a) DEFINITION. A consolidation or merger of the Corporation, a sale or transfer of substantially all of its assets as an entirety, or any purchase or redemption of capital stock of the Corporation of any class, shall not be regarded as "liquidation, dissolution or winding up of the affairs of the Corporation" within the meaning of this Section 3.

(b) SERIES B PREFERRED STOCK. During any proceedings for the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of the Series B Preferred Stock shall be entitled to receive, before any distribution of the assets of the Corporation shall be made in respect of the outstanding Common Stock, but subject to any distribution to the holders of the Senior Stock in respect of such shares and any other preferential class or series of capital stock of the Corporation, an amount in cash for each share of Series B Preferred Stock equal to $1.00, or funds necessary for such payment shall have been set aside in trust for the account of the holders of the outstanding Series B Preferred Stock so as to be and continue available therefor. If upon such liquidation, dissolution or winding up, the assets distributable to the holders of the Series B Preferred Stock as aforesaid shall be insufficient to permit the payment to them (together with any distributions to the holders of any other class or series of the Corporation's stock which ranks pari passe with the Series B Preferred Stock) of $1.00 per share, the assets of the Corporation shall be distributed to the holders of the Series B Preferred Stock ratably until they shall have received the full amount to which they would otherwise be entitled but subject to any distribution of the assets of the Corporation in respect of the Senior Stock and any other preferential class or series of capital stock of the Corporation. If the assets of the Corporation are sufficient to permit the payment of such amounts to the holders of the Series B Preferred Stock, the remainder of the assets of the

Corporation, if any, after the distributions as aforesaid shall be distributed and divided ratably among the holders of the Common Stock (and any other shares of the Corporation's stock which rank inferior to the Series B Preferred Stock) then outstanding according to their respective shares.

11. CONVERSION. The Series B Preferred Stock shall be convertible into Class B Common Stock in accordance with the following provisions of this Section 4.

(a) OPTIONAL CONVERSION. Subject to and upon compliance with the provisions of this Section 4, each holder of shares of Series B Preferred Stock shall have the right at such holder's option, at any time or from time to time, from and after the date of original issuance to convert all or any part of his shares of Series B Preferred Stock into fully paid and nonassessable shares of Class B Common Stock, at the Conversion Price (hereafter defined) in effect on the Conversion Date (hereafter defined), upon the terms hereinafter set forth.

(b) AUTOMATIC CONVERSION. On the date that either (i) a registration statement that has been filed with the Securities and Exchange Commission with respect to an Initial Public Offering shall become effective under the Securities Act, or (ii) a Major Transaction has occurred, then in either such event each share of Series B Preferred Stock then outstanding shall be automatically converted into shares of Class B Common Stock in accordance with the following provisions of this Section 4. Notwithstanding that any certificates for shares of Series B Preferred Stock shall not have been surrendered for cancellation, the shares of Series B Preferred Stock so converted shall no longer be deemed outstanding, and the holders of certificates representing such shares of Series B Preferred Stock shall have, from and after the date referred to above, the same rights in or with respect to the Corporation as holders of shares of the number of shares of Class B Common Stock into which such shares of Series B Preferred Stock have been so converted. Each such holder shall have the right, upon surrender of such certificates, to receive from the Corporation a certificate or certificates representing the number of shares of Class B Common Stock calculated in accordance with the following provisions of this Section 4 registered in the name of such holder. Within 30 days following the effective date of such registration statement or the consummation of such Major Transaction, the Corporation shall deliver to each holder whose shares of Series B Preferred Stock have been converted into Class B Common Stock as provided hereunder a written notice setting forth the fact and effective date of such conversion, the number of shares of Class B Common Stock into which such holder's shares of Series B Preferred Stock were converted, and a statement that such holder is entitled to receive a new certificate representing such number of shares of Class B Common Stock in exchange for the certificates representing such holder's shares of Series B Preferred Stock; provided, however, that the failure of the Corporation to provide such notice to any holder or any deficiency in any such notice shall not impair or affect the automatic conversion of such

holder's Series B Preferred Stock into Class B Common Stock as provided herein.

(c) CONVERSION PRICE. The shares of Series B Preferred Stock to be converted shall be convertible into the number of shares of Class B Common Stock as is determined by multiplying the number of shares of Series B Preferred Stock to be converted by a fraction, the numerator of which is $1.00 and the denominator of which is the Conversion Price in effect on the Conversion Date. The Conversion Price at which shares of Class B Common Stock shall initially be issuable upon conversion of shares of Series B Preferred Stock shall be an amount per share determined from time to time by the Board of Directors at the time of issuance of any shares of Series B Preferred Stock (subject to adjustment as provided below, hereafter the "Conversion Price"). The initial Conversion Price upon issuance of any given shares of Series B Preferred Stock shall be recorded in the minutes of the Board of Directors at which such shares were authorized to be issued, and the Conversion Price for such shares shall be conclusively evidenced (absent manifest error) by a notation to such effect on the face of each certificate representing such shares.

(d) MECHANICS OF CONVERSION. The holder of any shares of Series B Preferred Stock may exercise the conversion right specified in paragraph (a) above by surrendering to the Corporation or any transfer agent of the Corporation the certificate or certificates for the shares to be converted, accompanied by written notice stating that the holder elects to convert all or a specified portion of the shares represented thereby. Optional conversion under paragraph (a) shall be deemed to have been effected on the date when notice of an election to convert and certificates for the shares to be converted has been delivered, and automatic conversion under paragraph (b) shall be deemed to have been effected as therein provided; any such date is referred to herein as the "Conversion Date". As promptly as practicable thereafter the Corporation shall issue and deliver to or upon the written order of such holders a certificate or certificates for the number of full shares of Class B Common Stock to which such holders are entitled rounded down to the next whole share as provided in paragraph (e) below. The person in whose name the certificate or certificates of Class B Common Stock are to be issued shall be deemed to have become a holder of record of such Class B Common Stock on the Conversion Date.

(e) FRACTIONAL SHARES. No fractional shares of Class B Common Stock or scrip shall be issued upon conversion of shares of Series B Preferred Stock. Instead of any fractional shares of Class B Common Stock which would otherwise be issuable upon conversion of any shares of Series B Preferred Stock, the number of full shares of Class B Common Stock issuable upon conversion thereof shall be reduced to the next lowest number of whole shares, and the Corporation will pay a cash adjustment in respect of any surrendered shares of Series B Preferred Stock not con-

verted into Class B Common Stock in an amount equal to $1.00 per share of Series B Preferred Stock.

(f) CONVERSION PRICE ADJUSTMENTS. The Conversion Price and the number of shares of Class B Common Stock issuable upon conversion of the Series B Preferred Stock shall be subject to adjustment from time to time as follows:

(i) STOCK DIVIDENDS. If the number of shares of Class B Common Stock outstanding at any time after the issuance of any Series B Preferred Stock is increased by a stock dividend payable in shares of Class B Common Stock or by a subdivision or split-up of shares of Class B Common Stock, then immediately after the record date fixed for the determination of holders of Class B Common Stock entitled to receive such stock dividend or the effective date of such subdivision or split-up, as the case may be, the Conversion Price shall be appropriately decreased and the number of shares of Class B Common Stock issuable upon conversion of the Series B Preferred Stock shall be proportionately increased so that the holders of any shares of Series B Preferred Stock shall be entitled to receive the number of shares of Class B Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series B Preferred Stock been converted immediately prior thereto.

(ii) COMBINATION OF STOCK. If the number of shares of Common Stock outstanding at any time after issuance of any class of Series B Preferred Stock is decreased by a combination of the outstanding shares of Class B Common Stock, then, immediately after the effective date of such combination, the Conversion Price shall be appropriately increased and the number of shares of Common Stock issuable upon conversion of the Series B Preferred Stock shall be proportionately decreased so that the holders of any shares of Series B Preferred Stock shall be entitled to receive the number of shares of Class B Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series B Preferred Stock been converted immediately prior thereto.

(iii) REORGANIZATIONS. In case of any capital reorganization of the Corporation, or of any reclassification of the Class B Common Stock, or in case of the consolidation of the Corporation with or the merger of the Corporation with or into any other corporation, partnership or other business entity in which the Corporation is not the survivor, or of the sale, lease or other transfer of all or substantially all of the assets of the Corporation to any other corporation, partnership or other business entity, each share of Series B Preferred Stock shall, after such capital reorganization,

reclassification, consolidation, merger, sale or lease, be convertible into the number of shares of stock or other securities or property to which the Class B Common Stock issuable (at the time of such capital reorganization, reclassification, consolidation, merger, sale or lease) upon conversion of such share of Series B Preferred Stock would have been entitled upon such capital reorganization, reclassification, consolidation, merger, sale or lease in place of (or in addition to, in the case of any such event after which Class B Common Stock remains outstanding) the shares of Class B Common Stock into which such share of Series B Preferred Stock would otherwise have been convertible; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the holders of the shares of Series B Preferred Stock shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any share of stock or other securities or property thereafter deliverable on the conversion of the shares of Series B Preferred Stock. The subdivision or combination of shares of Class B Common Stock issuable upon conversion of shares of Series B Preferred Stock at any time outstanding into a greater or lesser number of shares of Class B Common Stock (whether with or without par value) shall not be deemed to be a reclassification of the Class B Common Stock of the Corporation for the purposes of this subparagraph (iii).

(iv) ROUNDING OF CALCULATIONS; MINIMUM ADJUSTMENT. All calculations under this paragraph (f) shall be made to the nearest cent or to the nearest one hundredth (1/100th) of a share, as the case may be. Any provision of this paragraph (f) to the contrary notwithstanding, no adjustment in the Conversion Price shall be made if the amount of such adjustment would be less than $0.01, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate $0.01 or more.

(v) TIMING OF ISSUANCE OF ADDITIONAL CLASS B COMMON STOCK UPON CERTAIN ADJUSTMENTS. In any case in which the provisions of this paragraph (f) requires that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event issuing to the holder of any shares of Series B Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Class B Common Stock or other property issuable or deliverable upon exercise by reason of the adjustment required by such event over and above the shares of Class B Common Stock or other property issuable or deliverable upon such conversion before giving effect to such adjustment; PROVIDED,

HOWEVER that the Corporation upon request shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares or other property, and such cash, upon the occurrence of the event requiring such adjustment.

(g) STATEMENT REGARDING ADJUSTMENTS. Whenever the Conversion Price shall be adjusted as provided in paragraph (f), the Corporation shall forthwith file, at the office of any transfer agent for the Series B Preferred Stock and at the principal office of the Corporation, a statement showing in detail the facts requiring such adjustment and the Conversion Price that shall be in effect after such adjustment, and the Corporation shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each holder of the Series B Preferred Stock at his or its address appearing on the Corporation's records. Each such statement shall be signed by the Corporation's chief financial officer. Where appropriate, such copy may be given in advance and may be included as part of a notice required to be mailed under the provisions of subparagraph (h) below.

(h) NOTICE TO HOLDERS. In the event the Corporation proposes to take any action of the type described in subparagraph (i), (ii) or (iii) of paragraph (f) above, the Corporation shall give notice to each holder of the Series B Preferred Stock in the manner set forth in subparagraph (f) above, which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth such facts with respect thereto as shall be reasonably necessary to indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Conversion Price and the number, kind or class of shares or other securities or property which shall be deliverable or purchasable upon the occurrence of such action or deliverable upon conversion of the Series B Preferred Stock. In the case of any action which would require the fixing of a record date, such notice shall be given at least 10 days prior to the date so fixed, and in case of all other action, such notice shall be given at least 15 days prior to the taking of such proposed action.

(i) COSTS. The Corporation shall pay all documentary, stamp, transfer or other transactional taxes attributable to the issuance or delivery of shares of Class B Common Stock of the Corporation or other securities or property upon conversion of the shares of Series B Preferred Stock; PROVIDED, HOWEVER, that the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares or securities in the name other than that of the holder of the shares of Series B Preferred Stock in respect of which such shares are being issued.

(j) RESERVATION OF SHARES. The Corporation shall reserve at all times so long as any shares of Series B Preferred Stock remain outstanding, free from preemptive rights, out of its treasury stock or its authorized but unissued shares of Class B Common Stock, or both, solely for the purpose of effecting the conversion of shares of Series B Preferred Stock, sufficient shares of Class B Common Stock to provide for the conversion of all outstanding shares of Series B Preferred Stock and set aside and keep available any other property deliverable upon conversion of all outstanding shares of Series B Preferred Stock.

(k) APPROVALS. If any shares of Class B Common Stock or other securities to be reserved for the purpose of conversion of shares of Series B Preferred Stock require registration with or approval of any governmental authority under any Federal or state law before such shares or other securities may be validly issued or delivered upon conversion, then the Corporation will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be.

(l) VALID ISSUANCE. All shares of Class B Common Stock or other securities which may be issued upon conversion of the shares of Series B Preferred Stock will upon issuance by the Corporation be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issuance thereof and the Corporation shall take no action which will cause a contrary result.

12. VOTING RIGHTS. Except as provided by law, the holders of Series B Preferred Stock shall have no right or power to vote on the election of directors or on any other question or in any proceedings involving the Corporation.

13. EXCLUSION OF OTHER RIGHTS. Unless otherwise required by law, neither the shares of Series B Preferred Stock nor the shares of Common Stock shall have any voting powers, preferences or relative, participating, optional or other special rights other than those specifically set forth herein.

Exhibit C

AMENDED AND RESTATED
CERTIFICATE OF DESIGNATION, PREFERENCES,
RIGHTS AND LIMITATIONS

OF

SERIES B PREFERRED STOCK

OF

CARRIAGE SERVICES, INC.

Pursuant to authority conferred upon the Board of Directors of the Corporation by its Certificate of Incorporation, and pursuant to the provisions of Section 151(g) of the General Corporation Law of Delaware, such Board of Directors by written unanimous consent dated October 26, 1994, duly adopted a resolution providing for the issuance of a series of One Million (1,000,000) shares of the Corporation's Preferred Stock, $.01 par value per share, to be designated "Series B Preferred Stock", and fixing the voting powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations or restrictions thereof. The following is a restatement of the original Certificate of Designation, Preferences, Rights and Limitations to reflect amendments to the original resolution that were adopted by the stockholders of the Corporation, including the holders of the Series B Preferred Stock, by written consent pursuant to Section 228 of the General Corporation Law of Delaware:

There shall be established and authorized for issuance a series of the Corporation's Preferred Stock, $.01 par value per share, designated "Series B Preferred Stock" (herein referred to as "Series B Preferred Stock"), consisting of One Million (1,000,000) shares, each of the par value of $.01 per share, and having the voting powers, preferences and relative, participating, optional and other rights, and the qualifications, limitations or restrictions set forth below:

14. DEFINITIONS. For purposes hereof, the following terms shall have the following definitions or shall be subject to the following rules of construction:

(a) "Act" means the General Corporation Law of Delaware, as amended, or any successor state statute.

(b) "Board of Directors" means the Board of Directors of the Corporation.

(c) "Common Stock" means (i) shares of Class A Common Stock, or (ii) shares of Class B Common Stock, as applicable. "Class A Common Stock" means the Corporation's Class A Common Stock, par value $.01 per share. "Class B Common Stock" means the Corporation's Class B Common Stock, par value $.01 per share.

(d) "Fiscal Year" means the fiscal year of the Corporation determined from time to time by the Board of Directors for financial reporting purposes.

(e) "Initial Public Offering" means an underwritten public offering of either Class A Common Stock or Class B Common Stock pursuant to a registration statement filed under the Securities Act (other than any registration statement relating to warrants, options or shares of capital stock of the Corporation granted or to be granted or sold primarily to employees, directors, or officers of the Corporation, a registration statement filed pursuant to Rule 145 under the Securities Act or any successor rule, a registration statement relating to employee benefit plans or interests therein or any registration statement covering securities issued in connection with any debt financing of the Corporation).

(f) "Major Transaction" means a single transaction involving, or a series of transactions having the cumulative effect of, the sale of all or substantially all of the assets or the outstanding capital stock of the Corporation, or a merger or consolidation of the Corporation with or into another corporation or other entity in which the Corporation is not the survivor, or any combination of the foregoing involving the Corporation.

(g) The term "outstanding", when used with reference to shares of capital stock, shall mean issued shares, excluding shares held by the Corporation or a subsidiary of the Corporation.

(h) "Preferred Stock" means shares of any series of the Corporation's Preferred Stock, $.01 par value per share.

(i) "Securities Act" means the Securities Act of 1933, as amended.

(j) "Senior Stock" means the series of Preferred Stock designated by the Corporation as its Series A Preferred Stock, $.01 par value per share, and the series of Preferred Stock designated by the Corporation as its Series C Preferred Stock, $.01 par value per share.

(k) "Series B Preferred Stock" means the series of Preferred Stock designated by the Corporation as its Series B Preferred Stock, $.01 par value per share.

(l) All accounting terms used herein and not expressly defined herein shall have the meanings given to them in accordance with generally accepted accounting principles consistently applied and in effect as of the date of the relevant calculation.

15. DIVIDENDS. The holders of shares of Series B Preferred Stock shall be entitled to receive dividends on account of such shares only when and as declared by the Board of Directors out of funds legally available therefor. The declaration or payment of dividends in respect of any other class or series of the Corporation's stock by authority of the Board of Directors shall not confer upon the holders of the Series B Preferred Stock any right or preference to receive any dividend in respect of such shares.

16. PREFERENCE ON LIQUIDATION, DISSOLUTION OR WINDING UP.

(a) DEFINITION. A consolidation or merger of the Corporation, a sale or transfer of substantially all of its assets as an entirety, or any purchase or redemption of capital stock of the Corporation of any class, shall not be regarded as "liquidation, dissolution or winding up of the affairs of the Corporation" within the meaning of this Section 3.

(b) SERIES B PREFERRED STOCK. During any proceedings for the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of the Series B Preferred Stock shall be entitled to receive, before any distribution of the assets of the Corporation shall be made in respect of the outstanding Common Stock, but subject to any distribution to the holders of the Senior Stock in respect of such shares and any other preferential class or series of capital stock of the Corporation, an amount in cash for each share of Series B Preferred Stock equal to $1.00, or funds necessary for such payment shall have been set aside in trust for the account of the holders of the outstanding Series B Preferred Stock so as to be and continue available therefor. If upon such liquidation, dissolution or winding up, the assets distributable to the holders of the Series B Preferred Stock as aforesaid shall be insufficient to permit the payment to them (together with any distributions to the holders of any other class or series of the Corporation's stock which ranks pari passe with the Series B Preferred Stock) of $1.00 per share, the assets of the Corporation shall be distributed to the holders of the Series B Preferred Stock ratably until they shall have received the full amount to which they would otherwise be entitled but subject to any distribution of the assets of the Corporation in respect of the Senior Stock and any other preferential class or series of capital stock of the Corporation. If the assets of the Corporation are sufficient to permit the payment of such amounts to the holders of the Series B Preferred Stock, the remainder of the assets of the

Corporation, if any, after the distributions as aforesaid shall be distributed and divided ratably among the holders of the Common Stock (and any other shares of the Corporation's stock which rank inferior to the Series B Preferred Stock) then outstanding according to their respective shares.

17. CONVERSION. The Series B Preferred Stock shall be convertible into Class B Common Stock in accordance with the following provisions of this Section 4.

(a) OPTIONAL CONVERSION. Subject to and upon compliance with the provisions of this Section 4, each holder of shares of Series B Preferred Stock shall have the right at such holder's option, at any time or from time to time, from and after the date of original issuance to convert all or any part of his shares of Series B Preferred Stock into fully paid and nonassessable shares of Class B Common Stock, at the Conversion Price (hereafter defined) in effect on the Conversion Date (hereafter defined), upon the terms hereinafter set forth.

(b) AUTOMATIC CONVERSION. On the date that either (i) a registration statement that has been filed with the Securities and Exchange Commission with respect to an Initial Public Offering shall become effective under the Securities Act, or (ii) a Major Transaction has occurred, then in either such event each share of Series B Preferred Stock then outstanding shall be automatically converted into shares of Class B Common Stock in accordance with the following provisions of this Section 4. Notwithstanding that any certificates for shares of Series B Preferred Stock shall not have been surrendered for cancellation, the shares of Series B Preferred Stock so converted shall no longer be deemed outstanding, and the holders of certificates representing such shares of Series B Preferred Stock shall have, from and after the date referred to above, the same rights in or with respect to the Corporation as holders of shares of the number of shares of Class B Common Stock into which such shares of Series B Preferred Stock have been so converted. Each such holder shall have the right, upon surrender of such certificates, to receive from the Corporation a certificate or certificates representing the number of shares of Class B Common Stock calculated in accordance with the following provisions of this Section 4 registered in the name of such holder. Within 30 days following the effective date of such registration statement or the consummation of such Major Transaction, the Corporation shall deliver to each holder whose shares of Series B Preferred Stock have been converted into Class B Common Stock as provided hereunder a written notice setting forth the fact and effective date of such conversion, the number of shares of Class B Common Stock into which such holder's shares of Series B Preferred Stock were converted, and a statement that such holder is entitled to receive a new certificate representing such number of shares of Class B Common Stock in exchange for the certificates representing such holder's shares of Series B Preferred Stock; provided, however, that the failure of the Corporation to provide such notice to any holder or any deficiency in any such notice shall not impair or affect the automatic conversion of such

holder's Series B Preferred Stock into Class B Common Stock as provided herein.

(c) CONVERSION PRICE. The shares of Series B Preferred Stock to be converted shall be convertible into the number of shares of Class B Common Stock as is determined by multiplying the number of shares of Series B Preferred Stock to be converted by a fraction, the numerator of which is $1.00 and the denominator of which is the Conversion Price in effect on the Conversion Date. The Conversion Price at which shares of Class B Common Stock shall initially be issuable upon conversion of shares of Series B Preferred Stock shall be an amount per share determined from time to time by the Board of Directors at the time of issuance of any shares of Series B Preferred Stock (subject to adjustment as provided below, hereafter the "Conversion Price"). The initial Conversion Price upon issuance of any given shares of Series B Preferred Stock shall be recorded in the minutes of the Board of Directors at which such shares were authorized to be issued, and the Conversion Price for such shares shall be conclusively evidenced (absent manifest error) by a notation to such effect on the face of each certificate representing such shares.

(d) MECHANICS OF CONVERSION. The holder of any shares of Series B Preferred Stock may exercise the conversion right specified in paragraph (a) above by surrendering to the Corporation or any transfer agent of the Corporation the certificate or certificates for the shares to be converted, accompanied by written notice stating that the holder elects to convert all or a specified portion of the shares represented thereby. Optional conversion under paragraph (a) shall be deemed to have been effected on the date when notice of an election to convert and certificates for the shares to be converted has been delivered, and automatic conversion under paragraph (b) shall be deemed to have been effected as therein provided; any such date is referred to herein as the "Conversion Date". As promptly as practicable thereafter the Corporation shall issue and deliver to or upon the written order of such holders a certificate or certificates for the number of full shares of Class B Common Stock to which such holders are entitled rounded down to the next whole share as provided in paragraph (e) below. The person in whose name the certificate or certificates of Class B Common Stock are to be issued shall be deemed to have become a holder of record of such Class B Common Stock on the Conversion Date.

(e) FRACTIONAL SHARES. No fractional shares of Class B Common Stock or scrip shall be issued upon conversion of shares of Series B Preferred Stock. Instead of any fractional shares of Class B Common Stock which would otherwise be issuable upon conversion of any shares of Series B Preferred Stock, the number of full shares of Class B Common Stock issuable upon conversion thereof shall be reduced to the next lowest number of whole shares, and the Corporation will pay a cash adjustment in respect of any surrendered shares of Series B Preferred Stock not con-

verted into Class B Common Stock in an amount equal to $1.00 per share of Series B Preferred Stock.

(f) CONVERSION PRICE ADJUSTMENTS. The Conversion Price and the number of shares of Class B Common Stock issuable upon conversion of the Series B Preferred Stock shall be subject to adjustment from time to time as follows:

(i) STOCK DIVIDENDS. If the number of shares of Class B Common Stock outstanding at any time after the issuance of any Series B Preferred Stock is increased by a stock dividend payable in shares of Class B Common Stock or by a subdivision or split-up of shares of Class B Common Stock, then immediately after the record date fixed for the determination of holders of Class B Common Stock entitled to receive such stock dividend or the effective date of such subdivision or split-up, as the case may be, the Conversion Price shall be appropriately decreased and the number of shares of Class B Common Stock issuable upon conversion of the Series B Preferred Stock shall be proportionately increased so that the holders of any shares of Series B Preferred Stock shall be entitled to receive the number of shares of Class B Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series B Preferred Stock been converted immediately prior thereto.

(ii) COMBINATION OF STOCK. If the number of shares of Common Stock outstanding at any time after issuance of any class of Series B Preferred Stock is decreased by a combination of the outstanding shares of Class B Common Stock, then, immediately after the effective date of such combination, the Conversion Price shall be appropriately increased and the number of shares of Common Stock issuable upon conversion of the Series B Preferred Stock shall be proportionately decreased so that the holders of any shares of Series B Preferred Stock shall be entitled to receive the number of shares of Class B Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series B Preferred Stock been converted immediately prior thereto.

(iii) REORGANIZATIONS. In case of any capital reorganization of the Corporation, or of any reclassification of the Class B Common Stock, or in case of the consolidation of the Corporation with or the merger of the Corporation with or into any other corporation, partnership or other business entity in which the Corporation is not the survivor, or of the sale, lease or other transfer of all or substantially all of the assets of the Corporation to any other corporation, partnership or other business entity, each share of Series B Preferred Stock shall, after such capital reorganization,

reclassification, consolidation, merger, sale or lease, be convertible into the number of shares of stock or other securities or property to which the Class B Common Stock issuable (at the time of such capital reorganization, reclassification, consolidation, merger, sale or lease) upon conversion of such share of Series B Preferred Stock would have been entitled upon such capital reorganization, reclassification, consolidation, merger, sale or lease in place of (or in addition to, in the case of any such event after which Class B Common Stock remains outstanding) the shares of Class B Common Stock into which such share of Series B Preferred Stock would otherwise have been convertible; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the holders of the shares of Series B Preferred Stock shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any share of stock or other securities or property thereafter deliverable on the conversion of the shares of Series B Preferred Stock. The subdivision or combination of shares of Class B Common Stock issuable upon conversion of shares of Series B Preferred Stock at any time outstanding into a greater or lesser number of shares of Class B Common Stock (whether with or without par value) shall not be deemed to be a reclassification of the Class B Common Stock of the Corporation for the purposes of this subparagraph (iii).

(iv) ROUNDING OF CALCULATIONS; MINIMUM ADJUSTMENT. All calculations under this paragraph (f) shall be made to the nearest cent or to the nearest one hundredth (1/100th) of a share, as the case may be. Any provision of this paragraph (f) to the contrary notwithstanding, no adjustment in the Conversion Price shall be made if the amount of such adjustment would be less than $0.01, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate $0.01 or more.

(v) TIMING OF ISSUANCE OF ADDITIONAL CLASS B COMMON STOCK UPON CERTAIN ADJUSTMENTS. In any case in which the provisions of this paragraph (f) requires that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event issuing to the holder of any shares of Series B Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Class B Common Stock or other property issuable or deliverable upon exercise by reason of the adjustment required by such event over and above the shares of Class B Common Stock or other property issuable or deliverable upon such conversion before giving effect to such adjustment; PROVIDED,

HOWEVER that the Corporation upon request shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares or other property, and such cash, upon the occurrence of the event requiring such adjustment.

(g) STATEMENT REGARDING ADJUSTMENTS. Whenever the Conversion Price shall be adjusted as provided in paragraph (f), the Corporation shall forthwith file, at the office of any transfer agent for the Series B Preferred Stock and at the principal office of the Corporation, a statement showing in detail the facts requiring such adjustment and the Conversion Price that shall be in effect after such adjustment, and the Corporation shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each holder of the Series B Preferred Stock at his or its address appearing on the Corporation's records. Each such statement shall be signed by the Corporation's chief financial officer. Where appropriate, such copy may be given in advance and may be included as part of a notice required to be mailed under the provisions of subparagraph (h) below.

(h) NOTICE TO HOLDERS. In the event the Corporation proposes to take any action of the type described in subparagraph (i), (ii) or (iii) of paragraph (f) above, the Corporation shall give notice to each holder of the Series B Preferred Stock in the manner set forth in subparagraph (f) above, which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth such facts with respect thereto as shall be reasonably necessary to indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Conversion Price and the number, kind or class of shares or other securities or property which shall be deliverable or purchasable upon the occurrence of such action or deliverable upon conversion of the Series B Preferred Stock. In the case of any action which would require the fixing of a record date, such notice shall be given at least 10 days prior to the date so fixed, and in case of all other action, such notice shall be given at least 15 days prior to the taking of such proposed action.

(i) COSTS. The Corporation shall pay all documentary, stamp, transfer or other transactional taxes attributable to the issuance or delivery of shares of Class B Common Stock of the Corporation or other securities or property upon conversion of the shares of Series B Preferred Stock; PROVIDED, HOWEVER, that the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares or securities in the name other than that of the holder of the shares of Series B Preferred Stock in respect of which such shares are being issued.

(j) RESERVATION OF SHARES. The Corporation shall reserve at all times so long as any shares of Series B Preferred Stock remain outstanding, free from preemptive rights, out of its treasury stock or its authorized but unissued shares of Class B Common Stock, or both, solely for the purpose of effecting the conversion of shares of Series B Preferred Stock, sufficient shares of Class B Common Stock to provide for the conversion of all outstanding shares of Series B Preferred Stock and set aside and keep available any other property deliverable upon conversion of all outstanding shares of Series B Preferred Stock.

(k) APPROVALS. If any shares of Class B Common Stock or other securities to be reserved for the purpose of conversion of shares of Series B Preferred Stock require registration with or approval of any governmental authority under any Federal or state law before such shares or other securities may be validly issued or delivered upon conversion, then the Corporation will in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be.

(l) VALID ISSUANCE. All shares of Class B Common Stock or other securities which may be issued upon conversion of the shares of Series B Preferred Stock will upon issuance by the Corporation be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issuance thereof and the Corporation shall take no action which will cause a contrary result.

18. VOTING RIGHTS. Except as provided by law, the holders of Series B Preferred Stock shall have no right or power to vote on the election of directors or on any other question or in any proceedings involving the Corporation.

19. EXCLUSION OF OTHER RIGHTS. Unless otherwise required by law, neither the shares of Series B Preferred Stock nor the shares of Common Stock shall have any voting powers, preferences or relative, participating, optional or other special rights other than those specifically set forth herein.

AMENDED AND RESTATED
CERTIFICATE OF DESIGNATION, PREFERENCES,
RIGHTS AND LIMITATIONS

OF

SERIES D PREFERRED STOCK

OF

CARRIAGE SERVICES, INC.

Pursuant to authority conferred upon the Board of Directors of the Corporation by its Certificate of Incorporation, and pursuant to the provisions of Section 151(g) of the General Corporation Law of Delaware, such Board of Directors by written unanimous consent dated March 4, 1996, duly adopted a resolution providing for the issuance of a series of Twenty Million (20,000,000) shares of the Corporation's Preferred Stock, $.01 par value per share, to be designated "Series D Preferred Stock", and fixing the voting powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations or restrictions thereof. The following is a restatement of the original Certificate of Designation, Preferences, Rights and Limitations to reflect amendments to the original resolution that were adopted by the stockholders of the Corporation, including the holders of the Series D Preferred Stock, by written consent pursuant to Section 228 of the General Corporation Law of Delaware:

There shall be established and authorized for issuance a series of the Corporation's Preferred Stock, $.01 par value per share, designated "Series D Preferred Stock" (herein referred to as "Series D Preferred Stock"), consisting of Twenty Million (20,000,000) shares, each of the par value of $.01 per share, and having the voting powers, preferences and relative, participating, optional and other rights, and the qualifications, limitations or restrictions set forth below:

20. DEFINITIONS. For purposes hereof, the following terms shall have the following definitions or shall be subject to the following rules of construction:

(a) "Affiliate" of any person shall mean (a) any member of the immediate family of such person, including parents, siblings, spouse and lineal

descendants (including those by adoption); the parents, siblings, spouse, or lineal descendants (including those by adoption) of such immediate family member; and in any such case any trust whose primary beneficiary is such person or one or more members of such immediate family and/or such person's lineal descendants; (b) the legal representative or guardian of such person or of any such immediate family members in the event such person or any such immediate family members becomes mentally incompetent; and (c) any person, corporation or other entity controlling, controlled by or under common control with such person. As used in this definition, the term "control", including the correlative terms "controlling", "controlled by" and "under common control with" shall mean possession, directly or indirectly, of the power to direct or cause the direction of management or policies (whether through ownership of securities or any partnership or other ownership interest, by contract or otherwise) of a person, corporation or other entity.

(b) "Board of Directors" means the Board of Directors of the Corporation.

(c) "Common Stock" means (i) shares of Class A Common Stock, or (ii) shares of Class B Common Stock. "Class A Common Stock" means the Corporation's Class A Common Stock, par value $.01 per share. "Class B Common Stock" means the Corporation's Class B Common Stock, par value $.01 per share.

(d) "Conversion Base Price" means:

(i) Until consummation of an Initial Public Offering, the Initial Conversion Base Price;

(ii) From the date of consummation of an Initial Public Offering until the date which is the last day of the sixth full calendar month thereafter, the LESSER of (x) Initial Conversion Base Price per share of Common Stock, or (y) the Initial Public Offering Price.

(iii) From the first day of the seventh full calendar month following consummation of an Initial Public Offering until the last day of the twelfth full calendar month after such consummation, the price calculated under subparagraph (ii) above PLUS $.50.

(iv) From the first day of the thirteenth full calendar month following consummation of an Initial Public Offering until the last day of the eighteenth full calendar month after such consummation, the price calculated under subparagraph (ii) above PLUS $1.00.

(e) "Conversion Price" means:

(i) From the date of original issuance of the Series D Preferred Stock until the last day of the eighteenth full calendar month following consummation of an Initial Public Offering, the Conversion Base Price.

(ii) From and after the first day of the nineteenth full calendar month following consummation of an Initial Public Offering, the Market Price.

(f) "Dividend Rate" shall mean an annual rate (expressed in dollars or portions thereof) as shall be determined from time to time by the Board of Directors at the time of issuance of any shares of Series D Preferred Stock. The Dividend Rate applicable to any shares of Series D Preferred Stock shall be recorded in the minutes of the Board of Directors at which such shares are authorized to be issued, and shall be conclusively evidenced (absent manifest error) by a notation to such effect on the face of each certificate representing such shares.

(g) "Initial Conversion Base Price" means an amount (expressed in dollars or portions thereof) as shall be determined from time to time by the Board of Directors at the time of issuance of any shares of Series D Preferred Stock. The Initial Conversion Base Price applicable to any shares of Series D Preferred Stock shall be recorded in the minutes of the Board of Directors at which such shares are authorized to be issued, and shall be conclusively evidenced (absent manifest error) by a notation to such effect on the face of each certificate representing such shares.

(h) "Initial Public Offering" means (i) an underwritten public offering of either Class A Common Stock or Class B Common Stock by the Corporation for cash pursuant to a registration statement filed under the Securities Act (other than any registration statement relating solely to warrants, options or shares of capital stock of the Corporation granted or to be granted or sold primarily to employees, directors, or officers of the Corporation, a registration statement filed pursuant to Rule 145 under the Securities Act or any successor rule, a registration statement relating solely to employee benefit plans or interests therein or any registration statement covering only securities issued in connection with any debt financing of the Corporation, or any combination of the foregoing), or (ii) the consummation of a consolidation of the Corporation with or the merger of the Corporation with or into any other corporation or other business entity, as a consequence of which the holders of the Common Stock immediately prior thereto receive shares of common stock of the survivor that are covered by a registration statement filed under the Securities Act.

(i) "Initial Public Offering Price" means the gross price per share of Common Stock offered by the Corporation to the public in an Initial Public Offering, or in the case of a merger or consolidation the price per share at which the Corporation's Common Stock is valued in accordance with the applicable plan or agreement of merger or consolidation, in either event without regard to underwriters discounts or commissions, or other expenses of the Initial Public Offering.

(j) "Market Price" means the average Trading Price of a share of Common Stock for the ten trading days of the Common Stock preceding the date of delivery of a written conversion notice under Section 5(c).

(k) The term "outstanding", when used with reference to shares of capital stock, shall mean issued shares, excluding shares held by the Corporation or a subsidiary of the Corporation.

(l) "Parity Stock" means the Corporation's Series B Preferred Stock, $.01 par value, the Corporation's Series E Preferred Stock, $.01 par value, and any other class or series of the Corporation's stock (other than Common Stock) which by its terms is neither subordinate nor superior to or in preference of the Series D Preferred Stock in any distribution of the Corporation's assets in connection with the liquidation, dissolution or winding up of the affairs of the Corporation.

(m) "Preferred Stock" means shares of any series of the Corporation's Preferred Stock, $.01 par value per share.

(n) "Securities Act" means the Securities Act of 1933, as amended.

(o) "Senior Stock" means the Corporation's Series A Preferred Stock, $.01 par value, Series C Preferred Stock, $.01 par value, or any other class or series of the Corporation's capital stock which by its terms is in preference to the Series D Preferred Stock in any distribution of the Corporation's assets in connection with the liquidation, dissolution or winding up of the affairs of the Corporation.

(p) "Series D Preferred Stock" means the series of Preferred Stock designated by the Corporation as its Series D Preferred Stock, $.01 par value per share.

(q) "Trading Price" means, on any trading day for the Common Stock, (i) if the Common Stock is traded on a national securities exchange on such trading day, then the closing price on such trading day as reflected in the consolidated trading tables of the WALL STREET JOURNAL or any other appropriate publication, (ii) if the Common Stock is traded over-the-counter and reported on

the NASDAQ National Market System, then the average of the high and low sales prices on such trading day as reported in such publication or, if not so published, then as reported by the NASDAQ National Market System, or (iii) if the Common Stock is not traded on a national securities exchange or in the NASDAQ National Market System on such trading day, then the representative bid and asked prices at the end of such trading day in such market as reported by NASDAQ.

(r) All accounting terms used herein and not expressly defined herein shall have the meanings given to them in accordance with generally accepted accounting principles consistently applied and in effect as of the date of the relevant calculation.

21. DIVIDENDS.

(a) SERIES D PREFERRED STOCK. The holders of Series D Preferred Stock, in preference to the holders of Common Stock, shall be entitled to receive, but only out of any funds legally available for the declaration of dividends, cumulative, preferential dividends in cash at an annual rate equal to the Dividend Rate, payable quarter-annually on or before the last calendar day of each March, June, September and December in each year in which the Series D Preferred Stock is outstanding. Such dividends shall commence to accrue on the shares of Series D Preferred Stock and be cumulative from and after the date of issuance of such shares of Series D Preferred Stock and shall be deemed to accumulate and accrue from day to day thereafter. So long as any shares of Series D Preferred Stock remain outstanding, no dividends or distributions (other than dividends or distributions on Common Stock payable in Common Stock) shall be paid upon, or declared or set apart for, the Common Stock, nor shall any Common Stock (other than Common Stock acquired in exchange for, or out of cash proceeds of, the issue of other Common Stock or out of cash contributions to the capital of the Corporation) be purchased, redeemed, retired or otherwise acquired by the Corporation, unless and until in either case all past due, cumulative dividends on the then outstanding shares of Series D Preferred Stock for all past dividend periods shall have been or concurrently shall be paid.

(b) OTHER STOCK. Subject to paragraph (a) above, (i) dividends may be declared and paid on the Common Stock and any other class or series of the Corporation's capital stock, and (ii) Common Stock or such other capital stock may be purchased, retired or otherwise acquired, when and as determined by the Board of Directors, out of any funds legally available for such purposes.

22. REDEMPTION.

(a) MANDATORY REDEMPTION. On December 31, 2001, the Corporation shall redeem all of the shares of Series D Preferred Stock then outstanding (subject, however, to the right of the holders of the Series D Preferred Stock to

convert their shares pursuant to Section 5 by providing the written conversion notice referred to in Section 5(c) below on or before November 30, 2001), at a redemption price of $1.00 per share, together with all accrued and unpaid dividends through the effective date of redemption.

(b) OPTIONAL REDEMPTION. At any time during the period commencing on the second anniversary of the date of consummation of an Initial Public Offering and ending on December 31, 2001 (the "Optional Redemption Period"), the Corporation, at the option of the Board of Directors, may redeem from the holders of Series D Preferred Stock, at a redemption price of $1.00 per share, together with accrued and unpaid dividends thereon to the date fixed for redemption, all or any portion of the shares of Series D Preferred Stock outstanding on such date. Written notice of such redemption of the shares of Series D Preferred Stock to be so redeemed, which shall include a certification of an executive officer of the Corporation that the Corporation is ready, willing and able (financially and otherwise) to effect such redemption, shall be mailed, postage prepaid, to the holders of record of the shares to be so redeemed at their respective addresses then appearing on the books of the Corporation, not less than 45 nor more than 75 days prior to the date designated for such redemption, which shall occur during the Optional Redemption Period. In case less than all of the outstanding shares of Series D Preferred Stock are to be redeemed, the Corporation's notice shall so state and such redemption shall be made on or pro rata basis in accordance with each holder's respective holdings of Series D Preferred Stock. Such redemption by the Corporation shall be subject, however, to the right of each such holder to convert such holder's shares of Series D Preferred Stock into Class B Common Stock or Class A Common Stock (as the case may be) pursuant to Section 5 by delivering the written conversion notice referred to in Section 5(c) at least 15 days prior to the date fixed for redemption.

(c) GENERAL. From and after the effective date of redemption and the setting aside of the funds necessary for redemption, notwithstanding that any certificate for shares of Series D Preferred Stock so called for redemption shall not have been surrendered for cancellation, the shares to be redeemed shall no longer be deemed outstanding, and the holders of certificates representing such shares shall have with respect to such shares no rights in or with respect to the Corporation except the right to receive, upon the surrender of such certificates, the redemption price therefor. Shares of Series D Preferred Stock redeemed by the Corporation pursuant to this Section 3, or shares of Series D Preferred Stock otherwise purchased by the Corporation, shall not be reissued and shall be cancelled and retired in the manner provided by the laws of the State of Delaware, and no other shares of Series D Preferred Stock shall be issued in lieu thereof.

23. PREFERENCE ON LIQUIDATION, DISSOLUTION OR WINDING UP.

(a) DEFINITION. A consolidation or merger of the Corporation, a sale or transfer of substantially all of its assets as an entirety, or any purchase or redemption of capital stock of the Corporation of any class, shall not be regarded as "liquidation, dissolution or winding up of the affairs of the Corporation" within the meaning of this Section 4.

(b) SERIES D PREFERRED STOCK. During any proceedings for the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of the Series D Preferred Stock shall be entitled to receive, before any distribution of the assets of the Corporation shall be made in respect of the outstanding Common Stock, PARI PASSU with any distribution of assets to the holders of outstanding Parity Stock but subject to any distribution to the holders of the Senior Stock, an amount in cash for each share of Series D Preferred Stock equal to $1.00 together with all accrued and unpaid dividend through the effective date of such liquidation, dissolution or winding up, or funds necessary for such payment shall have been set aside in trust for the account of the holders of the outstanding Series D Preferred Stock so as to be and continue available therefor. If upon such liquidation, dissolution or winding up, the assets distributable to the holders of the Series D Preferred Stock as aforesaid shall be insufficient to permit the payment to them (together with any distributions to the holders of Parity Stock) of $1.00 per share (plus such accrued and unpaid dividends), the assets of the Corporation shall be distributed to the holders of the Series D Preferred Stock and the Parity Stock ratably until they shall have received the full amount to which they would otherwise be entitled but subject to any distribution of the assets of the Corporation in respect of the Senior Stock. If the assets of the Corporation are sufficient to permit the payment of such amounts to the holders of the Series D Preferred Stock and the Parity Stock, the remainder of the assets of the Corporation, if any, after the distributions as aforesaid shall be distributed and divided ratably among the holders of the Common Stock then outstanding according to their respective shares. In calculating any amount distributable to the holders of the Series D Preferred Stock as aforesaid, there shall be credited against such amount any sums distributed or payable to such holders other than pursuant to the terms hereof, whether under any letter of credit, security or other similar right or interest.

24. CONVERSION. The Series D Preferred Stock shall be convertible into Common Stock in accordance with the following provisions of this Section 5.

(a) OPTIONAL CONVERSION. Subject to and upon compliance with the provisions of this Section 5, each holder of shares of Series D Preferred Stock shall have the right at such holder's option, at any time or from time to time, from and after the date of original issuance to convert all or any part of his shares of Series D Preferred Stock into fully paid and nonassessable shares of Class B Common Stock, provided however, that shares of Series D Preferred Stock issued

after the effective date of the Registration Statement filed in connection with an Initial Public Offering shall be convertible only into shares of Class A Common Stock, at the Conversion Price in effect on the Conversion Date, upon the terms hereinafter set forth. In any event, after December 31, 2001, shares of Series D Preferred Stock will be convertible only into shares of Class A Common Stock.

(b) CONVERSION PRICE. The shares of Series D Preferred Stock to be converted shall be convertible into the number of shares of Common Stock as is determined by multiplying the number of shares of Series D Preferred Stock to be converted by a fraction, the numerator of which is $1.00 and the denominator of which is the Conversion Price in effect on the Conversion Date.

(c) MECHANICS OF CONVERSION. The holder of any shares of Series D Preferred Stock may exercise the optional conversion right specified in paragraph (a) above by surrendering to the Corporation or any transfer agent of the Corporation the certificate or certificates for the shares to be converted, accompanied by written notice stating that the holder elects to convert all or a specified portion of the shares represented thereby. Optional conversion under paragraph (a) shall be deemed to have been effected on the date when notice of an election to convert and certificates for the shares to be converted has been delivered; any such date is referred to herein as the "Conversion Date". As promptly as practicable thereafter the Corporation shall issue and deliver to or upon the written order of such holders a certificate or certificates for the number of full shares of Common Stock to which such holders are entitled rounded down to the next whole share as provided in paragraph (d) below. The person in whose name the certificate or certificates of Common Stock are to be issued shall be deemed to have become a holder of record of such Common Stock on the Conversion Date.

(d) FRACTIONAL SHARES. No fractional shares of Common Stock or scrip shall be issued upon conversion of shares of Series D Preferred Stock. Instead of any fractional shares of Common Stock which would otherwise be issuable upon conversion of any shares of Series D Preferred Stock, the number of full shares of Common Stock issuable upon conversion thereof shall be reduced to the next lowest number of whole shares, and the Corporation will pay a cash adjustment in respect of any surrendered shares of Series D Preferred Stock not converted into Common Stock in an amount equal to $1.00 per share of Series D Preferred Stock.

(e) CONVERSION BASE PRICE ADJUSTMENTS. The Conversion Base Price shall be subject to adjustment from time to time as follows:

(i) CERTAIN ISSUANCES OF EQUITY STOCK. If, at any time following issuance of any Series D Preferred Stock, the Corporation issues any Common Stock, or any security or evidence of indebtedness which is convertible or exercisable into or exchangeable for Common Stock, or any

warrant, option or other right to subscribe for or purchase Common Stock or any security or evidence of indebtedness which is convertible or exchangeable for Common Stock (hereinafter, "Equity Stock"), other than Excluded Stock (as defined in clause (D) below), for a consideration per share less than $4.50 per share, subject to adjustment for certain events including subdivisions and combinations of the Common Stock, (the "Base Price"), and if the Conversion Price is then based upon the Conversion Base Price, then the Conversion Base Price shall immediately be reduced to a price per share determined by multiplying the Conversion Base Price then in effect by a fraction, the numerator of which is an amount equal to the sum of (x) the number of shares of Equity Stock of the Corporation outstanding immediately prior to such issue or sale multiplied by the Base Price plus (y) the consideration, if any, received by the Corporation upon such issue or sale, and the denominator of which is the total number of shares of Equity Stock of the Corporation outstanding immediately after such issue or sale multiplied by the Base Price. The number of shares of Equity Stock outstanding at any given time for the purposes of the foregoing computation means the shares of Common Stock outstanding together with all shares of Common Stock issuable upon conversion or exercise of any such Equity Stock, excluding any shares of Common Stock previously outstanding that have been reacquired by the Corporation and constitute treasury shares.

For purposes of any adjustment of the Conversion Base Price pursuant to this subparagraph (i) of this Section 5(e), the following provisions shall be applicable:

(A) CASH. In the case of the issuance of Equity Stock for cash, the amount of the consideration received by the Corporation shall be deemed to be the amount of the cash proceeds received by the Corporation for such Equity Stock before deducting therefrom any discounts, commissions, taxes, legal and accounting fees or other expenses allowed, paid or incurred by the Corporation in connection with the issuance and sale thereof.

(B) CONSIDERATION OTHER THAN CASH. In the case of the issuance of Equity Stock (other than as described in clause (C) below) for a consideration in whole or in part other than cash, including securities acquired in exchange therefor (other than securities by their terms so exchangeable), the consideration other than cash shall be deemed to be the fair market value thereof as reasonably determined by the Board of Directors in good faith.

(C) OPTIONS AND CONVERTIBLE SECURITIES, ETC. In the case of the issuance of (i) options, warrants or other rights to purchase or acquire Common Stock or other Equity Stock (whether or not at the time exercisable), (ii) securities which by their terms are convertible or exercisable into or exchangeable for Common Stock or other Equity Stock (whether or not at the time so convertible, exercisable or exchangeable) or (iii) options, warrants or rights to purchase such convertible or exchangeable securities (whether or not at the time exercisable):

(1) the aggregate maximum number of shares of Common Stock deliverable upon exercise of such options, warrants or other rights to purchase or acquire Common Stock shall be deemed to have been issued at the time such options, warrants or rights were issued and for a consideration equal to the aggregate consideration (determined in the manner provided in clauses (A) and (B) above), if any, received by the Corporation upon the issuance of such options, warrants or rights plus the aggregate minimum purchase price provided in such options, warrants or rights for the Common Stock covered thereby;

(2) the aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities, or upon the exercise of options, warrants or other rights to purchase or acquire such convertible or exchangeable securities and the subsequent conversion or exchange thereof, shall be deemed to have been issued at the time such securities were issued or such options, warrants or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for any such securities and related options, warrants or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the Corporation upon the conversion or exchange of such securities and the exercise of any related options, warrants or rights (the consideration in each case to be determined in the manner provided in clauses (A) and (B) above);

(3) on any change in the number of shares of Common Stock deliverable upon exercise of any such options, warrants or rights or conversion of or exchange for

such convertible or exchangeable securities or any change in the consideration to be received by the Corporation upon such exercise, conversion or exchange, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Conversion Base Price as then in effect shall forthwith be readjusted to such Conversion Base Price as would have been obtained had an adjustment been made upon the issuance of such options, warrants or rights not exercised prior to such change, or securities not converted or exchanged prior to such change, on the basis of the terms of such options, warrants, rights or convertible or exchangeable securities as so changed;

(4) on the expiration or cancellation of any such options, warrants or rights, or the termination of the right to convert or exchange such convertible or exchangeable securities, if the Conversion Base Price shall have been adjusted upon the issuance thereof, the Conversion Base Price shall forthwith be readjusted to such Conversion Base Price as would have been obtained had an adjustment been made upon the issuance of such options, warrants, rights or securities on the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options, warrants or rights, or upon the conversion or exchange of such securities; and

(5) regardless of whether the Conversion Base Price shall have been adjusted upon the issuance of any such options, warrants, rights or convertible or exchangeable securities, no further adjustment of the Conversion Base Price shall be made for the actual issuance of Common Stock upon the exercise, conversion or exchange thereof;

PROVIDED, HOWEVER, that no adjustment pursuant to this clause (C) shall have the effect of increasing the Conversion Base Price above the Initial Conversion Base Price.

(D) EXCLUDED STOCK. For purposes hereof, "Excluded Stock" means shares of Common Stock issued or reserved for issuance by the Corporation (i) upon conversion of any Series A Preferred Stock or Series C Preferred Stock; (ii) pursuant to a stock dividend, subdivision or split-up covered by paragraph (ii) of this Section 5(e); (iii) to any one or more unaffiliated persons with

whom the Corporation or one or more of its subsidiaries effect a business combination (however structured), whether issued in shares of Common Stock or other securities convertible or exercisable into or exchangeable with the Common Stock and (iv) upon exercise of options issued to employees of the Corporation or its subsidiaries (other than employees who were the record holders of any Common Stock on December 31, 1993), provided that the exercise price thereof is not less than the fair market value per share of Common Stock determined in good faith by the Board of Directors at the time such options are granted.

(ii) STOCK DIVIDENDS. If the number of shares of Common Stock outstanding at any time after the issuance of any Series D Preferred Stock is increased by a stock dividend payable in shares of Common Stock or by a subdivision or split-up of shares of Common Stock, and if the Conversion Price then in effect is based upon the Conversion Base Price, then immediately after the record date fixed for the determination of holders of Common Stock entitled to receive such stock dividend or the effective date of such subdivision or split-up, as the case may be, the Conversion Base Price shall be appropriately decreased so that the holders of any shares of Series D Preferred Stock shall be entitled to receive the number of shares of Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series D Preferred Stock been converted immediately prior thereto.

(iii) COMBINATION OF STOCK. If the number of shares of Common Stock outstanding at any time after issuance of any class of Series D Preferred Stock is decreased by a combination of the outstanding shares of Common Stock, and if the Conversion Price then in effect is based upon the Conversion Base Price then, immediately after the effective date of such combination, the Conversion Base Price shall be appropriately increased so that the holders of any shares of Series D Preferred Stock shall be entitled to receive the number of shares of Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series D Preferred Stock been converted immediately prior thereto.

(iv) REORGANIZATIONS. In case of any capital reorganization of the Corporation, or of any reclassification of the Common Stock, or in case of the consolidation of the Corporation with or the merger of the Corporation with or into any other corporation, partnership or other business entity in which the Corporation is not the survivor, or of the sale, lease or other transfer of all or substantially all of the assets of the Corporation to any other corporation, partnership or other business entity, each share of Series

D Preferred Stock shall, after such capital reorganization, reclassification, consolidation, merger, sale or lease, be convertible into the number of shares of stock or other securities or property to which the Common Stock issuable (at the time of such capital reorganization, reclassification, consolidation, merger, sale or lease) upon conversion of such share of Series D Preferred Stock would have been entitled upon such capital reorganization, reclassification, consolidation, merger, sale or lease in place of (or in addition to, in the case of any such event after which Common Stock remains outstanding) the shares of Common Stock into which such share of Series D Preferred Stock would otherwise have been convertible; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the holders of the shares of Series D Preferred Stock shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any share of stock or other securities or property thereafter deliverable on the conversion of the shares of Series D Preferred Stock. The subdivision or combination of shares of Common Stock issuable upon conversion of shares of Series D Preferred Stock at any time outstanding into a greater or lesser number of shares of Common Stock (whether with or without par value) shall not be deemed to be a reclassification of the Common Stock of the Corporation for the purposes of this subparagraph (iv).

(v) ROUNDING OF CALCULATIONS; MINIMUM ADJUSTMENT. All calculations under this paragraph (e) shall be made to the nearest cent or to the nearest one hundredth (1/100th) of a share, as the case may be. Any provision of this paragraph (e) to the contrary notwithstanding, no adjustment in the Conversion Base Price shall be made if the amount of such adjustment would be less than $0.01, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate $0.01 or more.

(vi) TIMING OF ISSUANCE OF ADDITIONAL COMMON STOCK UPON CERTAIN ADJUSTMENTS. In any case in which the provisions of this paragraph (e) requires that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event issuing to the holder of any shares of Series D Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Common Stock or other property issuable or deliverable upon exercise by reason of the adjustment required by such event over and above the shares of Common Stock or other property issuable or deliverable upon such conversion before giving effect to such adjustment; PROVIDED, HOWEVER that the Corporation upon request shall

deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares or other property, and such cash, upon the occurrence of the event requiring such adjustment.

(f) STATEMENT REGARDING ADJUSTMENTS. Whenever the Conversion Base Price shall be adjusted as provided in paragraph (e), the Corporation shall forthwith file, at the office of any transfer agent for the Series D Preferred Stock and at the principal office of the Corporation, a statement showing in detail the facts requiring such adjustment and the Conversion Base Price that shall be in effect after such adjustment, and the Corporation shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each holder of the Series D Preferred Stock at his or its address appearing on the Corporation's records. Each such statement shall be signed by the Corporation's chief financial officer. Where appropriate, such copy may be given in advance and may be included as part of a notice required to be mailed under the provisions of subparagraph (g) below.

(g) NOTICE TO HOLDERS. In the event the Corporation proposes to take any action of the type described in subparagraph (i), (ii), (iii) or (iv) of paragraph (e) above, the Corporation shall give notice to each holder of the Series D Preferred Stock in the manner set forth in subparagraph (f) above, which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth such facts with respect thereto as shall be reasonably necessary to indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Conversion Base Price and the number, kind or class of shares or other securities or property which shall be deliverable or purchasable upon the occurrence of such action or deliverable upon conversion of the Series D Preferred Stock. In the case of any action which would require the fixing of a record date, such notice shall be given at least 10 days prior to the date so fixed, and in case of all other action, such notice shall be given at least 15 days prior to the taking of such proposed action.

(h) COSTS. The Corporation shall pay all documentary, stamp, transfer or other transactional taxes attributable to the issuance or delivery of shares of Common Stock of the Corporation or other securities or property upon conversion of the shares of Series D Preferred Stock; PROVIDED, HOWEVER, that the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares or securities in the name other than that of the holder of the shares of Series D Preferred Stock in respect of which such shares are being issued.

(i) RESERVATION OF SHARES. The Corporation shall reserve at all times so long as any shares of Series D Preferred Stock remain outstanding, free from

preemptive rights, out of its treasury stock or its authorized but unissued shares of Common Stock, or both, solely for the purpose of effecting the conversion of shares of Series D Preferred Stock, sufficient shares of Common Stock to provide for the conversion of all outstanding shares of Series D Preferred Stock and set aside and keep available any other property deliverable upon conversion of all outstanding shares of Series D Preferred Stock.

(j) APPROVALS. If any shares of Common Stock or other securities to be reserved for the purpose of conversion of shares of Series D Preferred Stock require registration with or approval of any governmental authority under any Federal or state law before such shares or other securities may be validly issued or delivered upon conversion, then the Corporation will in good faith and as expeditiously as possible use its commercially reasonable efforts to secure such registration or approval, as the case may be. The foregoing does not include registration of such shares under the Securities Act or state securities laws, except to the extent and in the manner described in Section 8.

(k) VALID ISSUANCE. All shares of Common Stock or other securities which may be issued upon conversion of the shares of Series D Preferred Stock will upon issuance by the Corporation be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issuance thereof and the Corporation shall take no action which will cause a contrary result.

25. VOTING RIGHTS.

(a) GENERAL. At any annual or special meeting of shareholders or otherwise in respect of any matter submitted for the vote of shareholders generally, the holders of the Series D Preferred Stock shall be entitled to such number of votes (or fractions thereof) as shall be determined by (i) multiplying (1) vote for each share of Series D Preferred Stock held by a fraction, the numerator of which is $1.00 and the denominator of which is the Conversion Price in effect on the record date for determining shareholders entitled to vote on such matter; and (ii) dividing the resulting product by twenty (20).

(b) SPECIAL VOTING REQUIREMENTS. Without limiting the generality of paragraph (a) above, the Corporation shall not, without the consent of the holders of at least a majority of the outstanding shares of Series D Preferred Stock, voting together as a single class, amend, alter or repeal any provision of the Corporation's Certificate of Incorporation or Bylaws or this Certificate of Designation, in any event so as to adversely affect the rights or powers of any of the Series D Preferred Stock as provided herein. As to any record holder of Series D Preferred Stock, the Corporation will not, without the consent of such holder, alter or amend the Initial Conversion Base Price applicable to the Series D Preferred Stock held

by such holder, the Dividend Rate applicable to the Series D Preferred Stock held by such holder, or the date on which such holder's Series D Preferred Stock is required to be redeemed under Section 3(a).

26. REGISTRATION RIGHTS. Subject to paragraph (h) below and the other provisions of this Section 8, the holders of the Series D Preferred Stock shall be entitled to have their respective shares of Class A Common Stock, issuable upon conversion of their Series D Preferred Stock into Class B Common Stock and subsequently converted into shares of Class A Common Stock, included in any registration of Class A Common Stock under the Securities Act proposed by the Corporation.

(a) INCIDENTAL RIGHTS. If at any time or from time to time the Corporation proposes to file with the Securities and Exchange Commission (the "Commission") a registration statement (whether on Form S-1, S-2 or S-3 or any equivalent form then in effect) for the registration under the Securities Act of any shares of Class A Common Stock for sale to the public by the Corporation or on behalf of a shareholder of the Corporation for cash (excluding any shares of Class A Common Stock issuable by the Corporation upon the exercise of employee or director stock options or in connection with the merger or consolidation of the Corporation or one of its subsidiaries with one or more other corporations if the Corporation is the surviving corporation), the Corporation shall give each holder of the Series D Preferred Stock at least 30 days' prior written notice of the filing of the proposed registration statement. The notice shall include a list of the states and foreign jurisdictions, if any, in which the Corporation intends to qualify such shares, and shall also include the Corporation's estimate of the range of the offering price per share of Class A Common Stock. On the written request of any holder of the Series D Preferred Stock received by the Corporation within 15 days after the date of the Corporation's notice, the Corporation shall, subject to the conditions and in accordance with the procedures set forth in paragraphs (b) and (c) below, and at its own expense as provided in paragraph (e) below, include in the coverage of such registration statement and qualify for sale under the blue sky or securities laws of the various states, the number of shares (but not less than 5,000 shares, subject to adjustment to give effect to any stock dividends, splits or combinations, recapitalizations or other similar corporate events) of Class A Common Stock (herein called the "Specified Shares") held and so requested to be registered by each such holder; provided that if the managing underwriter for the Corporation indicates its belief in writing that the effect of including in the coverage of such registration statement all or part of the Specified Shares and the shares of Class A Common Stock requested to be so included by other stockholders having contractual registration rights ("Other Requesting Stockholders") will materially and adversely affect the sale of the shares of Class A Common Stock proposed to be sold by the Corporation (which statement of the managing underwriter shall also state the maximum number of shares (herein called the "Maximum Shares"), if any, which can be sold by such all such holders

without materially and adversely affecting the sale of the shares proposed to be sold by the Corporation), then the number of Specified Shares which the holders of the Series D Preferred Stock and the Other Requesting Stockholders shall collectively have the right to include in such registration statement shall be reduced to the number of Maximum Shares set forth in such statement of the managing underwriter, such reduction to be effected on a pro rata basis in accordance with the number of all such shares requested to be so registered by the holders of the Series D Preferred Stock and the Other Requesting Stockholders.

Except as provided in paragraph (c) below, in no event shall the Corporation be required to amend any registration statement filed pursuant to this Section 8 after it has become effective or to amend or supplement any prospectus to permit the continued disposition of shares of Class A Common Stock registered under any registration statement.

The Corporation shall have the right to select any underwriters, including the managing underwriter, of any public offering of shares of Class A Common Stock subject to the provisions of this paragraph (a). Nothing in this paragraph (a) shall create any liability on the part of the Corporation to the holders of the Series D Preferred Stock if the Corporation for any reason should decide not to file such a registration statement.

The Corporation may withdraw any registration statement and abandon any proposed offering initiated by the Corporation without the consent of any holder of the Series D Preferred Stock, notwithstanding the request of any such holder to participate therein in accordance with this paragraph (a), if the Corporation determines that such action is in the best interests of the Corporation.

(b) CERTAIN REGISTRATION CONDITIONS. Any holder of Series D Preferred Stock requesting registration of Class A Common Stock into which such holder's Series D Preferred Stock is convertible, following conversion into Class B Common Stock, pursuant to paragraph (a) of this Section 8 is hereafter referred to as a "Selling Stockholder." Anything in this Agreement to the contrary notwithstanding, the Corporation shall not be required to effect a registration of any Class A Common Stock of any Selling Stockholder pursuant to paragraph (a) of this Section 8, or file any post-effective amendment thereto:

(i) unless such Selling Stockholder agrees (x) to sell and distribute a portion or all of his Class A Common Stock in accordance with the customary plan or plans of distribution adopted by and through underwriters, if any, acting for the Corporation, and (y) to bear a pro rata share of underwriter's discounts and commissions;

(ii) unless the Corporation and the underwriters for the Corporation shall have received from such Selling Stockholder all such information as the Corporation and such underwriters may reasonably request from him concerning such Selling Stockholder to enable the Corporation to include in the registration statement all material facts required to be disclosed therein. Notwithstanding the foregoing, a Selling Stockholder shall not be required to furnish to the Corporation any personal financial information of such Selling Stockholder unrelated to his holdings of Class A Common Stock, Series D Preferred Stock or other securities of the Corporation held by him, provided that each Selling Stockholder shall nonetheless be required to furnish all information reasonably requested by any such underwriter;

(iii) unless such Selling Stockholder is then entitled to convert his shares of Series D Preferred Stock into Class B Common Stock and subsequently convert into Class A Common Stock and such Selling Stockholder in fact delivers the notice to elect to convert the Series D Preferred Stock into Class B Common Stock with a subsequent conversion into Class A Common Stock prior to or contemporaneously with the notice of such Selling Stockholder under paragraph (a) hereof; and

(iv) unless such Selling Stockholder, at the request of the Corporation or its managing underwriter, agrees or acknowledges that such Selling Stockholder (x) has a present intention to sell such shares; (y) agrees to execute all consents, powers of attorney, registration statements and other documents required in order to cause such registration statement to become effective; and (z) agrees, if the offering is at the market, to give the Corporation written notice of the first bona fide offering of such shares and to use the prospectus forming a part of such registration statement for only a period of 90 days (or such longer period provided for in paragraph (c) below) unless such registration statement is on a form that complies with Rule 415.

(c) COVENANTS AND PROCEDURES. If the Corporation becomes obligated under the provisions of paragraph (a) of this Section 8 to effect registration of shares of Class A Common Stock on behalf of any Selling Stockholder, the following shall apply:

(i) The Corporation, at its own expense as provided in paragraph (e), shall prepare and file with the Commission a registration statement covering such shares of Class A Common Stock and use its best efforts to cause such registration statement to become effective; and the Corporation will file such post-effective amendments to such registration statement (and use its best efforts to cause them to become effective) and

such supplements as are necessary so that current prospectuses are at all times available for a period of at least 90 days after the effective date of such registration statement or for such longer period, not to exceed 180 days, as may be required by the Corporation or the managing underwriter under the plan or plans of distribution set forth in such registration statement. Each Selling Stockholder shall promptly provide the Corporation with such information with respect to such Selling Stockholder's shares of Class A Common Stock to be so registered and, if applicable, the proposed terms of the offering thereof as is required for such registration. Further, if the shares of Class A Common Stock to be covered by the registration statement are not to be sold to or through underwriters acting for the Corporation, the Corporation shall (x) deliver to each Selling Stockholder as promptly as practicable as many copies of preliminary prospectuses as such Selling Stockholder may reasonably request, and such Selling Stockholder shall keep a written record of the distribution of such preliminary prospectuses and shall refrain from delivery of such preliminary prospectuses in any manner or under any circumstances which would violate the Securities Act or the securities laws of any other jurisdiction, including the various states of the United States, (y) deliver to each Selling Stockholder, as soon as practicable after the effective date of the registration statement, and from time to time thereafter during such 90-day period, or such longer period as is herein provided, as many copies of the prospectuses required to be delivered in connection with the sale of shares of Class A Common Stock registered under the registration statement as such Selling Stockholder may reasonably request, and (z) in case of the happening, after the effective date of such registration statement and during such 90-day period (or such longer period specified above), of any event or occurrence which would be set forth in an amendment of or supplement to such prospectus to make any statements therein not misleading or to correct any misleading omissions, give each Selling Stockholder written notice thereof and prepare and furnish to such Selling Stockholder, in such quantities as he may reasonably request, copies of such amended prospectus or of such supplement to be attached to the prospectus in order that the prospectus, as so amended or supplemented, will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(ii) On or prior to the date on which the registration statement is declared effective, the Corporation shall use its best efforts to register or qualify, and cooperate with each Selling Stockholder, the underwriter or underwriters, if any, and their counsel, in connection with the registration or qualification of the Class A Common Stock covered by the

registration statement for offer and sale under the securities or blue sky laws of each state and other jurisdiction of the United States as such Selling Stockholder or underwriter reasonably requests, to use its best efforts to keep each such registration or qualification effective, including through new filings, or amendments or renewals, during the period such registration statement is required to be kept effective and to do any and all other acts or things necessary or advisable to enable the disposition in all such jurisdictions of the Class A Common Stock covered by the applicable registration statement; provided that the Corporation will not be required to qualify generally to do business in any jurisdiction where it is not then so qualified.

(iii) The Corporation shall use its best efforts to cause all of each Selling Stockholder's Class A Common Stock included in such registration statement to be listed, by the date of the first sale of such Class A Common Stock pursuant to such registration statement, on each securities exchange on which the Class A Common Stock of the Corporation is then listed or proposed to be listed, if any.

(iv) The Corporation shall make generally available to each Selling Stockholder and any underwriter participating in the offering conducted pursuant to the registration statement an earnings statement satisfying the provisions of Section 11(a) of the Securities Act no later than 45 days after the end of the 12-month period beginning with the first day of the Corporation's first fiscal quarter commencing after the effective date of the registration statement, which earnings statement shall cover said 12-month period, which requirement will be deemed to be satisfied if the Corporation timely files complete and accurate information on Forms 10- Q, 10-K, and 8-K under the Securities Exchange Act of 1934, as amended, and otherwise complies with Rule 158 under the Securities Act as soon as feasible.

(v) The Corporation shall cooperate with each Selling Stockholder and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legends) representing Class A Common Stock to be sold under the registration statement, and enable such securities to be in such denominations and registered in such names as the managing underwriter or underwriters, if any, or such Selling Stockholder may request, subject to the underwriters' obligation to return any certificates representing securities not sold.

(vi) The Corporation shall use its best efforts to cause each Selling Stockholder's Class A Common Stock covered by the registration

statement to be registered with or approved by such other governmental agencies or authorities within the United States as may be necessary to enable such Selling Stockholder or the underwriter or underwriters, if any, to consummate the disposition of such Class A Common Stock.

(vii) The Corporation shall make available for inspection by each Selling Stockholder, any underwriter participating in any disposition pursuant to such registration statement, and any attorney, accountant or other agent retained by such Selling Stockholder or any such underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of the Corporation, as shall be reasonably necessary to enable them to exercise their due diligence, responsibility, and cause the Corporation's officers, directors and employees to supply all nonconfidential information reasonably requested by any such Inspector in connection with such registration statement. As a condition to providing such access, the Corporation may require that any and all Inspectors execute and deliver confidentiality agreements, in form and substance acceptable to the Corporation, and that confidentiality procedures be observed, all with respect to such information.

(viii) The Corporation shall use its best efforts to obtain a "cold comfort" letter from the Corporation's independent public accountants, and an opinion of counsel for the Corporation, each in customary form and covering such matters of the type customarily covered by cold comfort letters and opinions of counsel in connection with public offerings of securities, as each Selling Stockholder reasonably requests.

(d) INDEMNIFICATION.

(i) INDEMNIFICATION BY THE CORPORATION. In the event of any registration under the Securities Act pursuant to this Section 8 of shares of Class A Common Stock held by any Selling Stockholder, the Corporation will hold harmless each Selling Stockholder and each underwriter of such securities and each other person, if any, who controls each Selling Stockholder or such underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities (including legal fees and costs of court), joint or several, to which such Selling Stockholder or such underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any registration statement under which such securities were registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any amendment or

supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; and will reimburse each Selling Stockholder and each such underwriter and each such controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage or liability; provided, however, that the Corporation shall not be liable to any Selling Stockholder or his underwriters or controlling persons in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, preliminary prospectus or final prospectus or such amendment or supplement in reliance upon and in conformity with information furnished to the Corporation through a written instrument duly executed by such Selling Stockholder or such underwriter specifically for use in the preparation thereof.

(ii) INDEMNIFICATION BY SELLING STOCK-HOLDERS. It shall be a condition precedent to the obligation of the Corporation to include in any registration statement any shares of Class A Common Stock then held by a Selling Stockholder that the Corporation shall have received an undertaking reasonably satisfactory to it and its counsel from such Selling Stockholder to severally indemnify and hold harmless (in the same manner and to the same extent as set forth in subparagraph (i) above) the Corporation, each director of the Corporation, each officer of the Corporation who shall sign such registration statement, each underwriter of such securities and any person who controls the Corporation or such underwriter within the meaning of the Securities Act, with respect to any statement or omission from such registration statement, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, if such statement or omission was made in reliance upon and in conformity with information furnished to the Corporation through a written instrument duly executed by such Selling Stockholder specifically for use in the preparation of such registration statement, preliminary prospectus or final prospectus or such amendment or supplement thereto.

(iii) INDEMNIFICATION PROCEDURES. Promptly after receipt by an indemnified party of notice of the commencement of any action involving a claim referred to in the preceding subparagraphs (i) and (ii), such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the indemnifying party of the commencement of such action. In case any such action is brought against an indemnified party, the indemnifying party will be entitled to participate in and to assume the defense thereof, with counsel reasonably satisfactory

to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, and provided that the indemnifying party in fact assumes such defense, the indemnifying party will not be liable to such indemnified party for any legal or other expenses incurred after the date of such notice by the latter in connection with the defense thereof. Whether or not such defense is assumed by the indemnifying party, the indemnifying party will not be subject to any liability for any settlement made without its consent. No indemnifying party will consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation.

(iv) CONTRIBUTION. If the indemnification provided for in this paragraph (d) from the indemnifying party is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified parties in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified parties shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or a material omission, has been made by, or relates to information supplied by, such indemnifying party or indemnified parties, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. For purposes of the foregoing, it would not be just and equitable if contribution pursuant to this paragraph (d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this subparagraph (iv), no Selling Stockholder shall be required to contribute any amount in excess of the amount by which the total price at which the Class A Common Stock of such Selling Stockholder was offered to the public exceeds the amount of any damages which such Selling Stockholder has otherwise been required to pay by reason of such untrue statement or omission. No person guilty of fraudulent misrepresentation

(within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) EXPENSES. All expenses incurred by the Corporation in connection with any registration statement covering shares of Class A Common Stock offered by the Selling Stockholders, including, without limitation, all registration and filing fees (including all expenses incident to filing with the National Association of Securities Dealers, Inc.), printing expenses, fees and disbursements of counsel for the Corporation and of its independent certified public accountants, the reasonable fees and disbursements of one counsel for collectively all Selling Stockholders and Other Requesting Stockholders whose stock is included in such registration, and the expense of qualifying such shares under state blue sky laws, shall be borne by the Corporation; provided, however, that all underwriter's discounts and commissions relating to the shares of Class A Common Stock to be sold by the Selling Stockholders shall be borne by the Selling Stockholders.

(f) DISPOSITIONS DURING REGISTRATION. Upon written request by the Corporation, the Selling Stockholders will agree, upon the registration of any of each such Selling Stockholder's shares of Class A Common Stock or the Class A Common Stock issued by the Corporation, not to sell or otherwise dispose of any shares of Stock (other than Class A Common Stock covered by such registration, which may be sold in accordance with the plan or plans of distribution described in the registration statement) owned by each such Selling Stockholder for a period of 90 days following the effective date of such registration statement, or for such longer period (not to exceed 180 days) as may be required under the plan or plans of distribution set forth in such registration statement. Each holder of the Series D Preferred Stock shall comply with the foregoing requirements even if his Class A Common Stock issuable upon the conversion thereof is not being included in such registration, if (i) at such time such holder (together with his Affiliates) owns five percent (5%) or more of the fully diluted Class A Common Stock and (ii) other holders of five percent or more of the fully diluted Class A Common Stock are similarly bound.

(g) RIGHTS TRANSFERABLE. The foregoing registration rights and benefits set forth in this Section 8, including indemnification by the Corporation, shall be transferable by each holder of the Series D Preferred Stock in connection with the transfer by any such holder of Series D Preferred Stock convertible into not less than 10,000 shares (subject to adjustment to give effect to any stock dividends, splits or combinations, recapitalization or other similar corporate events) of Class A Common Stock, otherwise than pursuant to a registration statement of the Corporation in connection with a public offering of Class A Common Stock.

(h) TERM OF REGISTRATION RIGHTS. The registration rights granted pursuant to this Section 8 shall be effective for a period commencing upon the date of original issuance thereof and ending on (i) as to any holder of Series D Preferred Stock, upon either (A) such holder's written consent, (B) the date such holder holds, together with such holder's Affiliates, less than 10,000 shares (subject to adjustment as described in paragraph (g) above) of Class A Common Stock determined on a fully diluted basis, or (c) the date such holder is able to dispose of all shares of Class A Common Stock that such holder may acquire upon conversion of the Series D Preferred Stock within a single three-month period under Rule 144 promulgated under the Securities Act; and (ii) as to all holders of the Series D Preferred Stock, on December 31, 2005.

27. PERIODIC REPORTING. If the Corporation becomes subject to the periodic reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, while any shares of Series D Preferred Stock are outstanding, the Corporation shall provide to each record holder of the Series D Preferred Stock a copy of each report filed or delivered pursuant to said Section 13 or 15(d), to substantially the same extent, in substantially the same manner and at substantially the same times as such reports are delivered to the holders of the Corporation's Class A Common Stock.

28. EXCLUSION OF OTHER RIGHTS. Unless otherwise required by law, the shares of Series D Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights other than those specifically set forth herein.

CERTIFICATE OF ELIMINATION

OF

SERIES A 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 by unanimous written consent dated October __, 1996, duly 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 A Preferred Stock ("Series A Preferred Stock"), consisting of up to 7,000,000 shares, pursuant to the Certificate of Designation, Preferences, Rights and Limitations filed with the Secretary of State of Delaware on January 14, 1994, as amended and restated in the form attached as Exhibit A to the Corporation's Amended and Restated Certificate of Incorporation filed with the Secretary of State of Delaware on July 3, 1996 (as so amended and restated, the "Series A Certificate of Designation"); and

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

NOW, THEREFORE, BE IT RESOLVED, that no shares of Series A 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 A 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 President, as of the _____ day of October, 1996.

CARRIAGE SERVICES, INC.

By: _____
MELVIN C. PAYNE, President

CERTIFICATE OF ELIMINATION

OF

SERIES B 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 by unanimous written consent dated October __, 1996, duly 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 B Preferred Stock ("Series B Preferred Stock"), consisting of up to 2,500,000 shares, pursuant to the Certificate of Designation, Preferences, Rights and Limitations filed with the Secretary of State of Delaware on October 26, 1994, as amended and restated (and in connection with which the number of shares authorized thereunder was decreased to 1,000,000 shares of Series B Preferred Stock) in the form attached as Exhibit B to the Corporation's Amended and Restated Certificate of Incorporation filed with the Secretary of State of Delaware on July 3, 1996 (as so amended and restated, the "Series B Certificate of Designation"); and

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

NOW, THEREFORE, BE IT RESOLVED, that no shares of Series B 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 B 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 President, as of the _____ day of October, 1996.

CARRIAGE SERVICES, INC.

By: _____
MELVIN C. PAYNE, President

CERTIFICATE OF ELIMINATION

OF

SERIES C 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 by unanimous written consent dated October __, 1996, duly 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 C Preferred Stock ("Series C Preferred Stock"), consisting of up to 8,500,000 shares, pursuant to the Certificate of Designation, Preferences, Rights and Limitations filed with the Secretary of State of Delaware on September 7, 1995, as amended and restated in the form attached as Exhibit C to the Corporation's Amended and Restated Certificate of Incorporation filed with the Secretary of State of Delaware on July 3, 1996 (as so amended and restated, the "Series C Certificate of Designation"); and

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

NOW, THEREFORE, BE IT RESOLVED, that no shares of Series C 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 C 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 President, as of the _____ day of October, 1996.

CARRIAGE SERVICES, INC.

By: _____
MELVIN C. PAYNE, President

CERTIFICATE OF DECREASE

OF

SERIES D 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 by unanimous written consent dated October __, 1996, duly adopted a resolution providing for the reduction in the number of shares designated in 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 D Preferred Stock ("Series D Preferred Stock"), consisting of up to 10,000,000 shares, pursuant to the Certificate of Designation, Preferences, Rights and Limitations filed with the Secretary of State of Delaware on March 6, 1996, as amended and restated (and in connection with which the number of shares authorized thereunder was increased to 20,000,000 shares of Series D Preferred Stock) in the form attached as Exhibit D to the Corporation's Amended and Restated Certificate of Incorporation filed with the Secretary of State of Delaware on July 3, 1996 (as so amended and restated, the "Series D Certificate of Designation"); and

WHEREAS, there are currently 17,775,616 shares of Series D Preferred Stock which are currently issued and outstanding;

NOW, THEREFORE, BE IT RESOLVED, that 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 number of shares designated as Series D Preferred Stock pursuant to the Series D Certificate of Designation is hereby decreased to NINETEEN MILLION (19,000,000).

IN WITNESS WHEREOF, CARRIAGE SERVICES, INC. has caused this Certificate of Elimination to be signed by Melvin C. Payne, its President, as of the _____ day of October, 1996.

CARRIAGE SERVICES, INC.

By: _____
MELVIN C. PAYNE, President

CERTIFICATE OF DESIGNATION, PREFERENCES,
RIGHTS AND LIMITATIONS

OF

SERIES E PREFERRED STOCK

OF

CARRIAGE SERVICES, INC.

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

That, pursuant to authority conferred upon the Board of Directors of the Corporation by its Certificate of Incorporation, and pursuant to the provisions of Section 151(g) of the General Corporation Law of Delaware, such Board of Directors by written unanimous consent dated October 30, 1996, duly adopted a resolution providing for the issuance of a series of Eleven Million (11,000,000) shares of the Corporation's Preferred Stock, $.01 par value per share, to be designated "Series E Preferred Stock", and fixing the voting powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations or restrictions thereof, which resolution is as follows:

RESOLVED, that pursuant to the authority expressly granted and vested in the Board of Directors of the Corporation in accordance with the provisions of its Certificate of Incorporation, there shall be established and authorized for issuance a series of the Corporation's Preferred Stock, $.01 par value per share, designated "Series E Preferred Stock" (herein referred to as "Series E Preferred Stock"), consisting of Eleven Million (11,000,000) shares, each of the par value of $.01 per share, and having the voting powers, preferences and relative, participating, optional and other rights, and the qualifications, limitations or restrictions set forth below:

29. DEFINITIONS. For purposes hereof, the following terms shall have the following definitions or shall be subject to the following rules of construction:

(a) "Baseline Price" shall mean $13.50 per share of Class A Common Stock, which number shall be subject to appropriate adjustment to give effect to any stock splits, stock combinations, recapitalizations and other corporate transactions in the Class A Common Stock in the manner described in subparagraphs (ii), (iii) and (iv) of Section 5(e).

(b) "Board of Directors" means the Board of Directors of the Corporation.

(c) "Class A Common Stock" means the Corporation's Class A Common Stock, par value $.01 per share.

(d) "Class B Common Stock" means the Corporation's Class B Common Stock, par value $.01 per share.

(e) "Common Stock" means, collectively, shares of Class A Common Stock and Class B Common Stock.

(f) "Conversion Base Price" shall mean:

(i) if, as to any shares of Series E Preferred Stock, the Conversion Date occurs on or before the day immediately preceding the first anniversary of the Initial Issuance Date, the Initial Conversion Base Price;

(ii) if, as to any such shares, the Conversion Date occurs between the first anniversary of the Initial Issuance Date and the day immediately preceding the second anniversary of the Initial Issuance Date, inclusive, the product of (x) the Initial Conversion Base Price MULTIPLIED BY (y) 106%; and

(iii) if, as to any such shares, the Conversion Date occurs between the second anniversary of the Initial Issuance Date and the day immediately preceding the third anniversary of the Initial Issuance Date, inclusive, the product of (x) the amount determined under clause (ii) above MULTIPLIED BY (y) 106%.

The foregoing shall be subject to adjustment in the manner provided in Section 5 hereof.

(g) "Conversion Date" has the meaning specified in Section 5(c).

(h) "Conversion Price" means:

(i) if, as to any shares of Series E Preferred Stock, the Conversion Date occurs on or before the third anniversary of the Initial Issuance Date, the Conversion Base Price; and

(ii) if, as to any such shares, the Conversion Date occurs on or after the third anniversary of the Initial Issuance Date, the Market Price.

(i) "Dividend Rate" shall mean an annual rate (expressed in dollars or portions thereof) as shall be determined from time to time by the Board of Directors at the time of issuance of any shares of Series E Preferred Stock. The Dividend Rate applicable to any shares of Series E Preferred Stock shall be recorded in the minutes of the Board of Directors at which such shares are authorized to be issued, and shall be conclusively evidenced (absent manifest error) by a notation to such effect on the face of each certificate representing such shares.

(j) "Initial Conversion Base Price" means an amount (expressed in dollars or portions thereof) as shall be determined from time to time by the Board of Directors at the time of issuance of any shares of Series E Preferred Stock. The Initial Conversion Base Price applicable to any shares of Series E Preferred Stock shall be recorded in the minutes of the Board of Directors at which such shares are authorized to be issued, and shall be conclusively evidenced (absent manifest error) by a notation to such effect on the face of each certificate representing such shares.

(k) "Initial Issuance Date" shall mean the first date on which any given shares of Series E Preferred Stock shall be issued by the Corporation. The Initial Issuance Date applicable to any shares of Series E Preferred Stock shall be recorded in the minutes of the Board of Directors at which such shares are authorized to be issued, and shall be conclusively evidenced (absent manifest error) by a notation to such effect on the face of each certificate representing such shares.

(l) "Junior Stock" means shares of Common Stock, shares of the Corporation's Series D Preferred Stock, $.01 par value, and shares of any other class or series of the Corporation's capital stock which by its terms is junior or subordinate to the Series E Preferred Stock in any distribution of the Corporation's assets in connection with the liquidation, dissolution or winding up of the affairs of the Corporation.

(m) "Market Price" means the average Trading Price of a share of Class A Common Stock for the ten trading days of the Class A Common Stock

preceding the Conversion Date. If during such ten-day period the Class A Common Stock is not traded on a national securities exchange or over-the-counter and reported on NASDAQ, then Market Value shall be the fair market value of a share of Class A Common Stock as reasonably determined in good faith by the Board of Directors.

(n) The term "outstanding", when used with reference to shares of capital stock, shall mean issued shares, excluding shares held by the Corporation or a subsidiary of the Corporation.

(o) "Parity Stock" means shares of the Corporation's Series F preferred Stock, $.01 par value, and shares of any other class or series of the Corporation's stock (other than Common Stock) which by its terms is neither subordinate nor superior to or in preference of the Series E Preferred Stock in any distribution of the Corporation's assets in connection with the liquidation, dissolution or winding up of the affairs of the Corporation.

(p) "Preferred Stock" means shares of any series of the Corporation's Preferred Stock, $.01 par value per share.

(q) "Restricted Payment" means the declaration or making by the Corporation 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 Series E Preferred Stock.

(r) "Securities Act" means the Securities Act of 1933, as amended, or any successor federal statute.

(s) "Senior Credit Documents" means the Credit Agreement dated effective August 13, 1996 among the Corporation, NationsBank of Texas, N.A., as administrative agent, Provident Services, Inc., as documentation agent, and the "Lenders" named therein, together with (i) all amendments, restatements, modifications and supplements thereto, and (ii) all replacements therefor, including (without limitation) any refinancings of the indebtedness under such Credit Agreement.

(t) "Series E Preferred Stock" means the series of Preferred Stock designated by the Corporation as its Series E Preferred Stock, $.01 par value per share.

(u) "Trading Price" means, on any trading day for the Class A Common Stock, (i) if the Class A Common Stock is traded on a national securities exchange on such trading day, then the closing price on such trading day as reflected in the consolidated trading tables of the WALL STREET JOURNAL or any other appropriate

publication, (ii) if the Class A Common Stock is traded over-the-counter and reported on the NASDAQ National Market System, then the average of the high and low sales prices on such trading day as reported in such publication or, if not so published, then as reported by the NASDAQ National Market System, or (iii) if the Class A Common Stock is not traded on a national securities exchange or in the NASDAQ National Market System on such trading day, then the representative bid and asked prices at the end of such trading day in such market as reported by NASDAQ.

(v) All accounting terms used herein and not expressly defined herein shall have the meanings given to them in accordance with generally accepted accounting principles consistently applied and in effect as of the date of the relevant calculation.

30. DIVIDENDS.

(a) SERIES E PREFERRED STOCK. The holders of Series E Preferred Stock, in preference to the holders of Common Stock, shall be entitled to receive in respect of each such share of Series E Preferred Stock, but only out of any funds legally available for the declaration of dividends, cumulative, preferential dividends in cash at an annual rate equal to the Dividend Rate, payable quarter-annually on or before the last calendar day of each March, June, September and December in each year in which the Series E Preferred Stock is outstanding. Such dividends shall commence to accrue on the shares of Series E Preferred Stock and be cumulative from and after the date of issuance of such shares of Series E Preferred Stock and shall be deemed to accumulate and accrue from day to day thereafter. So long as any shares of Series E Preferred Stock remain outstanding, no dividends or distributions (other than dividends or distributions on Common Stock payable in Common Stock) shall be paid upon, or declared or set apart for, the Common Stock, nor shall any Common Stock (other than Common Stock acquired in exchange for, or out of cash proceeds of, the issue of other Common Stock or out of cash contributions to the capital of the Corporation) be purchased, redeemed, retired or otherwise acquired by the Corporation, unless and until in either case all past due, cumulative dividends on the then outstanding shares of Series E Preferred Stock for all past dividend periods shall have been or concurrently shall be paid.

(b) OTHER STOCK. Subject to paragraph (a) above, (i) dividends may be declared and paid on Common Stock, and (ii) Common Stock may be purchased, retired or otherwise acquired, when and as determined by the Board of Directors, out of any funds legally available for such purposes.

(c) RESTRICTED PAYMENTS. Notwithstanding the foregoing provisions of this Section 2 and the provisions of Section 3 below, the Corporation shall not

declare or pay, and no holder of the Series E Preferred Stock shall be entitled to receive or retain, any Restricted Payment in respect of shares of Series E Preferred Stock if, at the time of such Restricted Payment, such holder has received written notice from any lender under the Senior Credit Documents, or from the Corporation, that an event of default (within the meaning of the Senior Credit Documents) has occurred and is then continuing and that Restricted Payments should be blocked. Such blockage period shall continue (i) indefinitely after receipt of any such notice, if the event of default specified therein results from any default in the payment by the Corporation of any obligations under any Senior Credit Document, whether by maturity, acceleration, or otherwise, for so long as such event of default shall continue, or (ii) in the case of any other event of default, for a period of 180 days after such holder's receipt of any such notice. This paragraph does not have the intent or effect of impairing, as between the Corporation and the holders of the Series E Preferred Stock, the obligation of the Corporation, which is unconditional and absolute (subject to the other provisions hereof), to declare and pay dividends and to redeem shares of Series E Preferred Stock, at such times and in the manner herein specified.

31. REDEMPTION.

(a) MANDATORY REDEMPTION. As to any shares of Series E Preferred Stock, on the tenth anniversary of the Initial Issuance Date for such shares, the Corporation shall redeem all of such shares of Series E Preferred Stock then outstanding (subject, however, to the right of the holders of the Series E Preferred Stock to convert their shares pursuant to Section 5 by providing the written conversion notice referred to in Section 5(c) below on or before 30 days prior to the date set for such redemption), at a redemption price of $1.00 per share, together with all accrued and unpaid dividends through the effective date of redemption.

(b) OPTIONAL REDEMPTION. As to any shares of Series E Preferred Stock, at any time during the period commencing on the fifth anniversary of the Initial Issuance Date for such shares and ending on the tenth anniversary of such Initial Issuance Date (the "Optional Redemption Period"), the Corporation, at the option of the Board of Directors, may redeem from the holders of Series E Preferred Stock, at a redemption price of $1.00 per share, together with accrued and unpaid dividends thereon to the date fixed for redemption, all or any portion of such shares of Series E Preferred Stock outstanding on such date. Written notice of such redemption of such shares of Series E Preferred Stock to be so redeemed shall be mailed, postage prepaid, to the holders of record of the shares to be so redeemed at their respective addresses then appearing on the books of the Corporation, not less than 45 nor more than 75 days prior to the date designated for such redemption, which shall occur during the Optional Redemption Period. In case the Corporation intends to redeem less than all of the outstanding shares

of Series E Preferred Stock which are then eligible for redemption, the Corporation's notice shall so state and such redemption shall be made on or pro rata basis in accordance with each holder's respective holdings of Series E Preferred Stock. Such redemption by the Corporation shall be subject, however, to the right of each such holder to convert such holder's shares of Series E Preferred Stock into shares of Class A Common Stock pursuant to Section 5 by delivering the written conversion notice referred to in Section 5(c) at least 15 days prior to the date fixed for redemption.

(c) GENERAL. From and after the effective date of redemption and the setting aside of the funds necessary for redemption, notwithstanding that any certificate for shares of Series E Preferred Stock so called for redemption shall not have been surrendered for cancellation, the shares to be redeemed shall no longer be deemed outstanding, and the holders of certificates representing such shares shall have with respect to such shares no rights in or with respect to the Corporation except the right to receive, upon the surrender of such certificates, the redemption price therefor. Shares of Series E Preferred Stock redeemed by the Corporation pursuant to this Section 3, or shares of Series E Preferred Stock otherwise purchased by the Corporation, shall not be reissued and shall be cancelled and retired in the manner provided by the laws of the State of Delaware, and no other shares of Series E Preferred Stock shall be issued in lieu thereof.

32. PREFERENCE ON LIQUIDATION, DISSOLUTION OR WINDING UP.

(a) DEFINITION. A consolidation or merger of the Corporation, a sale or transfer of substantially all of its assets as an entirety, or any purchase or redemption of capital stock of the Corporation of any class, shall not be regarded as "liquidation, dissolution or winding up of the affairs of the Corporation" within the meaning of this Section 4.

(b) SERIES E PREFERRED STOCK. During any proceedings for the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of the Series E Preferred Stock shall be entitled to receive, before any distribution of the assets of the Corporation shall be made in respect of any outstanding Junior Stock, and PARI PASSU with any distribution of assets to the holders of outstanding Parity Stock, an amount in cash for each share of Series E Preferred Stock equal to $1.00 together with all accrued and unpaid dividend through the effective date of such liquidation, dissolution or winding up, or funds necessary for such payment shall have been set aside in trust for the account of the holders of the outstanding Series E Preferred Stock so as to be and continue available therefor. If upon such liquidation, dissolution or winding up, the assets distributable to the holders of the Series E Preferred Stock as aforesaid shall be insufficient to permit the payment to them (together with any distributions to the holders of Parity Stock) of $1.00 per share (plus such accrued and unpaid

dividends), the assets of the Corporation shall be distributed to the holders of the Series E Preferred Stock and the Parity Stock ratably until they shall have received the full amount to which they would otherwise be entitled. If the assets of the Corporation are sufficient to permit the payment of such amounts to the holders of the Series E Preferred Stock and the Parity Stock, the remainder of the assets of the Corporation, if any, after the distributions as aforesaid shall be distributed and divided ratably among the holders of the Junior Stock then outstanding according to their respective shares.

33. CONVERSION. The Series E Preferred Stock shall be convertible into Class A Common Stock in accordance with the following provisions of this Section 5.

(a) OPTIONAL CONVERSION. Subject to and upon compliance with the provisions of this Section 5, each holder of shares of Series E Preferred Stock shall have the right at such holder's option, at any time or from time to time from, to convert all or any part of his or her shares of Series E Preferred Stock into fully paid and nonassessable shares of Class A Common Stock, at the Conversion Price in effect on the Conversion Date, upon the terms hereinafter set forth.

(b) CONVERSION PRICE. The shares of Series E Preferred Stock shall be convertible into the number of shares of Class A Common Stock as is determined by multiplying the number of shares of Series E Preferred Stock to be converted by a fraction, the numerator of which is $1.00 and the denominator of which is the Conversion Price in effect on the Conversion Date.

(c) MECHANICS OF CONVERSION. The holder of any shares of Series E Preferred Stock may exercise the optional conversion right specified in paragraph (a) above by surrendering to the Corporation or any transfer agent of the Corporation the certificate or certificates for the shares to be converted, accompanied by written notice stating that the holder elects to convert all or a specified portion of the shares represented thereby. Optional conversion under paragraph (a) shall be deemed to have been effected on the date when notice of an election to convert and certificates for the shares to be converted has been delivered; any such date is referred to herein as the "Conversion Date". As promptly as practicable thereafter the Corporation shall issue and deliver to or upon the written order of such holders a certificate or certificates for the number of full shares of Class A Common Stock to which such holders are entitled rounded down to the next whole share as provided in paragraph (d) below. The person in whose name the certificate or certificates of Class A Common Stock are to be issued shall be deemed to have become a holder of record of such Class A Common Stock on the Conversion Date.

(d) FRACTIONAL SHARES. No fractional shares of Class A Common Stock or scrip shall be issued upon conversion of shares of Series E Preferred Stock.

Instead of any fractional shares of Class A Common Stock which would otherwise be issuable upon conversion of any shares of Series E Preferred Stock, the number of full shares of Class A Common Stock issuable upon conversion thereof shall be reduced to the next lowest number of whole shares, and the Corporation will pay a cash adjustment in respect of any surrendered shares of Series E Preferred Stock not converted into Class A Common Stock in an amount equal to $1.00 per share of Series E Preferred Stock.

(e) CONVERSION PRICE ADJUSTMENTS. The Conversion Base Price shall be subject to adjustment from time to time as follows:

(i) CERTAIN ISSUANCES OF EQUITY STOCK. If, as to any shares of Series E Preferred Stock, at any time following the Initial Issuance Date for such shares, and while the Conversion Price is based upon the Conversion Base Price, the Corporation issues any Class A Common Stock, or any security or evidence of indebtedness which is convertible or exercisable into or exchangeable for Class A Common Stock (including, without limitation, any Class B Common Stock or any Preferred Stock), or any warrant, option or other right to subscribe for or purchase Class A Common Stock or any security or evidence of indebtedness which is convertible or exchangeable for Class A Common Stock (hereinafter, "Equity Stock"), other than Excluded Stock (as defined in clause (D) below), for a consideration per share less than the Baseline Price, then the Conversion Base Price shall immediately be reduced to a price per share determined by multiplying the Conversion Base Price then in effect by a fraction, the numerator of which is an amount equal to the sum of (x) the number of shares of Equity Stock of the Corporation outstanding immediately prior to such issue or sale multiplied by the Baseline Price plus (y) the consideration, if any, received by the Corporation upon such issue or sale, and the denominator of which is the total number of shares of Equity Stock of the Corporation outstanding immediately after such issue or sale multiplied by the Baseline Price. The number of shares of Equity Stock outstanding at any given time for the purposes of the foregoing computation means the shares of Class A Common Stock outstanding together with all shares of Class A Common Stock issuable upon conversion or exercise of any such Equity Stock, excluding any shares of Equity Stock previously outstanding that have been reacquired by the Corporation and constitute treasury shares.

For purposes of any adjustment of the Conversion Base Price pursuant to this subparagraph (i) of this Section 5(e), the following provisions shall be applicable:

(A) CASH. In the case of the issuance of Equity Stock for cash, the amount of the consideration received by the Corporation shall be deemed to be the amount of the cash proceeds received by the Corporation for such Equity Stock before deducting therefrom any discounts, commissions, taxes, legal and accounting fees or other expenses allowed, paid or incurred by the Corporation in connection with the issuance and sale thereof.

(B) CONSIDERATION OTHER THAN CASH. In the case of the issuance of Equity Stock (other than as described in clause (C) below) for a consideration in whole or in part other than cash, including securities acquired in exchange therefor (other than securities by their terms so exchangeable), the consideration other than cash shall be deemed to be the fair market value thereof as reasonably determined by the Board of Directors in good faith.

(C) OPTIONS AND CONVERTIBLE SECURITIES, ETC. In the case of the issuance of (i) options, warrants or other rights to purchase or acquire Class A Common Stock or other Equity Stock (whether or not at the time exercisable), (ii) securities which by their terms are convertible or exercisable into or exchangeable for Class A Common Stock or other Equity Stock (whether or not at the time so convertible, exercisable or exchangeable) or (iii) options, warrants or rights to purchase such convertible or exchangeable securities (whether or not at the time exercisable):

(1) the aggregate maximum number of shares of Class A Common Stock deliverable upon exercise of such options, warrants or other rights to purchase or acquire Class A Common Stock shall be deemed to have been issued at the time such options, warrants or rights were issued and for a consideration equal to the aggregate consideration (determined in the manner provided in clauses (A) and (B) above), if any, received by the Corporation upon the issuance of such options, warrants or rights plus the aggregate minimum purchase price provided in such options, warrants or rights for the Class A Common Stock covered thereby;

(2) the aggregate maximum number of shares of Class A Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities, or upon the exercise of options, warrants or other rights to purchase or acquire such convertible or exchangeable securities and the subsequent conversion or

exchange thereof, shall be deemed to have been issued at the time such securities were issued or such options, warrants or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for any such securities and related options, warrants or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the Corporation upon the conversion or exchange of such securities and the exercise of any related options, warrants or rights (the consideration in each case to be determined in the manner provided in clauses (A) and (B) above);

(3) on any change in the number of shares of Class A Common Stock deliverable upon exercise of any such options, warrants or rights or conversion of or exchange for such convertible or exchangeable securities or any change in the consideration to be received by the Corporation upon such exercise, conversion or exchange, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Conversion Base Price as then in effect shall forthwith be readjusted to such Conversion Base Price as would have been obtained had an adjustment been made upon the issuance of such options, warrants or rights not exercised prior to such change, or securities not converted or exchanged prior to such change, on the basis of the terms of such options, warrants, rights or convertible or exchangeable securities as so changed;

(4) on the expiration or cancellation of any such options, warrants or rights, or the termination of the right to convert or exchange such convertible or exchangeable securities, if the Conversion Base Price shall have been adjusted upon the issuance thereof, the Conversion Base Price shall forthwith be readjusted to such Conversion Base Price as would have been obtained had an adjustment been made upon the issuance of such options, warrants, rights or securities on the basis of the issuance of only the number of shares of Class A Common Stock actually issued upon the exercise of such options, warrants or rights, or upon the conversion or exchange of such securities; and

(5) regardless of whether the Conversion Base Price shall have been adjusted upon the issuance of any

such options, warrants, rights or convertible or exchangeable securities, no further adjustment of the Conversion Base Price shall be made for the actual issuance of Class A Common Stock upon the exercise, conversion or exchange thereof.

(D) EXCLUDED STOCK. For purposes hereof, "Excluded Stock" means, for purposes of determining whether there shall be any adjustment in the Conversion Base Price pursuant to this subparagraph (i) as to any shares of Series E Preferred Stock, any shares of Common Stock that are issued or reserved for issuance by the Corporation (i) upon conversion, exercise or exchange of any Equity Stock that is outstanding on the Initial Issuance Date for such Shares; (ii) pursuant to a stock dividend, subdivision or split-up covered by subparagraph (ii) or (iii) of this Section 5(e); and (iii) upon exercise of options issued to employees or directors of the Corporation or its subsidiaries, provided that (x) the exercise price thereof is not less than the fair market value per share of the Class A Common Stock determined in good faith by the Board of Directors at the time such options are granted, and (y) options covering no more than five percent (5%) of the fully diluted Class A Common Stock (assuming the full conversion, exercise and exchange of all Equity Stock then outstanding into shares of Class A Common Stock) may be issued under this clause (D) without causing an adjustment in the Conversion Base Price herein described.

(ii) STOCK DIVIDENDS. If the number of shares of Class A Common Stock outstanding at any time after the issuance of any Series E Preferred Stock is increased by a stock dividend payable in shares of Class A Common Stock or by a subdivision or split-up of shares of Class A Common Stock, and if the Conversion Price then in effect is based upon the Conversion Base Price, then immediately after the record date fixed for the determination of holders of Class A Common Stock entitled to receive such stock dividend or the effective date of such subdivision or split-up, as the case may be, the Conversion Base Price shall be appropriately decreased so that the holders of any shares of Series E Preferred Stock shall be entitled to receive the number of shares of Class A Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series E Preferred Stock been converted immediately prior thereto.

(iii) COMBINATION OF STOCK. If the number of shares of Class A Common Stock outstanding at any time after issuance of any class of

Series E Preferred Stock is decreased by a combination of the outstanding shares of Class A Common Stock, and if the Conversion Price then in effect is based upon the Conversion Base Price then, immediately after the effective date of such combination, the Conversion Base Price shall be appropriately increased so that the holders of any shares of Series E Preferred Stock shall be entitled to receive the number of shares of Class A Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series E Preferred Stock been converted immediately prior thereto.

(iv) REORGANIZATIONS. In case of any capital reorganization of the Corporation, or of any reclassification of the Class A Common Stock, or in case of the consolidation of the Corporation with or the merger of the Corporation with or into any other corporation, partnership or other business entity in which the Corporation is not the survivor, or of the sale, lease or other transfer of all or substantially all of the assets of the Corporation to any other corporation, partnership or other business entity, each share of Series E Preferred Stock shall, after such capital reorganization, reclassification, consolidation, merger, sale or lease, be convertible into the number of shares of stock or other securities or property to which the Class A Common Stock issuable (at the time of such capital reorganization, reclassification, consolidation, merger, sale or lease) upon conversion of such share of Series E Preferred Stock would have been entitled upon such capital reorganization, reclassification, consolidation, merger, sale or lease in place of (or in addition to, in the case of any such event after which Class A Common Stock remains outstanding) the shares of Class A Common Stock into which such share of Series E Preferred Stock would otherwise have been convertible; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the holders of the shares of Series E Preferred Stock shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any share of stock or other securities or property thereafter deliverable on the conversion of the shares of Series E Preferred Stock. The subdivision or combination of shares of Class A Common Stock issuable upon conversion of shares of Series E Preferred Stock at any time outstanding into a greater or lesser number of shares of Class A Common Stock (whether with or without par value) shall not be deemed to be a reclassification of the Class A Common Stock of the Corporation for the purposes of this subparagraph (iv).

(v) ROUNDING OF CALCULATIONS; MINIMUM ADJUSTMENT. All calculations under this paragraph (e) shall be made to the nearest cent or to the nearest one hundredth (1/100th) of a share, as the case may be. Any provision of this paragraph (e) to the contrary notwithstanding, no

adjustment in the Conversion Base Price shall be made if the amount of such adjustment would be less than $0.01, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate $0.01 or more.

(vi) TIMING OF ISSUANCE OF ADDITIONAL CLASS A COMMON STOCK UPON CERTAIN ADJUSTMENTS. In any case in which the provisions of this paragraph (e) requires that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event issuing to the holder of any shares of Series E Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Class A Common Stock or other property issuable or deliverable upon exercise by reason of the adjustment required by such event over and above the shares of Class A Common Stock or other property issuable or deliverable upon such conversion before giving effect to such adjustment; PROVIDED, HOWEVER that the Corporation upon request shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares or other property, and such cash, upon the occurrence of the event requiring such adjustment.

(f) CERTAIN ADJUSTMENTS. In case of any adjustment in the Conversion Base Price pursuant to this Section 5(e) at a time when the amount of the Conversion Base Price is due to increase at one or more future dates in accordance with the schedule contained within the definition of such term, then in addition to the adjustment of the Conversion Base Price then in effect, each subsequent increase therein contained within such definition shall be appropriately adjusted to give effect to provisions of this Section 5(e). In case, at a time when the Conversion Price is based upon the Market Price, the record date for any action of the type described subparagraph (ii), (iii) or (iv) above occurs prior to a Conversion Date but after one or more of the trading days for which the Trading Price therefor is determined, then the Trading Price for each trading day occurring prior to such record date shall be appropriately adjusted in order to give effect to such action, in the manner provided in said subparagraph (ii), (iii) or (iv), as the case may be.

(g) STATEMENT REGARDING ADJUSTMENTS. Whenever the Conversion Base Price shall be adjusted as provided in paragraph (e), the Corporation shall forthwith file, at the office of any transfer agent for the Series E Preferred Stock and at the principal office of the Corporation, a statement showing in detail the facts requiring such adjustment and the Conversion Base Price that shall be in effect

after such adjustment, and the Corporation shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each holder of the Series E Preferred Stock at his or her address appearing on the Corporation's records. Each such statement shall be signed by the Corporation's chief financial officer. Where appropriate, such copy may be given in advance and may be included as part of a notice required to be mailed under the provisions of subparagraph (h) below.

(h) NOTICE TO HOLDERS. In the event the Corporation proposes to take any action of the type described in subparagraph (i), (ii), (iii) or (iv) of paragraph (e) above, the Corporation shall give notice to each holder of the Series E Preferred Stock in the manner set forth in subparagraph (f) above, which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth such facts with respect thereto as shall be reasonably necessary to indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Conversion Base Price and the number, kind or class of shares or other securities or property which shall be deliverable or purchasable upon the occurrence of such action or deliverable upon conversion of the Series E Preferred Stock. In the case of any action which would require the fixing of a record date, such notice shall be given at least 10 days prior to the date so fixed, and in case of all other action, such notice shall be given at least 15 days prior to the taking of such proposed action.

(i) COSTS. The Corporation shall pay all documentary, stamp, transfer or other transactional taxes attributable to the issuance or delivery of shares of Class A Common Stock of the Corporation or other securities or property upon conversion of the shares of Series E Preferred Stock; PROVIDED, HOWEVER, that the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares or securities in the name other than that of the holder of the shares of Series E Preferred Stock in respect of which such shares are being issued.

(j) RESERVATION OF SHARES. The Corporation shall reserve at all times so long as any shares of Series E Preferred Stock remain outstanding, free from preemptive rights, out of its treasury stock or its authorized but unissued shares of Class A Common Stock, or both, solely for the purpose of effecting the conversion of shares of Series E Preferred Stock, sufficient shares of Class A Common Stock to provide for the conversion of all outstanding shares of Series E Preferred Stock and set aside and keep available any other property deliverable upon conversion of all outstanding shares of Series E Preferred Stock.

(k) APPROVALS. If any shares of Class A Common Stock or other securities to be reserved for the purpose of conversion of shares of Series E Pre-

ferred Stock require registration with or approval of any governmental authority under any Federal or state law before such shares or other securities may be validly issued or delivered upon conversion, then the Corporation will in good faith and as expeditiously as possible use its commercially reasonable efforts to secure such registration or approval, as the case may be. The foregoing shall not be interpreted to require to Corporation to cause the registration of such shares under the Securities Act or the securities or blue laws of any state.

(l) VALID ISSUANCE. All shares of Class A Common Stock or other securities which may be issued upon conversion of the shares of Series E Preferred Stock will upon issuance by the Corporation be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issuance thereof and the Corporation shall take no action which will cause a contrary result.

34. VOTING RIGHTS.

(a) GENERAL. At any annual or special meeting of stockholders or otherwise in respect of any matter submitted for the vote of stockholders generally, the holders of the Series E Preferred Stock shall be entitled to such number of votes (rounded down to the nearest whole vote) as shall be determined by multiplying (1) vote for each share of Series E Preferred Stock so held by a fraction, the numerator of which is $1.00 and the denominator of which is the Conversion Price in effect on the record date for determining stockholders entitled to vote on such matter.

(b) SPECIAL VOTING REQUIREMENTS. Without limiting the generality of paragraph (a) above, the Corporation shall not, without the consent of the holders of at least a majority of the outstanding shares of Series E Preferred Stock, voting together as a single class, either (i) amend, alter or repeal any provision of the Corporation's Certificate of Incorporation or Bylaws or this Certificate of Designation, in any event so as to adversely affect the rights or powers of any of the Series E Preferred Stock as provided herein, or (ii) issue any Preferred Stock or other class or series of the Corporation's capital stock that is senior or preferential to the Series E Preferred Stock in any distribution of the Corporation's assets in connection with the liquidation, dissolution or winding up of the affairs of the Corporation.

35. REGISTRATION RIGHTS. Subject to paragraph (h) below and the other provisions of this Section 7, the holders of the Series E Preferred Stock shall be entitled to have their respective shares of Class A Common Stock issuable upon conversion of their Series E Preferred Stock included in any registration of Class A Common Stock under the Securities Act proposed by the Corporation.

(a) INCIDENTAL RIGHTS. If at any time or from time to time the Corporation proposes to file with the Securities and Exchange Commission (the "Commission") a registration statement (whether on Form S-1, S-2 or S-3 or any equivalent form then in effect) for the registration under the Securities Act of any shares of Class A Common Stock for sale to the public by the Corporation or on behalf of a shareholder of the Corporation for cash (excluding any shares of Common Stock issuable by the Corporation upon the exercise of employee or director stock options or in connection with the merger or consolidation of the Corporation or one of its subsidiaries with one or more other corporations if the Corporation is the surviving corporation), the Corporation shall give each holder of the Series E Preferred Stock at least 30 days' prior written notice of the filing of the proposed registration statement. The notice shall include a list of the states and foreign jurisdictions, if any, in which the Corporation intends to qualify such shares, and shall also include the Corporation's estimate of the range of the offering price per share of Class A Common Stock. On the written request of any holder of the Series E Preferred Stock received by the Corporation within 15 days after the date of the Corporation's notice, the Corporation shall, subject to the conditions and in accordance with the procedures set forth in paragraphs (b) and (c) below, and at its own expense as provided in paragraph (e) below, include in the coverage of such registration statement and qualify for sale under the blue sky or securities laws of the various states, the number of shares (but not less than 5,000 shares, subject to adjustment to give effect to any stock dividends, splits or combinations, recapitalizations or other similar corporate events) of Class A Common Stock (herein called the "Specified Shares") held (or to be held upon conversion of the Series E Preferred Stock) and so requested to be registered by each such holder; provided that if the managing underwriter for the Corporation indicates its belief in writing that the effect of including in the coverage of such registration statement all or part of the Specified Shares and the shares of Class A Common Stock requested to be so included by other stockholders having contractual registration rights ("Other Requesting Stockholders") will materially and adversely affect the sale of the shares of Class A Common Stock proposed to be sold by the Corporation (which statement of the managing underwriter shall also state the maximum number of shares (herein called the "Maximum Shares"), if any, which can be sold by such all such holders without materially and adversely affecting the sale of the shares proposed to be sold by the Corporation), then the number of Specified Shares which the holders of the Series E Preferred Stock and the Other Requesting Stockholders shall collectively have the right to include in such registration statement shall be reduced to the number of Maximum Shares set forth in such statement of the managing underwriter, such reduction to be effected on a pro rata basis in accordance with the number of all such shares requested to be so registered by the holders of the Series E Preferred Stock and the Other Requesting Stockholders.

Except as provided in paragraph (c) below, in no event shall the Corporation be required to amend any registration statement filed pursuant to this Section 7 after it has become effective or to amend or supplement any prospectus to permit the continued disposition of shares of Class A Common Stock registered under any registration statement.

The Corporation shall have the right to select any underwriters, including the managing underwriter, of any public offering of shares of Class A Common Stock subject to the provisions of this paragraph (a). Nothing in this paragraph (a) shall create any liability on the part of the Corporation to the holders of the Series E Preferred Stock if the Corporation for any reason should decide not to file such a registration statement.

The Corporation may withdraw any registration statement and abandon any proposed offering initiated by the Corporation without the consent of any holder of the Series E Preferred Stock, notwithstanding the request of any such holder to participate therein in accordance with this paragraph (a), if the Corporation determines that such action is in the best interests of the Corporation.

(b) CERTAIN REGISTRATION CONDITIONS. Any holder of Series E Preferred Stock requesting registration of Class A Common Stock into which such holder's Series E Preferred Stock is convertible pursuant to paragraph (a) of this Section 7 is hereafter referred to as a "Selling Stockholder." Anything in this Agreement to the contrary notwithstanding, the Corporation shall not be required to effect a registration of any Class A Common Stock of any Selling Stockholder pursuant to paragraph (a) of this Section 7, or file any post-effective amendment thereto:

(i) unless such Selling Stockholder agrees (x) to sell and distribute a portion or all of his Class A Common Stock in accordance with the customary plan or plans of distribution adopted by and through underwriters, if any, acting for the Corporation, and (y) to bear a pro rata share of underwriter's discounts and commissions;

(ii) unless the Corporation and the underwriters for the Corporation shall have received from such Selling Stockholder all such information as the Corporation and such underwriters may reasonably request from him concerning such Selling Stockholder to enable the Corporation to include in the registration statement all material facts required to be disclosed therein;

(iii) unless such Selling Stockholder is then entitled to convert his shares of Series E Preferred Stock into Class A Common Stock and such Selling Stockholder in fact delivers the notice to elect to convert the Series E Preferred Stock into Class A Common Stock prior to or

contemporaneously with the notice of such Selling Stockholder under paragraph (a) hereof; and

(iv) unless such Selling Stockholder, at the request of the Corporation or its managing underwriter, agrees or acknowledges that such Selling Stockholder (x) has a present intention to sell such shares; (y) agrees to execute all consents, powers of attorney, registration statements and other documents required in order to cause such registration statement to become effective; and (z) agrees, if the offering is at the market, to give the Corporation written notice of the first bona fide offering of such shares and to use the prospectus forming a part of such registration statement for only a period of 90 days (or such longer period provided for in paragraph (c) below) unless such registration statement is on a form that complies with Rule 415.

(c) COVENANTS AND PROCEDURES. If the Corporation becomes obligated under the provisions of paragraph (a) of this Section 7 to effect registration of shares of Class A Common Stock on behalf of any Selling Stockholder, the following shall apply:

(i) The Corporation, at its own expense as provided in paragraph (e), shall prepare and file with the Commission a registration statement covering such shares of Class A Common Stock and use its best efforts to cause such registration statement to become effective; and the Corporation will file such post-effective amendments to such registration statement (and use its best efforts to cause them to become effective) and such supplements as are necessary so that current prospectuses are at all times available for a period of at least 90 days after the effective date of such registration statement or for such longer period, not to exceed 180 days, as may be required by the Corporation or the managing underwriter under the plan or plans of distribution set forth in such registration statement. Each Selling Stockholder shall promptly provide the Corporation with such information with respect to such Selling Stockholder's shares of Class A Common Stock to be so registered and, if applicable, the proposed terms of the offering thereof as is required for such registration. Further, if the shares of Class A Common Stock to be covered by the registration statement are not to be sold to or through underwriters acting for the Corporation, the Corporation shall (x) deliver to each Selling Stockholder as promptly as practicable as many copies of preliminary prospectuses as such Selling Stockholder may reasonably request, and such Selling Stockholder shall keep a written record of the distribution of such preliminary prospectuses and shall refrain from delivery of such preliminary prospectuses in any manner or under any circumstances which would violate the Securities Act or the securities laws

of any other jurisdiction, including the various states of the United States, (y) deliver to each Selling Stockholder, as soon as practicable after the effective date of the registration statement, and from time to time thereafter during such 90-day period, or such longer period as is herein provided, as many copies of the prospectuses required to be delivered in connection with the sale of shares of Class A Common Stock registered under the registration statement as such Selling Stockholder may reasonably request, and (z) in case of the happening, after the effective date of such registration statement and during such 90-day period (or such longer period specified above), of any event or occurrence which would be set forth in an amendment of or supplement to such prospectus to make any statements therein not misleading or to correct any misleading omissions, give each Selling Stockholder written notice thereof and prepare and furnish to such Selling Stockholder, in such quantities as he may reasonably request, copies of such amended prospectus or of such supplement to be attached to the prospectus in order that the prospectus, as so amended or supplemented, will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(ii) On or prior to the date on which the registration statement is declared effective, the Corporation shall use its best efforts to register or qualify, and cooperate with each Selling Stockholder, the underwriter or underwriters, if any, and their counsel, in connection with the registration or qualification of the Class A Common Stock covered by the registration statement for offer and sale under the securities or blue sky laws of each state and other jurisdiction of the United States as such Selling Stockholder or underwriter reasonably requests, to use its best efforts to keep each such registration or qualification effective, including through new filings, or amendments or renewals, during the period such registration statement is required to be kept effective and to do any and all other acts or things necessary or advisable to enable the disposition in all such jurisdictions of the Class A Common Stock covered by the applicable registration statement; provided that the Corporation will not be required to qualify generally to do business in any jurisdiction where it is not then so qualified.

(iii) The Corporation shall use its best efforts to cause all of each Selling Stockholder's Class A Common Stock included in such registration statement to be listed, by the date of the first sale of such Class A Common Stock pursuant to such registration statement, on each securities exchange on which the Class A Common Stock of the Corporation is then listed or proposed to be listed, if any.

(iv) The Corporation shall make generally available to each Selling Stockholder and any underwriter participating in the offering conducted pursuant to the registration statement an earnings statement satisfying the provisions of Section 11(a) of the Securities Act no later than 45 days after the end of the 12-month period beginning with the first day of the Corporation's first fiscal quarter commencing after the effective date of the registration statement, which earnings statement shall cover said 12-month period, which requirement will be deemed to be satisfied if the Corporation timely files complete and accurate information on Forms 10- Q, 10-K, and 8-K under the Securities Exchange Act of 1934, as amended, and otherwise complies with Rule 158 under the Securities Act as soon as feasible.

(v) The Corporation shall cooperate with each Selling Stockholder and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legends) representing Class A Common Stock to be sold under the registration statement, and enable such securities to be in such denominations and registered in such names as the managing underwriter or underwriters, if any, or such Selling Stockholder may request, subject to the underwriters' obligation to return any certificates representing securities not sold.

(vi) The Corporation shall use its best efforts to cause each Selling Stockholder's Class A Common Stock covered by the registration statement to be registered with or approved by such other governmental agencies or authorities within the United States as may be necessary to enable such Selling Stockholder or the underwriter or underwriters, if any, to consummate the disposition of such Class A Common Stock.

(vii) The Corporation shall make available for inspection by each Selling Stockholder, any underwriter participating in any disposition pursuant to such registration statement, and any attorney, accountant or other agent retained by such Selling Stockholder or any such underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of the Corporation, as shall be reasonably necessary to enable them to exercise their due diligence, responsibility, and cause the Corporation's officers, directors and employees to supply all nonconfidential information reasonably requested by any such Inspector in connection with such registration statement. As a condition to providing such access, the Corporation may require that any and all Inspectors execute and deliver confidentiality agreements, in form and substance acceptable to the Corporation, and that confidentiality procedures be observed, all with respect to such information.

(viii) The Corporation shall use its best efforts to obtain a "cold comfort" letter from the Corporation's independent public accountants, and an opinion of counsel for the Corporation, each in customary form and covering such matters of the type customarily covered by cold comfort letters and opinions of counsel in connection with public offerings of securities, as each Selling Stockholder reasonably requests.

(d) INDEMNIFICATION.

(i) INDEMNIFICATION BY THE CORPORA-TION. In the event of any registration under the Securities Act pursuant to this Section 7 of shares of Class A Common Stock held by any Selling Stockholder, the Corporation will hold harmless each Selling Stockholder and each underwriter of such securities and each other person, if any, who controls each Selling Stockholder or such underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities (including legal fees and costs of court), joint or several, to which such Selling Stockholder or such underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any registration statement under which such securities were registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; and will reimburse each Selling Stockholder and each such underwriter and each such controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage or liability; provided, however, that the Corporation shall not be liable to any Selling Stockholder or his underwriters or controlling persons in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, preliminary prospectus or final prospectus or such amendment or supplement in reliance upon and in conformity with information furnished to the Corporation through a written instrument duly executed by such Selling Stockholder or such underwriter specifically for use in the preparation thereof.

(ii) INDEMNIFICATION BY SELLING STOCK-HOLDERS. It shall be a condition precedent to the obligation of the Corporation to include in any registration statement any shares of Class A Common Stock then held by

a Selling Stockholder that the Corporation shall have received an undertaking reasonably satisfactory to it and its counsel from such Selling Stockholder to severally indemnify and hold harmless (in the same manner and to the same extent as set forth in subparagraph (i) above) the Corporation, each director of the Corporation, each officer of the Corporation who shall sign such registration statement, each underwriter of such securities and any person who controls the Corporation or such underwriter within the meaning of the Securities Act, with respect to any statement or omission from such registration statement, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, if such statement or omission was made in reliance upon and in conformity with information furnished to the Corporation through a written instrument duly executed by such Selling Stockholder specifically for use in the preparation of such registration statement, preliminary prospectus or final prospectus or such amendment or supplement thereto.

(iii) INDEMNIFICATION PROCEDURES. Promptly after receipt by an indemnified party of notice of the commencement of any action involving a claim referred to in the preceding subparagraphs (i) and (ii), such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the indemnifying party of the commencement of such action. In case any such action is brought against an indemnified party, the indemnifying party will be entitled to participate in and to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, and provided that the indemnifying party in fact assumes such defense, the indemnifying party will not be liable to such indemnified party for any legal or other expenses incurred after the date of such notice by the latter in connection with the defense thereof. Whether or not such defense is assumed by the indemnifying party, the indemnifying party will not be subject to any liability for any settlement made without its consent. No indemnifying party will consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation.

(iv) CONTRIBUTION. If the indemnification provided for in this paragraph (d) from the indemnifying party is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to

reflect the relative fault of the indemnifying party and indemnified parties in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified parties shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or a material omission, has been made by, or relates to information supplied by, such indemnifying party or indemnified parties, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. For purposes of the foregoing, it would not be just and equitable if contribution pursuant to this paragraph (d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this subparagraph (iv), no Selling Stockholder shall be required to contribute any amount in excess of the amount by which the total price at which the Class A Common Stock of such Selling Stockholder was offered to the public exceeds the amount of any damages which such Selling Stockholder has otherwise been required to pay by reason of such untrue statement or omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) EXPENSES. All expenses incurred by the Corporation in connection with any registration statement covering shares of Class A Common Stock offered by the Selling Stockholders, including, without limitation, all registration and filing fees (including all expenses incident to filing with the National Association of Securities Dealers, Inc.), printing expenses, fees and disbursements of counsel for the Corporation and of its independent certified public accountants, the reasonable fees and disbursements of one counsel for collectively all Selling Stockholders and Other Requesting Stockholders whose stock is included in such registration, and the expense of qualifying such shares under state blue sky laws, shall be borne by the Corporation; provided, however, that all underwriter's discounts and commissions relating to the shares of Class A Common Stock to be sold by the Selling Stockholders shall be borne by the Selling Stockholders.

(f) DISPOSITIONS DURING REGISTRATION. Upon written request by the Corporation, the Selling Stockholders will agree, upon the registration of any of each such Selling Stockholder's shares of Class A Common Stock or the Class A

Common Stock issued by the Corporation, not to sell or otherwise dispose of any shares of Stock (other than Class A Common Stock covered by such registration, which may be sold in accordance with the plan or plans of distribution described in the registration statement) owned by each such Selling Stockholder for a period of 90 days following the effective date of such registration statement, or for such longer period (not to exceed 180 days) as may be required under the plan or plans of distribution set forth in such registration statement.

(g) RIGHTS TRANSFERABLE. The foregoing registration rights and benefits set forth in this Section 7, including indemnification by the Corporation, shall be transferable by each holder of the Series E Preferred Stock in connection with the transfer by any such holder of Series E Preferred Stock convertible into not less than 10,000 shares (subject to adjustment to give effect to any stock dividends, splits or combinations, recapitalization or other similar corporate events) of Class A Common Stock, otherwise than pursuant to a registration statement of the Corporation in connection with a public offering of Class A Common Stock.

(h) TERM OF REGISTRATION RIGHTS. The registration rights granted pursuant to this Section 7 shall be effective for a period commencing upon the Initial Issuance Date and ending on (i) as to any holder of Series E Preferred Stock, upon either (A) such holder's written consent, (B) the date such holder holds, together with such holder's Affiliates, less than 10,000 shares (subject to adjustment as described in paragraph (g) above) of Class A Common Stock determined on a fully diluted basis, or (c) the date such holder is able to dispose of all shares of Class A Common Stock that such holder may acquire upon conversion of the Series E Preferred Stock within a single three-month period under Rule 144 promulgated under the Securities Act; and (ii) as to all holders of the Series E Preferred Stock, on December 31, 2006. For purposes of the foregoing, an "Affiliate" of a person shall mean (a) any member of the immediate family of such person, including parents, siblings, spouse and lineal descendants (including those by adoption); the parents, siblings, spouse, or lineal descendants (including those by adoption) of such immediate family member; and in any such case any trust whose primary beneficiary is such person or one or more members of such immediate family and/or such person's lineal descendants; (b) the legal representative or guardian of such person or of any such immediate family members in the event such person or any such immediate family members becomes mentally incompetent; and (c) any person, corporation or other entity controlling, controlled by or under common control with such person. As used in this definition, the term "control", including the correlative terms "controlling", "controlled by" and "under common control with" shall mean possession, directly or indirectly, of the power to direct or cause the direction of management or policies (whether through ownership of securities or any partnership or other ownership interest, by contract or otherwise) of a person, corporation or other entity.

36. EXCLUSION OF OTHER RIGHTS. Unless otherwise required by law, the shares of Series E Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights other than those specifically set forth herein.

IN WITNESS WHEREOF, CARRIAGE SERVICES, INC. has caused this Certificate to be signed by Melvin C. Payne, its President, as of the 30th day of October, 1996.

CARRIAGE SERVICES, INC.

By:_____
MELVIN C. PAYNE, President

CERTIFICATE OF DESIGNATION, PREFERENCES,
RIGHTS AND LIMITATIONS

OF

SERIES F PREFERRED STOCK

OF

CARRIAGE SERVICES, INC.

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

That, pursuant to authority conferred upon the Board of Directors of the Corporation by its Certificate of Incorporation, and pursuant to the provisions of Section 151(g) of the General Corporation Law of Delaware, such Board of Directors by written unanimous consent dated October 30, 1996, duly adopted a resolution providing for the issuance of a series of Twenty Million (20,000,000) shares of the Corporation's Preferred Stock, $.01 par value per share, to be designated "Series F Preferred Stock", and fixing the voting powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations or restrictions thereof, which resolution is as follows:

RESOLVED, that pursuant to the authority expressly granted and vested in the Board of Directors of the Corporation in accordance with the provisions of its Certificate of Incorporation, there shall be established and authorized for issuance a series of the Corporation's Preferred Stock, $.01 par value per share, designated "Series F Preferred Stock" (herein referred to as "Series F Preferred Stock"), consisting of Twenty Million (20,000,000) shares, each of the par value of $.01 per share, and having the voting

powers, preferences and relative, participating, optional and other rights, and the qualifications, limitations or restrictions set forth below:

37. DEFINITIONS. For purposes hereof, the following terms shall have the following definitions or shall be subject to the following rules of construction:

(a) "Base Conversion Price" shall mean:

(i) in the case of Designated Preferred Stock, the following:

(A) $15.00, if the Conversion Date occurs on or before March 31, 1997;

(B) $16.00, if the Conversion Date occurs between April 1, 1997 and December 31, 1997, inclusive;

(C) $17.00, if the Conversion Date occurs between January 1, 1998 and December 31, 1998, inclusive;

(D) $18.00, if the Conversion Date occurs between January 1, 1999 and December 31, 1999, inclusive;

(E) $19.00, if the Conversion Date occurs between January 1, 2000 and December 31, 2000, inclusive; and

(F) $20.00, if the Conversion Date occurs between January 1, 2001 and December 31, 2001, inclusive;

(ii) in the case of all Series F Preferred Stock which is not Designated Preferred Stock, the following:

(A) $16.00, if the Conversion Date occurs between on or before December 31, 1997;

(B) $17.00, if the Conversion Date occurs between January 1, 1998 and December 31, 1998, inclusive;

(C) $18.00, if the Conversion Date occurs between January 1, 1999 and December 31, 1999, inclusive;

(D) $19.00, if the Conversion Date occurs between January 1, 2000 and December 31, 2000, inclusive; and

(E) $20.00, if the Conversion Date occurs between January 1, 2001 and December 31, 2001, inclusive.

The foregoing shall be subject to adjustment in the manner provided in Section 5 hereof.

(b) "Board of Directors" means the Board of Directors of the Corporation.

(c) "Class A Common Stock" means the Corporation's Class A Common Stock, par value $.01 per share.

(d) "Class B Common Stock" means the Corporation's Class B Common Stock, par value $.01 per share.

(e) "Common Stock" means, collectively, shares of Class A Common Stock and Class B Common Stock.

(f) "Conversion Date" has the meaning specified in Section 5(c).

(g) "Conversion Price" means:

(i) if the Conversion Date occurs on or before December 31, 2001, the Base Conversion Price; and

(ii) if the Conversion Date occurs on or after January 1, 2002, the Market Price.

(h) "Designated Preferred Stock" means those shares, if any, of the outstanding Series F Preferred Stock which are specially designated by the Board of Directors to constitute "Designated Preferred Stock" for purposes of the determination of the Base Conversion Price applicable thereto as determined in accordance with paragraph (a) above. Any shares to be so designated as Designated Preferred Stock shall be specially designated as such by resolution of the Board of Directors and set forth in the minutes of the Board of Directors at which such shares are authorized to be issued, and shall be conclusively evidenced (absent manifest error) by a notation to such effect on the face of each certificate representing such shares. Designated Preferred Stock shall in all respects have the same voting powers, preferences and relative, participating, optional or other rights, qualifications, limitations or restrictions as other Series F Preferred Stock, except as to the determination of the Base Conversion Price.

(i) "Dividend Rate" shall mean an annual rate determined as follows:

(i) $.0400 for all periods while the Series F Preferred Stock is outstanding on or before December 31, 1997;

(ii) $.0420 for the period between January 1, 1998 and December 31, 1998, inclusive;

(iii) $.0441 for the period between January 1, 1999 and December 31, 1999, inclusive;

(iv) $.0463 for the period between January 1, 2000 and December 31, 2000, inclusive; and

(v) $.0486 for all periods on and after January 1, 2001 for so long as the Series F Preferred Stock is outstanding.

(j) "Junior Stock" means shares of Common Stock, shares of the Corporation's Series D Preferred Stock, $.01 par value, and shares of any other class or series of the Corporation's capital stock which by its terms is junior or subordinate to the Series F Preferred Stock in any distribution of the Corporation's assets in connection with the liquidation, dissolution or winding up of the affairs of the Corporation.

(k) "Market Price" means the average Trading Price of a share of Class A Common Stock for the ten trading days of the Class A Common Stock preceding the Conversion Date. If during such ten-day period the Class A Common Stock is not traded on a national securities exchange or over-the-counter and reported on NASDAQ, then Market Value shall be the fair market value of a share of Class A Common Stock as reasonably determined in good faith by the Board of Directors.

(l) The term "outstanding", when used with reference to shares of capital stock, shall mean issued shares, excluding shares held by the Corporation or a subsidiary of the Corporation.

(m) "Parity Stock" means the Corporation's Series E Preferred Stock, $.01 par value, and any other class or series of the Corporation's stock (other than Common Stock) which by its terms is neither subordinate nor superior to or in preference of the Series F Preferred Stock in any distribution of the Corporation's assets in connection with the liquidation, dissolution or winding up of the affairs of the Corporation.

(n) "Preferred Stock" means shares of any series of the Corporation's Preferred Stock, $.01 par value per share.

(o) "Restricted Payment" means the declaration or making by the Corporation 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 Series F Preferred Stock, other than dividends payable in shares of Common Stock.

(p) "Senior Credit Documents" means the Credit Agreement dated effective August 13, 1996 among the Company, NationsBank of Texas, N.A., as administrative agent, Provident Services, Inc., as documentation agent, and the "Lenders" named therein, together with (i) all amendments, restatements, modifications and supplements thereto, and (ii) all replacements therefor, including (without limitation) any refinancings of the indebtedness under such Credit Agreement.

(q) "Series F Preferred Stock" means the series of Preferred Stock designated by the Corporation as its Series F Preferred Stock, $.01 par value per share.

(r) "Trading Price" means, on any trading day for the Class A Common Stock, (i) if the Class A Common Stock is traded on a national securities exchange on such trading day, then the closing price on such trading day as reflected in the consolidated trading tables of the WALL STREET JOURNAL or any other appropriate publication, (ii) if the Class A Common Stock is traded over-the-counter and reported on the NASDAQ National Market System, then the average of the high and low sales prices on such trading day as reported in such publication or, if not so published, then as reported by the NASDAQ National Market System, or (iii) if the Class A Common Stock is not traded on a national securities exchange or in the NASDAQ National Market System on such trading day, then the representative bid and asked prices at the end of such trading day in such market as reported by NASDAQ.

(s) All accounting terms used herein and not expressly defined herein shall have the meanings given to them in accordance with generally accepted accounting principles consistently applied and in effect as of the date of the relevant calculation.

38. DIVIDENDS.

(a) SERIES F PREFERRED STOCK. The holders of Series F Preferred Stock, in preference to the holders of Junior Stock, shall be entitled to receive in respect of each such share of Series F Preferred Stock, but only out of any funds legally available for the declaration of dividends, cumulative, preferential dividends in cash at an annual rate equal to the Dividend Rate, payable quarter-annually on or before the last calendar day of each March, June, September and December in

each year in which the Series F Preferred Stock is outstanding. Such dividends shall commence to accrue on the shares of Series F Preferred Stock and be cumulative from and after the date of issuance of such shares of Series F Preferred Stock and shall be deemed to accumulate and accrue from day to day thereafter whether or not declared or if the Corporation has earnings. Notwithstanding that the Corporation may not have sufficient surplus or income in order to pay any such dividends on the Series F Preferred Stock, such dividends shall continue to accrue and to accumulate until paid in full. So long as any shares of Series F Preferred Stock remain outstanding, if the Corporation shall not pay any dividends on the Series F Preferred Stock on the date due, then no dividends or distributions shall be paid upon, or declared or set apart for, any Junior Stock or Parity Stock, nor shall any Junior Stock or Parity Stock be purchased, redeemed, retired or otherwise acquired by the Corporation or any of its consolidated subsidiaries, unless and until in either case all past due, cumulative dividends on the then outstanding shares of Series F Preferred Stock for all past dividend periods shall have been or concurrently shall be paid; provided, however, that the foregoing shall not prevent or impair (i) the payment or declaration of dividends or distributions on Junior Stock to the extent payable solely in shares of Junior Stock, and the payment or declaration of dividends or distributions on Parity Stock to the extent payable solely in shares of Junior Stock; (ii) the Corporation's purchase, redemption or acquisition of Parity Stock outstanding on the date of first issuance of the Series F Preferred Stock, but only to the extent in accordance with regularly scheduled dates set for any such purchase, redemption or acquisition in accordance with the terms applicable to such Parity Stock; or (iii) redemptions of shares of Series D Preferred Stock outstanding on the date of first issuance of the Series F Preferred Stock, but only to the extent that (x) the Corporation's obligation to redeem such shares or pay regularly scheduled dividends thereon is secured by a standby letter of credit, and (y) such redemption is deemed to occur in connection with a draw upon such letter of credit by or on behalf of the holder(s) of such shares.

(b) OTHER STOCK. Subject to paragraph (a) above, (i) dividends may be declared and paid on Junior Stock and Parity Stock, and (ii) Junior Stock and Parity Stock may be purchased, retired or otherwise acquired, when and as determined by the Board of Directors, out of any funds legally available for such purposes.

(c) RESTRICTED PAYMENTS. Notwithstanding the foregoing provisions of this Section 2 and the provisions of Section 3 below, the Corporation shall not declare or pay, and no holder of the Series F Preferred Stock shall be entitled to receive or retain, any Restricted Payment in respect of shares of Series F Preferred Stock if, at the time of such Restricted Payment, such holder has received written notice from any lender under the Senior Credit Documents, or from the Corporation, that an event of default (within the meaning of the Senior Credit

Documents) has occurred and is then continuing and that Restricted Payments should be blocked. Such blockage period shall continue (i) indefinitely after receipt of any such notice, if the event of default specified therein results from any default in the payment by the Corporation of any obligations under any Senior Credit Document, whether by maturity, acceleration, or otherwise, for so long as such event of default shall continue, or (ii) in the case of any other event of default, for a period of 180 days after such holder's receipt of any such notice. This paragraph does not have the intent or effect of impairing, as between the Corporation and the holders of the Series F Preferred Stock, the obligation of the Corporation, which is unconditional and absolute (subject to the other provisions hereof), to declare and pay dividends and to redeem shares of Series F Preferred Stock, at such times and in the manner herein specified. The Corporation agrees that other Parity Stock issued by it shall, so long as the foregoing provisions of this paragraph (c) apply to the Series F Preferred Stock, contain restrictions on such Parity Stock equivalent to the foregoing provisions of this paragraph (c).

39. REDEMPTION.

(a) MANDATORY REDEMPTION. On December 31, 2007, the Corporation shall redeem all of the shares of Series F Preferred Stock then outstanding (subject, however, to the right of the holders of the Series F Preferred Stock to convert their shares pursuant to Section 5 by providing the written conversion notice referred to in Section 5(c) below on or before November 30, 2007), at a redemption price of $1.00 per share, together with all accrued and unpaid dividends through the effective date of redemption.

(b) NO OPTIONAL REDEMPTION. The Corporation shall not have the right to redeem the Series F Preferred Stock except in accordance with paragraph (a) above.

(c) GENERAL. From and after the effective date of redemption and the setting aside of the funds necessary for redemption, notwithstanding that any certificate for shares of Series F Preferred Stock so called for redemption shall not have been surrendered for cancellation, the shares to be redeemed shall no longer be deemed outstanding, and the holders of certificates representing such shares shall have with respect to such shares no rights in or with respect to the Corporation except the right to receive, upon the surrender of such certificates, the redemption price therefor. Shares of Series F Preferred Stock redeemed by the Corporation pursuant to this Section 3, or shares of Series F Preferred Stock otherwise purchased by the Corporation, shall not be reissued and shall be cancelled and retired in the manner provided by the laws of the State of Delaware, and no other shares of Series F Preferred Stock shall be issued in lieu thereof.

40. PREFERENCE ON LIQUIDATION, DISSOLUTION OR WINDING UP.

(a) DEFINITION. A consolidation or merger of the Corporation, a sale or transfer of substantially all of its assets as an entirety, or any purchase or redemption of capital stock of the Corporation of any class, shall not be regarded as "liquidation, dissolution or winding up of the affairs of the Corporation" within the meaning of this Section 4.

(b) SERIES F PREFERRED STOCK. During any proceedings for the voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of the Series F Preferred Stock shall be entitled to receive, before any distribution of the assets of the Corporation shall be made in respect of any outstanding Junior Stock, and PARI PASSU with any distribution of assets to the holders of outstanding Parity Stock, an amount in cash for each share of Series F Preferred Stock equal to $1.00 together with all accrued and unpaid dividends through the effective date of such liquidation, dissolution or winding up, or funds necessary for such payment shall have been set aside in trust for the account of the holders of the outstanding Series F Preferred Stock so as to be and continue available therefor. If upon such liquidation, dissolution or winding up, the assets distributable to the holders of the Series F Preferred Stock as aforesaid shall be insufficient to permit the payment to them (together with any distributions to the holders of Parity Stock) of $1.00 per share (plus such accrued and unpaid dividends), the assets of the Corporation shall be distributed to the holders of the Series F Preferred Stock and the Parity Stock ratably until they shall have received the full amount to which they would otherwise be entitled. If the assets of the Corporation are sufficient to permit the payment of such amounts to the holders of the Series F Preferred Stock and the Parity Stock, the remainder of the assets of the Corporation, if any, after the distributions as aforesaid shall be distributed and divided ratably among the holders of the Junior Stock then outstanding according to their respective shares.

41. CONVERSION. The Series F Preferred Stock shall be convertible into Class A Common Stock in accordance with the following provisions of this Section 5.

(a) OPTIONAL CONVERSION. Subject to and upon compliance with the provisions of this Section 5, each holder of shares of Series F Preferred Stock shall have the right at such holder's option, at any time or from time to time from, to convert all or any part of his or her shares of Series F Preferred Stock into fully paid and nonassessable shares of Class A Common Stock, at the Conversion Price in effect on the Conversion Date, upon the terms hereinafter set forth.

(b) CONVERSION PRICE. The shares of Series F Preferred Stock shall be convertible into the number of shares of Class A Common Stock as is determined by multiplying the number of shares of Series F Preferred Stock to be converted by a fraction, the numerator of which is $1.00 and the denominator of which is the Conversion Price in effect on the Conversion Date.

(c) MECHANICS OF CONVERSION. The holder of any shares of Series F Preferred Stock may exercise the optional conversion right specified in paragraph (a) above by surrendering to the Corporation or any transfer agent of the Corporation the certificate or certificates for the shares to be converted, accompanied by written notice stating that the holder elects to convert all or a specified portion of the shares represented thereby. Optional conversion under paragraph (a) shall be deemed to have been effected on the date when notice of an election to convert and certificates for the shares to be converted has been delivered; any such date is referred to herein as the "Conversion Date". As promptly as practicable thereafter the Corporation shall issue and deliver to or upon the written order of such holders a certificate or certificates for the number of full shares of Class A Common Stock to which such holders are entitled rounded down to the next whole share as provided in paragraph (d) below. The person in whose name the certificate or certificates of Class A Common Stock are to be issued shall be deemed to have become a holder of record of such Class A Common Stock on the Conversion Date.

(d) FRACTIONAL SHARES. No fractional shares of Class A Common Stock or scrip shall be issued upon conversion of shares of Series F Preferred Stock. Instead of any fractional shares of Class A Common Stock which would otherwise be issuable upon conversion of any shares of Series F Preferred Stock, the number of full shares of Class A Common Stock issuable upon conversion thereof shall be reduced to the next lowest number of whole shares, and the Corporation will pay a cash adjustment in respect of any surrendered shares of Series F Preferred Stock not converted into Class A Common Stock in an amount equal to the number of shares of Series F Preferred Stock not so converted multiplied by a fraction, the numerator of which is the Market Price on the Conversion Date and the denominator of which is the Conversion Price on the Conversion Date.

(e) CONVERSION PRICE ADJUSTMENTS. The Base Conversion Price shall be subject to adjustment from time to time as follows:

(i) CERTAIN ISSUANCES OF EQUITY STOCK. If, at any time following issuance of any Series F Preferred Stock while the Conversion Price is based upon the Base Conversion Price, the Corporation issues any Class A Common Stock, or any security or evidence of indebtedness which is convertible or exercisable into or exchangeable for Class A Common Stock (including, without limitation, any Class B Common Stock or any Preferred Stock), or any warrant, option or other right to subscribe for or purchase Class A Common Stock or any security or evidence of indebtedness which is convertible or exchangeable for Class A Common Stock (hereinafter, "Equity Stock"), other than Excluded Stock (as defined in clause (D) below), for a consideration per share less than the Base Conversion Price then in effect (as adjusted as provided in this Section 5),

then the Base Conversion Price shall immediately be reduced to a price per share determined by multiplying the Base Conversion Price then in effect by a fraction, the numerator of which is an amount equal to the sum of (x) the number of shares of Equity Stock of the Corporation outstanding immediately prior to such issue or sale multiplied by the Base Conversion Price in effect immediately prior to such issuance or sale plus (y) the consideration, if any, received by the Corporation upon such issue or sale, and the denominator of which is the total number of shares of Equity Stock of the Corporation outstanding immediately after such issue or sale multiplied by the Base Conversion Price. The number of shares of Equity Stock outstanding at any given time for the purposes of the foregoing computation means the shares of Class A Common Stock outstanding together with all shares of Class A Common Stock issuable upon conversion or exercise of any such Equity Stock, excluding any shares of Equity Stock previously outstanding that have been reacquired by the Corporation and constitute treasury shares.

For purposes of any adjustment of the Base Conversion Price pursuant to this subparagraph (i) of this Section 5(e), the following provisions shall be applicable:

(A) CASH. In the case of the issuance of Equity Stock for cash, the amount of the consideration received by the Corporation shall be deemed to be the amount of the cash proceeds received by the Corporation for such Equity Stock before deducting therefrom any discounts, commissions, taxes, legal and accounting fees or other expenses allowed, paid or incurred by the Corporation in connection with the issuance and sale thereof.

(B) CONSIDERATION OTHER THAN CASH. In the case of the issuance of Equity Stock (other than as described in clause (C) below) for a consideration in whole or in part other than cash, including securities acquired in exchange therefor (other than securities by their terms so exchangeable), the consideration other than cash shall be deemed to be the fair market value thereof as reasonably determined by the Board of Directors in good faith.

(C) OPTIONS AND CONVERTIBLE SECURITIES, ETC. In the case of the issuance of (i) options, warrants or other rights to purchase or acquire Class A Common Stock or other Equity Stock (whether or not at the time exercisable), (ii) securities which by their terms are convertible or exercisable into or exchangeable for Class A Common Stock or other Equity Stock (whether or not at the time so convertible, exercisable or exchangeable) or (iii) options,

warrants or rights to purchase such convertible or exchangeable securities (whether or not at the time exercisable):

(1) the aggregate maximum number of shares of Class A Common Stock deliverable upon exercise of such options, warrants or other rights to purchase or acquire Class A Common Stock shall be deemed to have been issued at the time such options, warrants or rights were issued and for a consideration equal to the aggregate consideration (determined in the manner provided in clauses (A) and (B) above), if any, received by the Corporation upon the issuance of such options, warrants or rights plus the aggregate minimum purchase price provided in such options, warrants or rights for the Class A Common Stock covered thereby;

(2) the aggregate maximum number of shares of Class A Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities, or upon the exercise of options, warrants or other rights to purchase or acquire such convertible or exchangeable securities and the subsequent conversion or exchange thereof, shall be deemed to have been issued at the time such securities were issued or such options, warrants or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for any such securities and related options, warrants or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the Corporation upon the conversion or exchange of such securities and the exercise of any related options, warrants or rights (the consideration in each case to be determined in the manner provided in clauses (A) and (B) above);

(3) on any change in the number of shares of Class A Common Stock deliverable upon exercise of any such options, warrants or rights or conversion of or exchange for such convertible or exchangeable securities or any change in the consideration to be received by the Corporation upon such exercise, conversion or exchange, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Base Conversion Price as then in effect shall forthwith be readjusted to such Base Conversion Price as would have been obtained had an

adjustment been made upon the issuance of such options, warrants or rights not exercised prior to such change, or securities not converted or exchanged prior to such change, on the basis of the terms of such options, warrants, rights or convertible or exchangeable securities as so changed;

(4) on the expiration or cancellation of any such options, warrants or rights, or the termination of the right to convert or exchange such convertible or exchangeable securities, if the Base Conversion Price shall have been adjusted upon the issuance thereof, the Base Conversion Price shall forthwith be readjusted to such Base Conversion Price as would have been obtained had an adjustment been made upon the issuance of such options, warrants, rights or securities on the basis of the issuance of only the number of shares of Class A Common Stock actually issued upon the exercise of such options, warrants or rights, or upon the conversion or exchange of such securities; and

(5) regardless of whether the Base Conversion Price shall have been adjusted upon the issuance of any such options, warrants, rights or convertible or exchangeable securities, no further adjustment of the Base Conversion Price shall be made for the actual issuance of Class A Common Stock upon the exercise, conversion or exchange thereof;

provided, however, that no adjustment pursuant to clause (C) shall have the effect of increasing the Base Conversion Price above the initial Base Conversion Price.

(D) EXCLUDED STOCK. For purposes hereof, "Excluded Stock" means shares of Common Stock issued or reserved for issuance by the Corporation (i) upon conversion, exercise or exchange of any Equity Stock that is outstanding as of September 30, 1996; (ii) pursuant to a stock dividend, subdivision or split-up covered by subparagraph (ii) or (iii) of this Section 5(e); and (iii) upon exercise of options issued to employees or directors of the Corporation or its subsidiaries, provided that (x) the exercise price thereof is not less than the fair market value per share of the Class A Common Stock determined in good faith by the Board of Directors at the time such options are granted, and (y) options covering no more than five percent (5%) of the fully diluted Class A Common Stock

may be issued under this clause (iii) without causing an adjustment in the Base Conversion Price herein described.

(ii) STOCK DIVIDENDS. If the number of shares of Class A Common Stock outstanding at any time after the issuance of any Series F Preferred Stock is increased by a stock dividend payable in shares of Class A Common Stock or by a subdivision or split-up of shares of Class A Common Stock, and if the Conversion Price then in effect is based upon the Base Conversion Price, then immediately after the record date fixed for the determination of holders of Class A Common Stock entitled to receive such stock dividend or the effective date of such subdivision or split-up, as the case may be, the Base Conversion Price shall be appropriately decreased so that the holders of any shares of Series F Preferred Stock shall be entitled to receive the number of shares of Class A Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series F Preferred Stock been converted immediately prior thereto.

(iii) COMBINATION OF STOCK. If the number of shares of Class A Common Stock outstanding at any time after issuance of any class of Series F Preferred Stock is decreased by a combination of the outstanding shares of Class A Common Stock, and if the Conversion Price then in effect is based upon the Base Conversion Price then, immediately after the effective date of such combination, the Base Conversion Price shall be appropriately increased so that the holders of any shares of Series F Preferred Stock shall be entitled to receive the number of shares of Class A Common Stock of the Corporation which they would have owned immediately following such action had such shares of Series F Preferred Stock been converted immediately prior thereto.

(iv) REORGANIZATIONS. In case of any capital reorganization of the Corporation, or of any reclassification of the Class A Common Stock, or in case of the consolidation of the Corporation with or the merger of the Corporation with or into any other corporation, partnership or other business entity in which the Corporation is not the survivor, or of the sale, lease or other transfer of all or substantially all of the assets of the Corporation to any other corporation, partnership or other business entity, each share of Series F Preferred Stock shall, after such capital reorganization, reclassification, consolidation, merger, sale or lease, be convertible into the number of shares of stock or other securities or property to which the Class A Common Stock issuable (at the time of such capital reorganization, reclassification, consolidation, merger, sale or lease) upon conversion of such share of Series F Preferred Stock would have been entitled upon such capital reorganization, reclassification, consolidation,

merger, sale or lease in place of (or in addition to, in the case of any such event after which Class A Common Stock remains outstanding) the shares of Class A Common Stock into which such share of Series F Preferred Stock would otherwise have been convertible; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the holders of the shares of Series F Preferred Stock shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any share of stock or other securities or property thereafter deliverable on the conversion of the shares of Series F Preferred Stock, and such shares so deliverable shall be entitled, as nearly as practicable, to the same rights, preferences and privileges and the benefits of the same restrictions as those which the shares of Series F Preferred Stock were so entitled immediately prior thereto. The subdivision or combination of shares of Class A Common Stock issuable upon conversion of shares of Series F Preferred Stock at any time outstanding into a greater or lesser number of shares of Class A Common Stock (whether with or without par value) shall not be deemed to be a reclassification of the Class A Common Stock of the Corporation for the purposes of this subparagraph (iv).

(v) ROUNDING OF CALCULATIONS; MINIMUM ADJUSTMENT. All calculations under this paragraph (e) shall be made to the nearest cent or to the nearest one hundredth (1/100th) of a share, as the case may be. Any provision of this paragraph (e) to the contrary notwithstanding, no adjustment in the Base Conversion Price shall be made if the amount of such adjustment would be less than $0.01, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate $0.01 or more.

(vi) TIMING OF ISSUANCE OF ADDITIONAL CLASS A COMMON STOCK UPON CERTAIN ADJUSTMENTS. In any case in which the provisions of this paragraph (e) requires that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event issuing to the holder of any shares of Series F Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Class A Common Stock or other property issuable or deliverable upon exercise by reason of the adjustment required by such event over and above the shares of Class A Common Stock or other property issuable or deliverable upon such conversion before giving effect to such adjustment; PROVIDED, HOWEVER that the Corporation upon request shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares

or other property, and such cash, upon the occurrence of the event requiring such adjustment.

(f) CERTAIN ADJUSTMENTS. In case of any adjustment in the Conversion Base Price pursuant to this Section 5(e) at a time when the amount of the Conversion Base Price is due to increase at one or more future dates in accordance with the schedule contained within the definition of such term, then in addition to the adjustment of the Base Conversion Price then in effect, each subsequent increase therein contained within such definition shall be appropriately adjusted to give effect to provisions of this Section 5(e). In case, at a time when the Conversion Price is based upon the Market Price, the record date for any action of the type described subparagraph (ii), (iii) or (iv) above occurs prior to a Conversion Date but after one or more of the trading days for which the Trading Price therefor is determined, then the Trading Price for each trading day occurring prior to such record date shall be appropriately adjusted in order to give effect to such action, in the manner provided in said subparagraph (ii), (iii) or (iv), as the case may be.

(g) STATEMENT REGARDING ADJUSTMENTS. Whenever the Base Conversion Price shall be adjusted as provided in paragraph (e), the Corporation shall forthwith file, at the office of any transfer agent for the Series F Preferred Stock and at the principal office of the Corporation, a statement showing in detail the facts requiring such adjustment and the Base Conversion Price that shall be in effect after such adjustment, and the Corporation shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each holder of the Series F Preferred Stock at his or her address appearing on the Corporation's records. Each such statement shall be signed by the Corporation's chief financial officer. Where appropriate, such copy may be given in advance and may be included as part of a notice required to be mailed under the provisions of subparagraph (h) below.

(h) NOTICE TO HOLDERS. In the event the Corporation proposes to take any action of the type described in subparagraph (i), (ii), (iii) or (iv) of paragraph (e) above, the Corporation shall give notice to each holder of the Series F Preferred Stock in the manner set forth in subparagraph (f) above, which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth such facts with respect thereto as shall be reasonably necessary to indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Base Conversion Price and the number, kind or class of shares or other securities or property which shall be deliverable or purchasable upon the occurrence of such action or deliverable upon conversion of the Series F Preferred

Stock. In the case of any action which would require the fixing of a record date, such notice shall be given at least 10 days prior to the date so fixed, and in case of all other action, such notice shall be given at least 15 days prior to the taking of such proposed action.

(i) COSTS. The Corporation shall pay all documentary, stamp, transfer or other transactional taxes attributable to the issuance or delivery of shares of Class A Common Stock of the Corporation or other securities or property upon conversion of the shares of Series F Preferred Stock; PROVIDED, HOWEVER, that the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares or securities in the name other than that of the holder of the shares of Series F Preferred Stock in respect of which such shares are being issued.

(j) RESERVATION OF SHARES. The Corporation shall reserve at all times so long as any shares of Series F Preferred Stock remain outstanding, free from preemptive rights, out of its treasury stock or its authorized but unissued shares of Class A Common Stock, or both, solely for the purpose of effecting the conversion of shares of Series F Preferred Stock, sufficient shares of Class A Common Stock to provide for the conversion of all outstanding shares of Series F Preferred Stock and set aside and keep available any other property deliverable upon conversion of all outstanding shares of Series F Preferred Stock.

(k) APPROVALS. If any shares of Class A Common Stock or other securities to be reserved for the purpose of conversion of shares of Series F Preferred Stock require registration with or approval of any governmental authority under any Federal or state law before such shares or other securities may be validly issued or delivered upon conversion, then the Corporation will in good faith and as expeditiously as possible use its commercially reasonable efforts to secure such registration or approval, as the case may be. The foregoing shall not be interpreted to require the Corporation to cause the registration of such shares under the Securities Act of 1933, as amended, or the securities or blue laws of any state.

(l) VALID ISSUANCE. All shares of Class A Common Stock or other securities which may be issued upon conversion of the shares of Series F Preferred Stock will upon issuance by the Corporation be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issuance thereof and the Corporation shall take no action which will cause a contrary result.

42. VOTING RIGHTS.

(a) GENERAL. At any annual or special meeting of stockholders or otherwise in respect of any matter submitted for the vote of stockholders generally, the holders of the Series F Preferred Stock shall be entitled to such number of votes (or fractions thereof) as shall be determined by multiplying (1) vote for each share of Series F Preferred Stock so held by a fraction, the numerator of which is $1.00 and the denominator of which is the Conversion Price in effect on the record date for determining stockholders entitled to vote on such matter.

(b) BOARD REPRESENTATION. For so long as the Minimum Investment (as hereafter delivered) shall be maintained, the holders of the Series F Preferred Stock, in addition to any other voting rights herein specified, shall be entitled to vote (voting together as if a class, by a majority of the outstanding shares thereof) for the election to the Board of Directors of one (1) member thereof. Provided, however, that the person so elected by the holders of the Series F Preferred Stock may be only Mark Wilson (and no other person) for so long as Mark Wilson is alive or is not prevented for an indefinite period of time by a physical or mental impairment from performing the essential functions attendant to a position on the Board of Directors, and in case of the death or such a disability of Mark Wilson, then the holders of the Series F Preferred Stock shall be entitled, for so long as the Minimum Investment is maintained and subject to the provisions hereof, to elect such other person, who shall have more than a nominal amount of experience and knowledge concerning the conduct of publicly held corporations, to such position on the Board of Directors. The director so elected by the holders of Series F Preferred Stock shall be a Class III Director, within the meaning of the Corporation's Certificate of Incorporation, so long as such classification is used and applicable to the Board of Directors. For so long as the Minimum Investment is maintained, the director elected by the holders of the Series F Preferred Stock may be removed only (i) for cause by the affirmative vote of the holders of not less than 80% of the votes of the outstanding shares of the class or classes of stock then entitled to be voted for the election of directors, in accordance with the terms and procedures provided in the Corporation's Certificate of Incorporation, provided that the holders of a majority of the outstanding Series F Preferred Stock shall be entitled to vote for a replacement director (who shall have the minimum experience and knowledge referred to above) to fill the vacancy created by such removal, or (ii) by the affirmative vote of the holders of a majority of the outstanding Series F Preferred Stock (subject to the above provisions regarding Mark Wilson). At such time as the Minimum Investment has no longer been maintained, the special voting rights under this paragraph (b) shall terminate, but the person elected to the Board of Directors by the holders of the Series F Preferred Stock shall not thereby automatically be removed from office, but rather shall continue to hold office in accordance with the Corporation's Certificate of Incorporation and Bylaws. For purposes hereof, the term "Minimum Investment" means the holding by those persons who have acquired Series F Preferred Stock upon the original issuance thereof, together with their affiliates, of at least

$7,000,000 in shares of Series F Preferred Stock, shares of Class A Common Stock, or any combination thereof, each share of Series F Preferred Stock being deemed to have a value of $1.00 per share and each share of Class A Common Stock being deemed to have a value of $15.00 per share, for such purposes. An "affiliate" of a person means one who controls, is controlled by or is under common control with that person.

(c) SPECIAL VOTING REQUIREMENTS. Without limiting the generality of paragraph (a) above, the Corporation shall not, without the consent of the holders of at least a majority of the outstanding shares of Series F Preferred Stock, voting together as a single class, either (i) amend, alter or repeal any provision of the Corporation's Certificate of Incorporation or Bylaws or this Certificate of Designation, in any event so as to adversely affect the rights, powers, preferences or privileges or restrictions provided for the benefit of any of the Series F Preferred Stock as provided herein, or (ii) issue any Preferred Stock or other class or series of the Corporation's capital stock that is senior or preferential to the Series F Preferred Stock in any distribution of the Corporation's assets in connection with the liquidation, dissolution or winding up of the affairs of the Corporation, or issue any bonds, debentures or other obligations convertible or exchangeable for, or having the right to purchase, such senior or preferential stock, or reclassify any Junior Stock into stock having such senior or preferential rights.

43. EXCLUSION OF OTHER RIGHTS. Unless otherwise required by law, the shares of Series F Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights other than those specifically set forth herein.

IN WITNESS WHEREOF, CARRIAGE SERVICES, INC. has caused this Certificate to be signed by Melvin C. Payne, its President, as of the 30th day of October, 1996.

CARRIAGE SERVICES, INC.

By:_____
MELVIN C. PAYNE, President

AMENDED

CERTIFICATE OF DESIGNATION, PREFERENCES,
RIGHTS AND LIMITATIONS

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:

FIRST: That 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"), 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 (the "Series F Designation"), and no shares of Series F Preferred Stock have been issued;

SECOND: 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 by unanimous consent dated December 10, 1996 duly adopted a resolution providing for an amendment to the Certificate of Designation, Preferences, Rights and Limitations of the Corporation's Series F Preferred Stock, 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"), 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 (the "Series F Designation"); and

WHEREAS, no shares of Series F Preferred Stock have been issued, and the Board of Directors deems it in the Corporation's best interests that the Series F Designation be amended in certain respects;

NOW, THEREFORE, BE IT RESOLVED, that 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, there is hereby added to Section 2 of the Series F Designation a new paragraph (d), which paragraph (d) of said Section 2 shall read as follows:

"(d) DIVIDENDS UPON CONVERSION. In no event shall any conversion of shares of Series F Preferred Stock have the effect of extinguishing any accrued and unpaid dividends on such shares through the Conversion Date referred to in Section 5(c). In case of any such conversion, accrued and unpaid dividends on the outstanding Series F Preferred Stock through the Conversion Date shall remain due and owing, provided that such dividends for the prorated period in the applicable quarter-annual period shall nonetheless remain payable on or before the regular date called for the payment of dividends as specified in paragraph (a) above. No dividends shall accrue or be payable in respect of any Series F Preferred Stock from and after the Conversion Date."

THIRD: The designation of the Series F Preferred Stock as such will not change as a result of the foregoing amendment.

IN WITNESS WHEREOF, CARRIAGE SERVICES, INC. has caused this Certificate to be signed by Melvin C. Payne, its President, as of the _____ day of December, 1996.

CARRIAGE SERVICES, INC.

By:_____
MELVIN C. PAYNE,
Chief Executive Officer

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER dated as of October 17, 1996 (this "Agreement"), among CARRIAGE SERVICES, INC., a Delaware corporation (the "Purchaser"), CARRIAGE FUNERAL SERVICES OF CALIFORNIA, INC., a California corporation (the "Acquisition Subsidiary"), CNM, a California corporation (the "Company"), and MARK F. WILSON, a resident of Contra Costa County, California, WENDY WILSON BOYER, a resident of Contra Costa County, California, WARREN A. BROWN, IV, a resident of Alameda County, California, William Boyer and Wendy Wilson Boyer, Trustees of THE BOYER FAMILY TRUST DATED SEPTEMBER 22, 1986, fbo Wendy Wilson Boyer, Marie Dietz and Mark F. Wilson, Trustees of TRUST B UNDER AGREEMENT DATED SEPTEMBER 9, 1977 by Francis Wilson, and Marie Dietz and Mark F. Wilson, Trustees of TRUST C UNDER AGREEMENT DATED SEPTEMBER 9, 1977 by Francis Wilson (together, the "Shareholders");

W I T N E S S E T H:

WHEREAS, the Company, through its wholly owned subsidi aries, owns and operates the nine Wilson & Kratzer Funeral Homes located in Alameda and Contra Costa Counties, California as more particularly described on Schedule I hereto (collectively, the "Homes"), and the Rolling Hills Memorial Park Cemetery located in Contra Costa County, California, also more particularly described on Schedule I (the "Cemetery"), and the Shareholders collectively own all of the issued and outstanding capital stock of the Company in the respective amounts shown on Schedule II hereto; and

WHEREAS, the parties desire that the Company merge with and into the Acquisition Subsidiary in a statutory merger (the "Merger") to be consummated under the laws of the State of California and upon the terms and conditions and for the consideration herein set forth;

NOW, THEREFORE, the parties agree as follows:

1. REORGANIZATION AND MERGER.

1.1. THE MERGER. At the Effective Time of the Merger (as defined in Section 1.2 below), the Company shall be merged with and into the Acquisition Subsidiary in a statutory merger (the "Merger") to be consummated pursuant to and on the terms and conditions set forth in this Agreement and in accordance with the California General Corporation Law ("CGCL"). The Acquisition Subsidiary shall be the surviving corporation of the Merger (the "Surviving Corporation"), and shall continue its corporate existence as a corporation governed by the laws of the State of California.

1.2. EFFECTIVE TIME OF THE MERGER. The Merger shall become effective at such time (the "Effective Time of the Merger") as a copy of this Agreement (or a short-form version hereof meeting the statutory requirements of the CGCL) and the requisite officers' certificate pursuant to Section 1103 of

the CGCL are filed with the Secretary of State of California and become effective; such filing shall be made, and shall provide that the instruments filed therewith shall become effective, as soon as practicable after the Closing referred to in Section 4.1.

1.3. EFFECTS OF THE MERGER. The Merger shall have the effects set forth in Section 1107 of the CGCL.

1.4. SS.368 REORGANIZATION. It is the intention of the parties that the Merger constitute a "reorganization" within the meaning of Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended (the "Code"), in accordance with Section 368(a)(2)(D) of the Code. The parties agree to file all of their respective tax returns and reports in a manner consistent with such intention, and to not take any filing position in a manner inconsistent with such intention unless compelled to do so by court order or administrative decree. Each party agrees to furnish such information and take such action as may be reasonably requested of the other party in connection with the foregoing (which action shall not include any change in the commercial terms of the Merger and the other transactions incident thereto). In no event, however, shall the Purchaser or the Surviving Corporation be required to incur any out-of-pocket expenses in defending such position or providing such information or taking such action, but shall cooperate to the extent reasonably necessary in connection with the defense by the Shareholders of the intended tax free nature of the reorganization, nor shall the foregoing constitute a warranty or guaranty that the Merger will in fact constitute such a reorganization.

2. ARTICLES OF INCORPORATION, BYLAWS, OFFICERS AND DIRECTORS.

2.1. ARTICLES OF INCORPORATION. From and after the Effective Time of the Merger, the Articles of Incorporation of the Acquisition Subsidiary in effect immediately prior to the Effective Time of the Merger shall be the Articles of Incorporation of the Surviving Corporation, subject to the right of the Surviving Corporation to amend its Articles of Incorporation after the Effective Time of the Merger in accordance with such Articles of Incorporation and the CGCL.

2.2. BYLAWS. From and after the Effective Time of the Merger, the bylaws of the Acquisition Subsidiary in effect immediately prior to the Effective Time of the Merger, shall be the bylaws of the Surviving Corporation, until changed or amended as provided therein.

2.3. DIRECTORS. From and after the Effective Time of the Merger, the directors of the Surviving Corporation shall be three (3), who shall be those persons who are directors of the Acquisition Subsidiary immediately prior thereto and Mark F. Wilson, each of whom shall hold office subject to the provisions of, and the number of directors shall be subject to adjustment as provided in, the CGCL and the Articles of Incorporation and bylaws of the Surviving Corporation.

2.4. OFFICERS. From and after the Effective Time of the Merger, the officers of the Surviving Corporation shall be those persons who are officers of the Acquisition Subsidiary immediately prior thereto, except that at the Effective Time of the Merger Mark F. Wilson shall become President of the Surviving Corporation. Each of the foregoing officers shall thereafter hold office subject to the provisions of the CGCL and the bylaws of the Surviving Corporation.

3. CONVERSION OF SHARES.

3.1. CONVERSION OF SHARES. The manner of converting shares of the capital stock of the Company and the Acquisition Subsidiary issued and outstanding immediately prior to the Effective Time of the Merger into shares of Common Stock, no par value, of the Surviving Corporation, or into the right to receive shares of Class A Common Stock, $.01 par value, of the Purchaser ("Class A Common Stock"), shares of Series F Preferred Stock, $.01 par value ("Series F Preferred Stock"), of the Purchaser, cash or Deferred Merger Consideration (as hereafter defined), as the case may be, shall be as follows:

(a) At the Effective Time of the Merger, each share of Common Stock, no par value, of the Acquisition Subsidiary then issued and outstanding shall, by virtue of the Merger and without any action on the part of the Acquisition Subsidiary or the holder of such shares, be converted into one share of Common Stock, no par value, of the Surviving Corporation.

(b) At the Effective Time of the Merger, each share of capital stock of the Company issued and held in its treasury, shall, by virtue of the Merger and without any action on the part of the holder thereof, cease to be outstanding and shall be cancelled and retired without the payment of any consideration in respect thereof.

(c) Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time of the Merger shall, by virtue of the Merger, without any action on the part of the holders thereof, automatically be converted into and become, at the Effective Time of the Merger, the right to receive from the Purchaser, consideration (collectively, the "Merger Consideration"), determined as follows:

FIRST, the aggregate Merger Consideration for all shares of issued and outstanding Company Common Stock shall be calculated as the sum of the following:

(A) An amount in cash equal to $14,900,000.00 LESS the outstanding balance as of the Effective Time of the Merger of the Closing Date Liabilities (as defined in Section 3.7), PLUS $54,189.00 PLUS those Interim Expenses for the Danville Property that are approved pursuant to Section 7.3(d) PLUS an amount accruing at the rate of $109.10 per diem from September 20, 1996 through the Closing Date;

(B) 200,000 shares of Class A Common Stock;

(C) 15,000,000 shares of Series F Preferred Stock;

(D) $5,000,000.00 payable in installments after the Closing as provided in Section 3.6 below (the "Deferred Merger Consideration");

(E) An amount (not to exceed $250,000.00), payable in cash, equal to the amount of the aggregate cash balances at the Effective Time of the Merger of the Company and the Subsidiaries referred to in Section 5.4 (excluding any cash balances dedicated to fund preneed, merchandise and perpetual care trusts and accounts), which amount shall be set forth in a certificate of the Shareholders as to such balances; and

(F) The amount of those accounts receivable of the Subsidiaries outstanding at the Effective Time of the Merger which arise from the sale of merchandise and services for funeral service performed at the Homes prior to the Closing Date and from the at-need sale of Cemetery merchandise and plots at the Cemetery prior to the Closing Date (collectively "Closing Date Receivables") specifically excluding preneed cemetery accounts receivables. An amount equal to 50% of those Closing Date Receivables which are less than 90 days past the invoice date at the Effective Time of the Merger shall be paid in cash at the Closing, and the remainder shall be payable as provided in Section 3.8.

SECOND, the Merger Consideration payable per share of outstanding Company Common Stock shall be determined by dividing the aggregate Merger Consideration calculated above by the number of shares of Company Common Stock which are issued and outstanding at the Effective Time of the Merger. Each component of Merger Consideration set forth in clauses (A) through (F) above shall be allocated equally among all of the shares of Company Common Stock which are issued and outstanding at the Effective Time of the Merger, unless the Purchaser receives, at least thirty (30) days prior to the date set for the Closing, a written notice (which shall be irrevocable and binding on each Shareholder) signed by all of the Shareholders, setting forth a different allocation of such components of the Merger Consideration specified in clauses (A), (B), (C) and (D) above. Such notice may provide for a reallocation of each such component of the Merger Consideration among the Shareholders without affecting the total allocation of Merger Consideration to such component, or may provide for a reallocation of Merger Consideration from one or more such components to one or more other such components, all as shall be specified in such notice, which notice shall be attached to this Agreement and constitute a part hereof when accepted by the Purchaser; provided, however, that (i) for purposes of any such reallocation, each share of Class A Common Stock shall be deemed to have a value of $15.00, each share of Series F Preferred Stock shall be deemed to have a value of $1.00, and the Deferred Merger Consideration shall be based upon the present value thereof on the Closing Date at a discount rate of seven percent (7%) per annum; (ii) in no event shall the aggregate Merger Consideration be affected; (iii) in no event shall the net amount under clause (A) above, after deducting the amount of Closing Date Liabilities, be reduced to below zero; and (iv) the amount under clause (C) above shall in

no event exceed 20,000,000 shares of Series F Preferred Stock. The terms and provisions applicable to the Series F Preferred Stock shall be as described in Section 3.5 below, the terms and provisions applicable to the Deferred Merger Consideration shall be as described in Section 3.6 below, and the terms applicable to the Closing Date Receivables shall be as described in Section 3.8 below.

(d) At the Effective Time of the Merger, all options, warrants, calls, or other securities convertible into or exchangeable with Company Common Stock, and all hereafter issued Company Common Stock that is not issued and outstanding on the date of this Agreement, shall, by virtue of the Merger and without any action on the part of any holder thereof, cease to be outstanding and shall be cancelled and retired without the payment of any con sideration in respect thereof.

(e) No fractional shares of Class A Common Stock or Series F Preferred Stock (collectively, "Purchaser Stock") or scrip will be issued in respect of fractional interests; in lieu of any fractional shares of Purchaser Stock which may be issued in respect of shares of Company Common Stock as aforesaid, the holders thereof instead shall receive a cash payment in an amount equal to the product of such fraction multiplied by $15.00.

3.2. SURRENDER AND PAYMENT. After the Effective Time of the Merger, each holder of an outstanding certificate which prior to the Effective Time of the Merger represented shares of Company Common Stock shall, upon surrender of such certifi cate to the Surviving Corporation, be entitled to receive the Merger Consideration pursuant to Section 3.1(c) of this Agreement. Until so surrendered, each outstanding certificate which prior to the Effective Time of the Merger represented shares of Company Common Stock shall, upon and after the Effective Time of the Merger, represent and evidence only the right to receive payment therefor as provided in Section 3.1(c) of this Agreement.

3.3. NO FURTHER TRANSFERS. Upon and after the Effective Time of the Merger, no transfer of shares of Company Common Stock issued and outstanding immediately prior to the Effec tive Time of the Merger shall be made on the stock transfer books of the Surviving Corporation.

3.4. CONSENT TO MERGER; WAIVER OF DISSENTERS' RIGHTS. Each Shareholder, in his or her capacity as a shareholder of the Company, and the Purchaser, in its capacity as a share holder of the Acquisition Subsidiary, hereby (i) consent to the Merger pursuant to Chapter 12 of the CGCL, and (ii) irrevocably and unconditionally waive all dissenters' and other similar rights with respect to the Merger under and pursuant to Chapter 13 of the CGCL.

3.5. SERIES F PREFERRED STOCK. The terms and provisions of the Series F Preferred Stock shall be as provided in the Certificate of Designation, Preferences, Rights and Limita tions of the Series F Preferred Stock in the form attached hereto as Exhibit H attached hereto, with such amendments thereto as shall be agreed upon by the parties hereto, and which shall be the form on file with the Secretary of State of Delaware and in effect at the Effective Time of the Merger

(the "Series F Designation"), subject to amendment as therein provided. Of the shares of Series F Preferred Stock to be so issued as part of the Merger Consideration (as the same may be reallocated prior to the Closing as described in Section 3.1(c)), one-third (1/3) of such shares (rounded down to the nearest whole share) shall be issued as "Designated Preferred Stock" (within the meaning of the Series F Designation) and the remainder of such shares shall constitute Series F Preferred Stock which is not Designated Preferred Stock.

3.6. DEFERRED MERGER CONSIDERATION. The Deferred Merger Consideration shall be payable in ten (10) equal annual installments of $500,000.00 each, payable on or before the first through tenth anniversaries of the Closing Date. Each installment of Deferred Merger Consideration shall be payable to each Shareholder on a pro rata basis in proportion to his or her respective holdings of Company Common Stock at the Effective Time of the Merger, except as the same may be reallocated among the Shareholders as provided in Section 3.1(c). No interest shall accrue or be payable in respect of the Deferred Merger Consideration. For federal income tax purposes, the parties agree that the Deferred Merger Consideration shall be deemed to include an imputed rate of interest of seven percent (7%) per annum.

3.7. CLOSING DATE LIABILITIES. At the Closing, the Shareholders shall deliver to the Purchaser a statement, certified by them to be true and complete, of all liabilities and obligations of the Company and the Subsidiaries of whatever nature and character including (but not limited to) indebtedness for borrowed money, indebtedness secured by Liens against any assets or properties of the Company or any Subsidiary, accounts and trade payable, accrued liabilities, any liabilities under suits, claims, judgments or orders then pending or any other liability or obligation of the Company and the Subsidiaries attributable to the operation of the their businesses prior to Closing (collectively, "Closing Date Liabilities"), EXCLUDING (i) obligations under preneed funeral contracts for which the full amount has been deposited in trust or funded by insurance as required under applicable law, and under cemetery endowment care, merchandise and service contracts for which the full amount has been deposited in trust, the merchandise has been purchased, or as to which there are outstanding preneed accounts receivable covering such obligations, and obligations in respect of commissions for preneed services and merchandise based upon cemetery preneed accounts receivable to the extent not collected as of the Effective Time of the Merger, (ii) obligations arising after the Closing under the executory contracts listed on Schedule 5.13 under the heading "Executory Contracts" and under the Greer Lease, (iii) any obligations to be paid by the Company or Purchaser with respect to the Danville Property pursuant to Section 7.3(d) hereof, and (iv) obligations payable after the Closing under the Stahl Agreement referred to in Section 5.6(h). Such statement of the Shareholders shall include a proration, as of the Closing Date, of proratable items, such as property taxes, rents under leases (including the Greer Lease) and (to the extent known) utilities, subject to reconciliation as described in Section 3.9. In the case of indebtedness for borrowed money or secured by Liens against any assets of the Company or any Subsidiary, such statement shall be accompanied by statements of the holders of such indebtedness certifying as to the balance thereof, including per diem interest. For purposes of

calculating the amount of Closing Date Liabilities, there shall be included all amounts necessary to pay and discharge the same in full at the Effective Time of the Merger, includ ing principal, interest, fees, prepayment fees or premiums, and other similar amounts, however characterized. Such statement shall include estimated federal and state income tax liabilities, which shall be reconciled as described in Section 3.9. To the extent that Closing Date Liabilities are outstanding at the Effective Time of the Merger, the amount thereof shall be deducted from the cash portion of the Merger Consideration as described in Section 3.1(c)(A). Any Closing Date Liabilities remaining unpaid after the Closing which are not set forth on such statement of the Shareholders shall be paid by the Shareholders and shall be subject to indemnification under Section 10.1.

3.8. CLOSING DATE RECEIVABLES. At the Closing, the Shareholders shall deliver to the Purchaser a list of the Closing Date Receivables, certified by them to be true and complete. That portion of the Merger Consideration payable under Section 3.1(c)(F), which is not paid at the Closing, shall be payable as hereafter provided in this Section 3.8. Within 30 days after the last day of each of the third, eighth and twelfth calendar months following the Closing Date (each such date being referred to as a "Collection Date"), the Surviving Corporation shall deliver to the Shareholders a certificate of the Surviving Corporation, certified by it to be true and complete, as to the amount of collections received by it on Closing Date Receivables from the Effective Time of the Merger through such Collection Date ("Post-Closing Collections"). To the extent that the cumulative amount of Post-Closing Collections through each Collection Date exceed the amount theretofore paid by the Purchaser as Merger Consideration in respect of Closing Date Receivables pursuant to Section 3.1(c)(F) (including amounts payable hereunder in respect of previous Collection Dates), the Purchaser shall pay the amount of the excess to the Shareholders in cash upon delivery of each such certificate; provided, however, that such payment in respect of the Collection Date which is the last day of the third month after the Closing shall be subject to reconciliation as provided in Section 3.9. Neither the Surviving Corporation nor the Purchaser shall have any duty to pursue collection of Closing Date Receivables by means greater than used on its collection of other accounts receivable, and in no event shall the Surviving Corporation or the Purchaser be required to institute suit or refer any account to a collection agency. If the amount of all collections on Closing Date Receivables is less than the amount paid under clause (F) of Section 3.1(c), or if any Closing Date Receivables remain uncollected on such last Collection Date and are thereafter collected, in either event there shall be no further adjustments to the Merger Consideration or payments in respect thereof.

3.9. POST-CLOSING RECONCILIATION. Within 30 days after the first Collection Date referred to in Section 3.8, the Purchaser shall deliver to the Shareholders a certificate certified by it to be true and complete, of the following reconciling items as of the Effective Time of the Merger:

(i) Any trade or accounts payable of the Company or any Subsidiary outstanding at the Effective Time of the Merger, or other Closing Date Liabilities (including federal income tax liabilities), to the extent not

deducted from the Merger Consideration pursuant to Section 3.1(c)(A);

(ii) Any proratable items described in Section 3.7, as adjusted to reflect information regarding such prorations which became known after the Closing;

(iii) non-trusted cemetery merchandise obligations for lawn crypts, markers and granite bases, which shall be reconciled in a manner to be mutually determined among the parties prior to the Closing Date; and

(iv) the non-preneed and non-trusted cash balances of the Company and the Subsidiaries that, despite the Shareholders' best efforts to reduce such balances to below $250,000 by the Effective Time of the Merger, is in excess of such amount and therefore has not been added to the Merger Consideration under Section 3.1(c)(A).

Based upon a reconciliation of the foregoing items, the Merger Consideration shall be adjusted as hereafter provided. The Shareholders shall be given credit as of such Collection Date for the first Closing Date Receivables reconciliation then due under Section 3.8, and for proratable items to the extent of expenses arising after the Effective Time of the Merger; and the Purchaser shall be given credit for Closing Date Liabilities under (i) above and proratable times to the extent of expenses arising prior to the Effective Time of the Merger. If, based upon such reconciliation, the Merger Consideration shall be increased, the Purchaser shall pay to the Shareholders the amount of such increase in cash within 30 days after such reconciliation, and if the Merger Consideration shall be decreased, the Shareholders shall pay to the Purchaser the amount of such decrease within 30 days after such reconciliation.

3.10. FURTHER ASSURANCES. Each party agrees to execute and deliver from time to time after the Effective Time of the Merger, at the reasonable request of any other party, and without further consideration, such additional instruments of conveyance and transfer, and to take such other action as the other party may reasonably require to more effectively carry out the terms and provisions of the Merger and the other transaction contemplated by this Agreement.

4. THE CLOSING.

4.1. TIME AND PLACE. The Closing of the Merger (the "Closing") shall occur at the offices of Freeland, Cooper, LeHocky & Hamburg, 150 Spear Street, Suite 1800, San Francisco, California on the second business day following the date that the last of the conditions to Closing under Section 8 hereof have been satisfied, or at such other date, time or place as may be mutually agreed upon by the parties, but in no event later than January 10, 1997. The date and time of the Closing is herein called the "Closing Date". At the Closing, the Shareholders shall surrender for cancellation pursuant to the Merger all certificates representing their respective shares of capital stock of the Company, against receipt from the Purchaser of the Merger Consideration. All action to be taken at the Closing as hereinafter set forth, and all documents and instruments executed and delivered, and all payments made with respect thereto, shall be considered to have been taken, delivered or made simultaneously, and no such

action or delivery or payment shall be considered as complete until all action incident to the Closing has been completed.

4.2. RELATED TRANSACTIONS. In addition to the Merger, at the Closing the following transactions shall occur:

(a) The Purchaser and the Shareholders shall each execute and deliver to the other a Stock Registration Agreement to be dated the Closing Date and in substantially the form of Exhibit A hereto (the "Registration Agreement");

(b) The number of positions on the Purchaser's Board of Directors shall be increased by one (1), and Mark Wilson ("Wilson") shall be elected to the vacancy created by such increase, as a Class III Director, within the meaning of the Purchaser's By-laws;

(c) The Acquisition Subsidiary, on the one hand, and each of Wilson and Wendy Wilson Boyer ("Boyer"), on the other, shall each execute and deliver a separate Employment Agreement to be dated the Closing Date and in substantially the forms of Exhibits B-1 and B-2 hereto, respectively (collectively, the "Employment Agreements");

(d) The Acquisition Subsidiary shall establish its Carriage Partners Program for California in substantially the form of Exhibit C hereto (the "Program"), and Wilson shall become a participant in the Program in accordance with the terms and provisions thereof;

(e) The Acquisition Subsidiary and the Purchaser, on the one hand, and each of Wilson and Boyer, on the other, shall each execute and deliver a separate Non- Competition Agreement to be dated the Closing Date and in substantially the forms of Exhibits D-1 and D-2, respectively, hereto (collectively, the "Non-Competition Agreements");

(f) Melvin C. Payne, Mark W. Duffey, C. Byron Snyder and Barry K. Fingerhut (collectively, the "Carriage Stockholders") and the Shareholders shall each execute and deliver to the other a Co-Sale Agreement to be dated the Closing Date and in substantially the form of Exhibit E hereto (the "Co-Sale Agreement");

(g) Crockett Properties, a California partnership ("Related Partnership"), shall convey fee simple title to Wilson & Kratzer Mortuaries, a California corporation and wholly owned subsidiary of the Company ("Wilson & Kratzer"), all of the real property and improvements on which the Grant Miller Chapel in Oakland, California is situated (as more particularly described on Schedule 5.6, hereafter the "Grant Real Property"), free and clear of all Liens other than Permitted Liens against such property described on Schedule 5.6, for a consideration consisting entirely in cash or notes of Wilson & Kratzer that will, at the Effective Time of the Merger, constitute Closing Date Liabilities deducted from the Merger Consideration under Section 3.1(c)(A); and

(h) BWB Diablo Properties, LLC ("BWB") shall convey and assign to Wilson & Kratzer fee simple title to all of the real property and improvements located at 825 Hartz

Way in Danville, Contra Costa County, California more particularly described on Schedule 5.6(c) (the "Danville Property"), acquired by BWB from The Danville Community Development Agency pursuant to the Purchase and Sale Agreement between BWB and such Agency dated July 22, 1996 (the "Danville Purchase Agreement"), such assignment to include BWB's rights under the Danville Purchase Agree ment, under the Architectural and Engineering Services Agreement and the Interior Design, Procurement and Installment Series Agreement, both dated March 5, 1996 and both with The Doody Group, and under all other con tracts, agreements and appurtenant rights acquired or entered into in connection with the foregoing (all of the foregoing being collectively referred to as the "Danville Agreements"), without payment or obligation on the part of the Company or any Subsidiary, subject to Section 7.3(d).

5. REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDERS. The Shareholders jointly and severally represent and warrant to and agree with the Purchaser and the Acquisition Subsidiary that:

5.1. TITLE TO SHARES. The Shareholders are the owners and holders, beneficially and of record, of all of the issued and outstanding shares of capital stock of the Company as shown on Schedule II, and the Shareholders have good and marketable title to all of such issued and outstanding shares, free and clear of any and all liens, encumbrances, pledges, security interests, mortgages or claims of any other person (collectively, "Liens").

5.2. ORGANIZATION AND EXISTENCE. The Company is a corpo ration duly organized, validly existing and in good standing under the laws of the State of California, and has all requisite corporate power to enter into and perform its obligations under this Agreement and to carry on its business as now conducted. The Shareholders have delivered to the Purchaser complete and correct copies of the Articles of Incorporation, certified by the Secretary of State of California, and the Bylaws, certified by its Secretary, of the Company, all as in effect on the date hereof.

5.3. CAPITALIZATION. The authorized capital stock of the Company consists of 100,000 shares of Common Stock, no par value, of which 41,625 shares are issued and outstanding and held by the Shareholders. All such issued and outstanding shares are validly issued and outstanding, fully paid and nonassessable and not issued in violation of the preemptive rights of any person. No such shares of capital stock are held by the Company as treasury stock. The Company does not have any outstanding subscriptions, options or other agreements or commitments obligating it to issue shares of its capital stock. There are no shareholders, buy-sell, voting or other similar agreements or commitments affecting the voting or transferability of any such shares.

5.4. SUBSIDIARIES. Schedule 5.4 sets forth the name and jurisdiction of incorporation or organization of Wilson & Kratzer and every other corporation in which the Company directly or indirect has an ownership interest (collectively, the "Subsidiaries"), other than Brown & Wilson, Inc., a California corporation which is a subsidiary of Wilson & Kratzer ("Brown & Wilson"). Each Subsidiary is a corporation duly organized, validly existing and in good standing under

the laws of the State of California, and has all requisite power to carry on its business as now conducted. The Shareholders have delivered to the Purchaser complete and correct copies of the Articles of Incorporation and bylaws of each Subsidiary, both as in effect on the date hereof. The authorized, issued and outstanding capital stock of each Subsidiary is correctly and completely described on Schedule 5.4. All such shares of stock are issued and outstanding and owned by the Company (except for 208 shares of the non-voting common stock of Wilson & Kratzer which are owned by Dennis Steiner, hereafter the "Steiner Shares"), free and clear of all Liens (except for a pledge of the outstanding shares of Rolling Hills to secure obligations under the Stahl Agreement), fully paid and nonassessable, and not issued in violation of the preemptive rights of any person. No shares of any Subsidiary have been issued that are held by it in its treasury. No Subsidiary has any outstanding subscriptions, options or other agreements or commitments obligating it to issue any shares of its capital stock. Neither the Company nor any Subsidiary has an investment or ownership interest in any corporation, limited liability company, partnership, joint venture or other business entity, except as described on Schedule 5.4 and except for Brown & Wilson.

5.5. FINANCIAL INFORMATION. The Shareholders have delivered to the Purchaser (i) for Wilson & Kratzer, (x) its unaudited (compiled) balance sheet at March 31, 1996 (the "Wilson & Kratzer Balance Sheet") and the related unaudited (compiled) statement of earnings of Wilson & Kratzer for the twelve months then ended, together with the supplementary schedules thereto and the compilation report thereon of Alphonse deRoo & Associates, and (y) its unaudited (compiled) balance sheet at March 31, 1995 and the related unaudited (compiled) statement of earnings of Wilson & Kratzer for the twelve months then ended, together with the supplementary schedules thereto and the compilation report thereon of Alphonse deRoo & Associates; and (ii) for Rolling Hills Memorial Park, a California corporation and one of the Subsidiaries ("Rolling Hills"), (x) its unaudited (reviewed) balance sheet at March 31, 1996 (the "Rolling Hills Balance Sheet") and the related unaudited (reviewed) statements of income and retained earnings, and cash flows of Rolling Hills for the twelve months then ended, together with the notes thereto and the review report thereon of Hood and Strong dated June 27, 1996, and (y) its unaudited (reviewed) balance sheet at March 31, 1995 and the related unaudited (reviewed) state ments of income and retained earnings, and cash flows of Rolling Hills for the twelve months then ended, together with the notes thereto and the review report thereon of Hood and Strong dated July 14, 1995. The Wilson & Kratzer Balance Sheet and the Rolling Hills Balance Sheet are sometimes here after collectively referred to as the "Year-End Balance Sheets". All such financial statements are true and correct in all material respects, have been prepared in accordance with the books and records of the applicable Subsidiaries, and present fairly the respective financial positions of such Subsidiaries at the dates indicated and their respective results of operations for the periods then ended in accordance with generally accepted accounting principles consistently applied. The Company has no assets or properties other than the outstanding capital stock of each Subsidiary, has no liabilities or obligations of any kind (other than arising under this Agreement and for federal income tax liability based upon the consolidated earnings and profits of its

subsidiaries, for which the Shareholders shall be responsible as described in Section 12.1), and has no income or expenses except for dividend income and nominal expenses incident to the maintenance of its corporate status. Each Home performed the number of funeral services in each of the twelve-month periods ended March 31, 1994 through 1996 as set forth on Schedule 5.5 hereto. The Cemetery performed at least the number of interments as set forth on Schedule 5.5.

5.6. REAL PROPERTY.

(a) DESCRIPTION AND TITLE. Schedule 5.6 will set forth a legal description of all parcels of real property in which the Company or the Subsidiaries have any interest or which is used in their respective businesses (collectively, the "Real Property"), and also briefly describes each building and major structure and improvement thereon. No person other than the Company or a Subsidiary (as to be shown on Schedule 5.6) has any ownership, leasehold or other interest of any kind in the Real Property, other than (i) the Real Property on which the Greer Mortuary is located (the "Greer Real Property"), which is validly leased to Wilson & Kratzer under the Greer Lease described in paragraph (b) below, (ii) the Grant Real Property, which is validly leased to Wilson & Kratzer by the Related Partnership and which will be conveyed to Wilson & Kratzer on the Closing Date as contemplated in Section 4.2(g), and (iii) the undeveloped portion of the Cemetery which is subject to option under the Stahl Agreement. The Real Property is the only interest in real property required for the conduct of the business of the Homes and the Cemetery as presently conducted. To the best knowledge of Shareholders, all of the buildings, structures and im provements located on the Real Property are in good oper ating condition, ordinary wear and tear excepted. To the best of the Shareholders' knowledge, none of such build ings, structures or improvements, or the operation or maintenance thereof as now operated or maintained, contravenes any zoning ordinance or other administrative regulation or violates any restrictive covenant or any provision of law, the effect of which would interfere with or prevent their continued use for the purposes for which they are now being used. There is not pending nor, to the knowledge of any Shareholder, threatened any proceeding for the taking or condemnation of the Real Property or any portion thereof. As shown on Schedule 5.6, each Subsidiary has good and marketable fee simple title to all of its respective Real Property, free and clear of all Liens, other than (i) easements and other similar title exceptions to be described on Schedule 5.6 ("Permitted Liens"), (ii) the Greer Real Property, in which Wilson & Kratzer has good and marketable title to its leasehold interest thereto, free and clear of any and all Liens, (iii) the Grant Real Property, and at the Closing Wilson & Kratzer will have good and marketable fee simple title to the Grant Real Property free and clear of all Liens other than Permitted Liens to be described on Schedule 5.6, and (iv) that portion of the Cemetery subject to option under the Stahl Agreement.

(b) GREER LEASE. All of the Greer Real Property is validly leased to Wilson & Kratzer under the Lease Agreement dated January 16, 1983 among Don L. Koubek and

Mary Sue Koubek dba DLK Properties, as lessor, and Ralph Greer, Freda Greer and Holly Haugen dba Greer Family Mortuary - Alameda Chapel, as lessee (such Lease Agreement, together with all amendments thereto, being hereafter referred to as the "Greer Lease"); Wilson & Kratzer is the current lessee under the Greer Lease; a true and complete copy of the Greer Lease has been provided to the Purchaser; there have been no amendments or modifications to the Greer Lease except for those for which copies have been provided to the Purchaser; the Greer Lease is in full force and effect and valid and binding on the parties thereto, and neither Wilson & Kratzer nor (to the Shareholders' knowledge) the lessor thereunder is in default thereunder.

(c) DANVILLE PROPERTY. Schedule 5.6(c) sets forth a true and complete legal description of the Danville Property, and also accurately and completely lists each Danville Agreement. The Shareholders have provided to the Purchaser a true and correct copy of each Danville Agreement. Each Danville Agreement is valid, binding and enforceable against the parties, and neither BWB nor (to the knowledge of the Shareholders) the other parties thereto are in default thereunder. Prior to the closing under the Danville Purchase Agreement, BWB conducted a reasonable due diligence review of the matters covered thereby, and nothing has come to its attention before or after such closing which would reasonably cause it to believe that any of the representations and warranties of the seller thereunder are untrue in any material respect. Schedule 5.6(c) also sets forth a true and complete listing of all closing costs, fees and expenses paid by BWB pursuant to the Danville Purchase Agreement, as well as all out-of-pocket expenses, professional fees and other sums paid or incurred through the date hereof in renovating or refurbishing the improvements located on the Danville Property (collectively, "Danville Expenses").

(d) FIRPTA. None of the Company, the Subsidiaries or the Shareholders is a "foreign person" (as defined in Section 1445(f)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations issued thereunder), and the Shareholders shall deliver at Closing one or more non-foreign affidavits in recordable form containing such information as shall be required by Code Section 1445(b)(2) and the regulations issued thereunder.

(e) BILLS PAID. All bills and other payments due with respect to the ownership, operation, and maintenance of the Real Property have been (and on the Closing Date will be) paid, and no Liens (except for Permitted Liens) or other claims for the same have been filed or asserted against any part of the Real Property.

(f) NO FLOOD HAZARDS. To the best of the Shareholders' knowledge, no portion of the Real Property is located within an area that has been designated by the Federal Insurance Administration, the Army Corp of Engineers, or any other governmental agency or body as being subject to special flooding hazards.

(g) STATUS OF CEMETERY PROPERTY. All of the Real Property used in the business of the Cemetery has been plotted for cemetery use. The Cemetery (including the Real Property remaining under option under Stahl

Agreement) consists of approximately 96 acres (of which 46 acres have been developed and 50 acres are undeveloped), had, as of September 30, 1996, at least 3,068 unsold developed individual grave spaces, 151 unsold niches, 136 unsold mausoleum crypts and 1,132 unsold lawn crypts.

(h) STAHL AGREEMENT. The Shareholders have delivered to the Purchaser a true and complete copy of the Exclusive Option dated March 31, 1960 among Tennessee Land Company and John M. Stahl (collectively, "Stahl"), and Rolling Hills Memorial Park, predecessor to Rolling Hills, as amended by the letter agreement dated May 29, 1963 (collectively, the "Stahl Agreement"). The Stahl Agreement is currently in full force and effect, Rolling Hills is the valid successor in interest as the "Second Party" thereunder, and neither Rolling Hills nor, to the Shareholders' knowledge, the "First Party" is in default thereunder. Rolling Hills has duly and validly acquired all of the Cemetery Real Property owned by it in accordance with the Stahl Agreement, and Rolling Hills has the continuing option to acquire one acre per year (of which there remains approximately 40 acres to be acquired) under the Stahl Agreement, subject to Rolling Hills' continued compliance therewith. All necessary consents to the transfer of the outstanding stock of Rolling Hills to the Company has been obtained, and the only person required to consent to the transactions under the terms of the Stahl Agreement is Rosalie K. Stahl.

5.7. TITLE TO AND STATUS OF PROPERTIES. All assets, rights and properties utilized in the conduct of the business of the Homes and the Cemetery are owned by the Company or one or more of its Subsidiaries, and none of such assets, rights or properties is subject to any lease or license, except for Real Property leased to Wilson & Kratzer as described in Section 5.6 and except for those assets which are leased as described in Schedule 5.13. The Company and each Subsidiary is in actual possession and control of all properties owned by it, and has good and marketable title to all of its assets, rights and properties, including without limitation, all properties and assets reflected in the Year-End Balance Sheets, free and clear of all Liens, except for (i) Liens to be discharged and released at or prior to Closing, and (ii) Permitted Liens against Real Property.

5.8. ABSENCE OF CHANGES OR EVENTS. Since the date of the Year-End Balance Sheets, there has not been:

(i) any material adverse change in the finan cial condition, operations, business, properties or pros pects of the Company and its Subsidiaries taken as a whole;

(ii) any change in the authorized capital or outstanding securities of the Company or any Subsidiary;

(iii) any capital stock, bonds or other securi ties which the Company or any Subsidiary has issued, sold, delivered or agreed to issue, sell or deliver, nor has the Company or any Subsidiary granted or agreed to grant any options, warrants or other rights calling for the issue, sale or delivery thereof;

(iv) any borrowing or agreement by the Company or any Subsidiary to borrow any funds, nor has the Company or any Subsidiary incurred, or become subject to, any absolute or contingent obligation or liability, except trade payables incurred in the ordinary course of business and obligations incurred in connection with the acquisition or improvement of the Danville Property;

(v) any declaration or payment of any bonus or other extraordinary compensation to any employee of the Company or any Subsidiary;

(vi) any hiring, firing, reassignment or other change in any key personnel of the Company or any Subsidiary;

(vii) any sale, transfer or other disposition of, or agreement to sell, transfer or otherwise dispose of, any of the inventories or other assets or properties of the Company or any Subsidiary, except in the ordinary course of business;

(viii) any material damage, destruction or losses against the Company or any Subsidiary, or any waiver of any rights of material value to the Company or any Subsidiary;

(ix) any labor strike or labor dispute, or the entering into of any collective bargaining agreement, with respect to employees of the Company or any Subsidiary;

(x) any claim or liability for any material damages for any actual or alleged negligence or other tort or breach of contract against or affecting the Company or any Subsidiary, except as set forth in Schedule 5.18;

(xi) any new competitor that has, to the knowledge of any Shareholder, built, commenced to build or announced intentions to build a funeral home or mortuary in direct competition with any Home or a cemetery or mausoleum in direct competition with the Cemetery; or

(xii) any other transaction or event entered into or affecting the Company or any Subsidiary other than in the ordinary course of business, except for the acquisition of the Danville Property and as set forth in Schedule 5.18.

5.9. ABSENCE OF UNDISCLOSED LIABILITIES. Except as set forth in the Year-End Balance Sheets, neither the Company nor any Subsidiary has any, and none of their respective assets or properties are subject to any, liabilities or obligations of any kind or nature, other than unsecured trade accounts pay able, accrued expenses and preneed obligations (fully funded by insurance or covered by trust) arising in the ordinary course of the business since the date of the Year-End Balance Sheets, except as set forth in Schedule 5.9.

5.10. TAX MATTERS. All federal, state, county, local and other taxes due and payable by the Company and the Subsidiaries on or before the date of this Agreement have been

paid or are adequately provided for in the Year-End Balance Sheets. The Company and the Subsidiaries have filed all tax returns and reports required to be filed by each of them with all taxing authorities, and all such tax returns and reports are true, complete and correct in all material respects. True and correct copies of the federal, state and local income tax returns filed by or for the Company and the Subsidiaries for each of their last three taxable years have been furnished to the Purchaser. For each of such years, the Company and each Subsidiary has been included in the consolidated group of corporations of which the Company is the parent corporation. No assessments of deficiencies for taxes of any kind have been made against the Company or any Subsidiary which are presently pending or outstanding. No state of facts exists or has existed which would constitute grounds for the assessment of any tax liability against the Company or any Subsidiary with respect to any prior taxable period which has not been audited by the Internal Revenue Service or which has not been closed by applicable statute. There are no outstanding agreements or waivers extending the statutory period of limitations applica ble to any income tax return of the Company or any Subsidiary for any period.

5.11. INVENTORY; ACCOUNTS RECEIVABLE. The inven tories reflected in the Year-End Balance Sheets, and all items placed in inventory since the date thereof, are (i) accounted for in accordance with generally accepted accounting prin ciples applied on a consistent basis, and (ii) saleable or usable in the ordinary course of business of the Company and the Subsidiaries at usual and customary prices, subject to normal returns and markdowns consistent with past practice. All cemetery pre-need accounts and notes receivable reflected in the Year-End Balance Sheets, and all such accounts and notes receivable arising since the date thereof, (x) represent bona fide claims against customers for goods sold or services rendered, and (y) to the Shareholder's knowledge, are not subject to offsets or defenses of any kind. At the Closing, the Shareholders shall deliver to the Purchaser a list, certi fied by the Shareholders to be complete and correct, of all of the inventory of the Subsidiaries as of the Closing Date and all of their accounts receivable arising from the preneed sale of services or merchandise by the Cemetery as of the Closing Date.

5.12. FIXED ASSETS. Schedule 5.12 will list all motor vehicles and all other material items of equipment, fix tures, furniture and other fixed assets owned by the Company and the Subsidiaries. All such items are in good operating condition and repair, ordinary wear and tear excepted.

5.13. CONTRACTS AND COMMITMENTS. Schedule 5.13 will set forth a complete description of:

(i) all loan, credit and similar agreements to which the Company or any Subsidiary is a party or by which it is bound, and all notes or other evidences of indebtedness of, or agreements creating any Lien on any property of, the Company or any Subsidiary;

(ii) all employment contracts, noncompetition agreements and other agreements relating to the employment of any employees of the Company and the Subsidiaries;

(iii) all contracts and agreements affecting the Company or any Subsidiary which do not terminate or are not terminable by the Company or such Subsidiary upon notice of 30 days or less or which involve an obligation on its part in excess of $1,000 per annum or $5,000 in the aggregate; and

(iv) all other contracts and commitments of the Company or any Subsidiary entered into outside the ordi nary course of business.

Each contract and commitment to be described on Schedule 5.13 is valid and binding on the parties thereto and in full force and effect, and neither the Company or the applicable Subsidiary, as the case may be, nor, to the knowledge of the Shareholders, any of the other parties thereto, are in default thereunder. The Shareholders will have furnished to the Purchaser a true and complete copy of each document listed on Schedule 5.13.

5.14. PRENEED CONTRACTS AND TRUST ACCOUNTS. Schedule 5.14 hereto will accurately and completely list, as of the date of this Agreement (i) all preneed contracts of the Company and the Subsidiaries unfulfilled as of the date hereof, including contracts for the sale of funeral merchandise and services and for cemetery merchandise and plots, and (ii) all trust accounts relating to the Homes and the Cemetery, indicating the location of each and the balance thereof. All preneed contracts required to be listed on Schedule 5.14 (x) have been entered into in the normal course of business at regular retail prices then in effect, or pursuant to a sales promotion program, solely for use by the named customers and members of their families on terms not more materially favorable than shown on the specimen contracts which have been delivered to the Purchaser, (y) are subject to the rules and regulations of the Company or the applicable Subsidiary as now in force (copies of which have been delivered to the Purchaser), and (z) on the date hereof are in full force and effect, subject to the Shareholders' knowledge, to no offsets, claims or waivers, and neither the Company or the applicable Subsidiary, as the case may be, nor such customer is in default thereunder, except as to be set forth in Schedule 5.14. All funds received by the Company and the Subsidiaries under preneed contracts have been deposited in the appropriate accounts and administered and reported in accordance with the terms thereof and as required by applicable laws and regulations. The Shareholders make no representation or warranty to the effect that the market value of the preneed accounts, trusts or other deposits is equal to or greater than the preneed liability related thereto. The services heretofore provided by the Company and the Subsidiaries have been rendered in a professional and competent manner consistent with prevailing professional standards, practices and customs.

5.15. TRADEMARKS, ETC. Schedule 5.15 accurately and completely describes all trademarks, copyrights, patents and other intellectual property rights, and applications and licenses for the foregoing (collectively, "Intangible Rights"), owned by or licensed to or in the name of the Company or any Subsidiary. The Company and the Subsidiaries own or possess valid rights or adequate licenses for all of such Intangible Rights as are necessary to the conduct of the business of the Homes and the Cemetery as presently conducted.

Neither the Company nor any Subsidiary is charged with infringement of any Intangible Rights of any other person, nor does any Shareholder know of any such infringement, whether or not claimed by any person.

5.16. INSURANCE. The Company and the Subsidiaries maintain such policies of insurance in such amounts, and which insure against such losses and risks, as are, in the Company's opinion, generally maintained for comparable businesses and properties. Valid policies for such insurance will be outstanding and duly in force at all times prior to the Closing.

5.17. LICENSES, PERMITS, ETC. Schedule 5.17 hereto will correctly and completely list all licenses, franchises, permits, certificates, consents, rights and privileges issued to or held by the Company and each Subsidiary, which will be all that are necessary or appropriate for the operation of the Homes and the Cemetery as presently operated. All such items are in full force and effect.

5.18. LITIGATION. Except as set forth in Schedule 5.18, there are no claims, actions, suits, proceedings or investigations pending or, to the knowledge of any Shareholder, threatened against or affecting the Company or any Subsidiary or any of their respective assets or properties, at law or in equity or before or by any court or federal, state, municipal or other governmental department, commission, board, agency or instrumentality. Neither the Company nor any Subsidiary is subject to any continuing court or administrative order, writ, injunction or decree, nor is the Company or any Subsidiary in default with respect to any order, writ, injunction or decree issued by any court or foreign, federal, state, municipal or other governmental department, commission, board, agency or instrumentality.

5.19. COMPLIANCE WITH LAWS. The Company and the Subsidiaries have complied and are in compliance in all material respects with all federal, state, municipal and other statutes, rules, ordinances, and regulations applicable to the Company, the Subsidiaries and their respective assets, rights and properties, and to the operation of each Home and the Cemetery (including without limitation all occupational safety and health rules, regulations and laws, and laws and regula tions applicable to preneed and perpetual care contracts and trust accounts, including the so-called "FTC Funeral Rule").

5.20. ENVIRONMENTAL MATTERS.

(a) The Company and each Subsidiary has complied and is in compliance in all material respects with all Environmental Laws, insofar as the same relate to asbestos-containing materials ("ACM") that are friable, underground storage tanks and the ownership and operation of crematories ("Identified Environmental Concerns"), and to the Shareholders' knowledge have so complied as to all other matters.

(b) Without limiting the generality of the foregoing, the Company and each Subsidiary has obtained, and has complied and is in compliance with, all permits, licenses and other authorizations that may be required pursuant to Environmental Laws for the occupation of the Real Property and the operation of the business of the

Company and the Subsidiaries, insofar as the same relates to Identified Environmental Concerns and, to the Shareholders' knowledge, as to all other matters.

(c) Neither the Company nor any Subsidiary has received any notice, report or other information regarding any liabilities (whether accrued, absolute, contingent, unliquidated or otherwise) or investigatory, remedial or corrective obligations, relating to their respective businesses or any of the Real Property arising under Environmental Laws.

(d) Except as set forth on Schedule 5.20, none of the following exists on any portion of the Real Property:

(i) Underground storage tanks or surface impoundments;

(ii) Any friable ACM, or to the Shareholders' knowledge, any other ACM in any form or condition; or

(iii) To the Shareholders' knowledge, any materials or equipment containing polychlorinated biphenyls.

(e) In respect of Identified Environmental Concerns, and to the knowledge of the Shareholders, in all other respects, neither the Company nor any Subsidiary has treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled, or Released any substance, including without limitation any Hazardous Materials, or owned or operated any facility or property, so as to give rise to liabilities for response costs, natural resource damages or attorneys fees pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended, or similar state Environmental Laws.

(f) To the knowledge of the Shareholders, neither this Agreement nor the consummation of the transaction that is the subject of this Agreement will result in any obligations for site investigation or cleanup, or notification to or consent of any governmental authority or third parties, pursuant to any so-called "transaction- triggered" or "responsible property transfer" Environmental Laws.

(g) To the knowledge of the Shareholders, without limiting the foregoing, no facts, events or conditions relating to the past or present facilities, properties or operations of the Company or any Subsidiary will prevent, hinder or limit continued compliance with Environmental Laws, give rise to any investigatory, remedial or corrective obligations pursuant to Environmental Laws, or give rise to any other liabilities (whether accrued absolute, contingent, unliquidated or otherwise) pursuant to Environmental Laws, including without limitation any relating to onsite or offsite Releases or threatened Releases of Hazardous Materials, substances or wastes, personal injury, property damage or natural resource damage.

(h) For purposes of this Section 5.20:

"Environmental Laws" means all laws concerning pollution or protection of the environment (including without limitation all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, Release, threatened Release, control or cleanup of any Hazardous Materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise or radiation).

"Hazardous Materials" means any hazardous, toxic, dangerous or other waste, substance of material defined as such in, regulated by or for purposes of any Environmental Law.

"Release" has the meaning set forth in CERCLA.

5.21. EMPLOYEES. Schedule 5.21 will correctly and completely list the names and monthly or hourly rates of salary and other compensation of all the employees and agents of the Company and the Subsidiaries. Schedule 5.21 will also set forth the date of the last salary increase for each employee listed thereon, the outstanding balances of all loans and advances, if any, made by the Company or any Subsidiary to any employee or agent thereof, and the number of vacation days or other time off to which each such employee is presently eligible to take. There are not pending or, to the knowledge of any Shareholder, threatened against the Company or any Subsidiary any general labor disputes, strikes or concerted work stoppages, and there are no discussions, negotiations, demands or proposals that are pending or have been conducted or made with or by any labor union or association with respect to any employees of the Company or any Subsidiary. No Shareholder is aware of the existence of any serious health condition of any key management personnel of the Company or any Subsidiary that might impair any such person's ability to perform the essential functions of his or her normal duties into the foreseeable future after the Closing. The Share holders believe that the relations between the Company and the Subsidiaries, on the one hand, and their respective employees, on the other, are good.

5.22. EMPLOYEE BENEFIT PLANS. Schedule 5.22 will set forth a description of all plans, contracts, commitments, programs and policies (including, without limitation, pension, profit sharing, thrift, bonus, deferred compensation, severance, retirement, disability, medical, life, dental and accidental insurance, vacation, sick leave, death benefit and other similar employee benefit plans and policies) maintained by the Company or any Subsidiary which provides benefits to any employee or former employee of the Company or any Subsidiary. True and complete copies of all such benefit plans have been provided to the Purchaser. All obligations of the Company and the Subsidiaries under the Plans have been fully paid, fully funded or adequate accruals therefor have been made on the Year-End Balance Sheets. All necessary governmental approvals have been obtained for all Plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA") and have been qualified under Section 401 of the Code, and each trust established for any Plan is exempt from federal income taxation pursuant to Section 501(a) of the Code. With respect to any such Plan, there has been no (i)

"reportable event" as defined in Section 4043 of ERISA, (ii) event described in Section 4062(e) or 4063(a) of ERISA, or (iii) in the case of any defined benefit plan, termination or partial termination.

5.23. AFFILIATED PARTY TRANSACTIONS. Except as described on Schedule 5.23, the Company and the Subsidiaries have been operated and are being operated in a manner separate from the personal and other business activities of the Share holders and their affiliates, and none of the Company, any Subsidiary nor any of their respective assets are subject to any affiliated party commitments or transactions.

5.24. BOOKS AND RECORDS. All books and records of the Company and each Subsidiary are true, correct and complete and have been maintained by them in accordance with good business practices and in accordance with all laws, regula tions and other requirements applicable to the Company and the Subsidiaries. The corporate records of the Company and the Subsidiaries reflect a true record of all meetings and pro ceedings of the respective Boards of Directors and sharehold ers of the Company and the Subsidiaries.

5.25. FINDERS. None of the Company, any Subsidiary nor any Shareholder is a party to or in any way obligated under any contract or other agreement, and there are no out standing claims against any of them, for the payment of any broker's or finder's fee in connection with the origin, nego tiation, execution or performance of this Agreement.

5.26. AUTHORITY OF THE SHAREHOLDERS. Each Share holder has the full right, capacity and authority to enter into and perform this Agreement and the other documents to be executed by such Shareholder as provided in this Agreement, and to consummate the transactions contemplated hereby and thereby. For each Shareholder that is a trust, the execution, delivery and performance of this Agreement is within such trust's powers, and each of the undersigned trustees of such trust has all requisite authority to enter into this Agreement on behalf of such trust. This Agreement constitutes, and upon execution and delivery by each Shareholder, each of such other documents will constitute, the legal, valid and binding obligations of the Shareholders enforceable against them in accordance with their respective terms. Neither the execution, delivery nor performance of this Agreement or any of such other documents, nor the consummation of the transactions contemplated hereby or thereby, will: (i) result in a violation or breach of any term or provision of, constitute a default or acceleration under, require notice to or consent of any third party to, or result in the creation of any Lien by virtue of (x) the Articles of Incorporation or Bylaws of the Company or any Subsidiary or the trust documents of any Shareholder that is a trust or (y) any contract, agreement, lease, license or other commitment to which the Company, any Subsidiary or any Shareholder is a party or by which the Company, any such Subsidiary or any such Shareholder or his, her or its respective assets or properties are bound, other than those contracts and commitments described on Schedule 5.26 (provided, however, that all necessary consents under the Stahl Agreement have been duly and validly obtained); nor (ii) violate any statute or any order, writ, injunction or decree of any court, administrative agency or governmental body, other than the filing of a notification of

change of ownership with the California Department of Consumer Affairs (the "CDCA Consent").

5.27. AUTHORITY OF THE COMPANY. The execution, delivery and performance by the Company of this Agreement have been duly authorized by its Board of Directors. This Agree ment is legally binding and enforceable against the Company in accordance with its terms. Neither the execution, delivery nor performance by the Company of this Agreement will result in a violation or breach of, nor constitute a default or accelerate the performance required under, the Articles of Incorporation or Bylaws of the Company or any Subsidiary or any indenture, mortgage, deed of trust or other contract or agreement to which the Company or any Subsidiary is a party or by which it or its properties are bound, other than those described in Section 5.26 above, or violate any order, writ, injunction or decree of any court, administrative agency or governmental body, other than the CDCA Consent.

5.28. ACQUISITION OF PURCHASER STOCK. The Purchaser Stock to be acquired by the Shareholders pursuant to the Merger will be acquired by them for investment purposes only and not with the present intention or view to, or resale in connection with, any distribution thereof within the meaning of the Securities Act of 1933, as amended. Each Shareholder understands that such Purchaser Stock will not be registered under such Securities Act or any state securities or blue sky laws, that transferability of such Purchaser Stock will be restricted in accordance with applicable state and federal securities laws, and that a restrictive legend to such effect will be inscribed on each certificate representing such Purchaser Stock. Prior to the Closing, each Shareholder will have had full opportunity to receive such information and ask such questions of representatives of the Purchaser concerning the Purchaser, its subsidiaries and their business, opera tions, assets and prospects, and concerning an investment in the Purchaser Stock, as such Shareholder will then have deemed appropriate in order to make an informed investment decision with respect to the Purchaser Stock.

5.29. FULL DISCLOSURE. The representations and war ranties made by the Shareholders hereunder or in any Schedules or certificates furnished to the Purchaser pursuant hereto or thereto, do not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein or therein necessary to make the representa tions or warranties herein or therein, in light of the circum stances in which they are made, not misleading.

5.30. SCHEDULES. The Schedules identified in the Exhibit/Schedule Page hereto as "Delivered" have been prepared as of the date hereof in a separate binder or volume contemporaneously with the execution of this Agreement, and have been signed for identification by the Shareholders. The Shareholders shall deliver to the Purchaser those Schedules identified on the Exhibit/ Schedule Page as "To Be Delivered" within fifteen (15) business days after the date of execution of this Agreement.

The representations and warranties of the Shareholders herein or in any Schedules or certificates furnished to Purchaser pursuant hereto are the only representations and warranties upon which Purchaser is relying in connection with the transactions described herein. Purchaser is an

experienced and sophisticated owner and operator of mortuaries and cemeteries and is not relying upon the Shareholders (except for such representations and warranties) in determining the extent to which it will conduct any due diligence investigations in evaluating the truth and accuracy of the representations and warranties of the Shareholders contained herein. No statement, assurance or other action by any other person or entity, whether or not an employee, affiliate, agent or other representative of the Company or the Shareholders shall be deemed to be a representation or warranty upon which Purchaser may rely unless same shall be set forth herein or pursuant hereto.

6. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER AND THE ACQUISITION SUBSIDIARY. The Purchaser and the Acquisition Subsidiary jointly and severally represent and warrant to and agree with the Shareholders that:

6.1. ORGANIZATION AND EXISTENCE. The Acquisition Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of California, and has all requisite corporate power to enter into and perform its obligations under this Agreement and the other documents to which it is a party. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power to enter into and perform its obligations under this Agreement, including the issuance and delivery of the Purchaser Stock to the Shareholders as provided in this Agreement. The Purchaser has delivered to the Shareholders complete and correct copies of the Amended and Restated Certificate of Incorporation and Bylaws of the Purchaser and the Articles of Incorporation and Bylaws of the Acquisition Subsidiary, both as in effect on the date hereof.

6.2. CAPITALIZATION. The authorized capital stock of the Purchaser consists of (i) 15,000,000 shares of Class A Common Stock, $.01 par value, of which 3,942,194 shares were issued and outstanding as of September 30, 1996; (ii) 15,000,000 shares of Class B Common Stock, $.01 par value; of which 4,501,466 shares were issued and outstanding as of September 30, 1996, and (iii) 50,000,000 shares of Preferred Stock, $.01 par value, of which (x) 19,000,000 shares have been (or will be) designated as Series D Preferred Stock, $.01 par value of which 17,775,616 shares were issued and outstanding as of September 30, 1996 and (y) 11,000,000 shares have been (or will be) designated as Series E Preferred Stock, $.01 par value, none of which shares were issued and outstanding as of September 30, 1996; and (z) 20,000,000 shares have been (or will be) designated as Series F Preferred Stock, $.01 par value, none of which shares were issued and outstanding as of September 30, 1996. All such issued and outstanding shares are validly issued and outstanding, fully paid and nonassessable and not issued in violation of the preemptive rights of any person. No such shares of capital stock are held by the Purchaser as treasury stock. Neither the Purchaser nor the Acquisition Subsidiary has any outstanding subscriptions, options or other agreements or commitments obligating it to issue shares of its capital stock, other than options granted under one or more of the Purchaser's stock incentive and option plans, of which options covering an aggregate of 689,900 shares were outstanding on September 30, 1996. There are no shareholders, buy-sell, voting or other similar agreements or commitments affecting the voting or

transferability of any such shares, of which the Purchaser has actual knowledge, except as described in the Registration Statement referred to in Section 6.3.

6.3. REPORTS AND FINANCIAL STATEMENTS. The Purchaser has filed all reports required to be filed by it under the Securities Exchange Act of 1934, as amended. The Purchaser has delivered to the Shareholders true and complete copies of (i) its Registration Statement on Form S-1 (No. 333-05545) relating to the initial public offering of the Purchaser's Class A Common Stock, and (ii) its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996, both as filed with the Securities and Exchange Commission (collec tively, "SEC Filings"). In addition, the Purchaser will deliver to the Shareholders a true and complete copy of its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1996, promptly after the filing thereof. As of their respective dates, the SEC Filings did not, and such Form 10-Q at September 30, 1996 will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. All of the financial statements included in the SEC Filings are or will be (as the case may be) true and correct in all material respects, have been (or will be) prepared in accordance with the books and records of the Purchaser and its subsidiaries, and present (or will present) fairly the consolidated financial positions of the Purchaser and its subsidiaries at the dates indicated and the consolidated results of their operations for the periods then ended in accordance with generally accepted accounting principles consistently applied.

6.4. NO MATERIAL ADVERSE CHANGE. Since June 30, 1996, there has not been any material adverse change in the financial condition, operations, properties or prospects of the Purchaser and its consolidated subsidiaries taken as a whole.

6.5. AUTHORITY. The execution, delivery and performance by the Purchaser and the Acquisition Subsidiary of this Agree ment and the documents contemplated in this Agreement to be executed and delivered by them have been duly authorized by their respective Boards of Directors. This Agreement is, and upon their execution and delivery as herein provided such other documents will be, valid and binding upon the Purchaser and the Acquisition Subsidiary and enforceable against each of them in accordance with their respective terms. Neither the execution, delivery or performance by the Purchaser or the Acquisition Subsidiary of this Agreement or any such other document will conflict with or result in a violation or breach of any term or provision of, nor constitute a default under, the Amended and Restated Certificate of Incorporation or Bylaws of the Purchaser or the Articles of Incorporation or Bylaws of the Acquisition Subsidiary, or under any indenture, mortgage, deed of trust or other contract or agreement to which the Purchaser or the Acquisition Subsidiary is a party or by which they or their respective properties are bound, except for such contracts and commitments for which all necessary consents have been duly and validly obtained, or violate any order, writ, injunction or decree of any court, administrative agency or governmental body, except for the CDCA Consent. Consummation of the transactions contemplated by this Agreement will not require the consent or approval of

the stockholders of the Purchaser, under the laws of the State of Delaware, under applicable rules and regulations of the National Association of Securities Dealers, or otherwise.

6.6. NO MATERIAL DEFAULTS OR LITIGATION. There exists no material default by the Purchaser or any of its consolidated Subsidiaries under its senior credit agreement or any other material agreement to which the Purchaser or any such Subsidiary is a party, or any pending or, to the Purchaser's knowledge, threatened, claim, action, suit, proceeding or investigation against the Purchaser or any such subsidiary, any of which would reasonably be expected to have a material adverse effect on the financial condition, operations, properties or prospects of the Purchaser and such Subsidiaries taken as a whole. The Purchaser is not in default in the payment of dividends on its preferred stock which require the payment of dividends.

6.7. FULL DISCLOSURE. The representations and warranties made by the Purchaser hereunder or in any certificate furnished to the Shareholders pursuant hereto or thereto, do not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein or therein necessary to make the representations or warranties herein or therein, in light of the circumstances in which they were made, not misleading.

6.8. FINDERS. Except as described in Section 13.1, neither the Purchaser nor the Acquisition Subsidiary is a party to or in any way obligated under any contract or other agreement, and there are no outstanding claims against either of them, for the payment of any broker's or finder's fee in connection with the origin, negotiation, execution or per formance of this Agreement.

6.9. DISCLAIMER OF RELIANCE. The representations and warranties of the Purchaser and the Acquisition Subsidiary herein or in any certificates furnished to the Shareholders pursuant hereto are the only representations and warranties upon which the Shareholders are relying in connection with the transactions described herein. The Shareholders are experienced and sophisticated in transactions of this nature. No statement, assurance or other action by any other person or entity, whether or not an employee, affiliate, agent or other representation of the Purchaser or the Acquisition Subsidiary, shall be deemed to be a representation or warranty upon which any Shareholder may rely unless the same shall be set forth herein or pursuant hereto.

7. COVENANTS PENDING CLOSING.

7.1. COVENANTS OF THE COMPANY AND THE SHAREHOLDERS. The Company and the Shareholders jointly and severally covenant and agree with the Purchaser that:

(a) CONDUCT OF BUSINESS. From the date of this Agreement to the Closing Date, the business of the Company and each Subsidiary will be operated only in the ordinary course, and, in particular, without the prior written consent of the Purchaser, the Company will not, and the Shareholders will not cause or allow the Company to, and neither the Company nor any Shareholder will cause or allow any Subsidiary to, do any the following:

(i) cancel or permit any insurance to lapse or terminate, unless renewed or replaced by like coverage;

(ii) amend or otherwise modify its Articles of Incorporation or Bylaws;

(iii) issue or enter into any subscriptions, options, agreements or other commitments in respect of the issuance, transfer, sale or encumbrance of any shares of capital stock of the Company or any Subsidiary, except for the acquisition by Wilson & Kratzer of the Steiner Shares as described in Section 8.1(n);

(iv) take any action described in Section 5.8;

(v) enter into any contract, agreement or other commitment of the type described in Sec tion 5.13, except for (1) the sale of the assets of Brown-Wilson and its dissolution as described in Section 8.1(m), and the sale by the Subsidiaries to the Shareholders for consideration consisting only of cash, without recourse or warranty to such Subsidiary, of those assets described on Schedule 7.1(a), (2) the acquisition of the Grant Real Property and the Danville Property, and (3) the sale of four (4) residences owned by Rolling Hills located on Alhambra Avenue, El Sobrante, California.

(vi) hire, fire, reassign or make any other change in key personnel of the Company, or increase the rate of compensation of or declare or pay any bonuses to any employee in excess of that listed on Schedule 5.21, other than year-end bonuses consistent with past practices; or

(vii) take any other action which would cause any of the representations and warranties made in Section 5 hereof not to be true and correct in all material respects on and as of the Closing Date with the same force and effect as if the same had been made on and as of the Closing Date.

(b) ACCESS TO INFORMATION. Prior to Closing, the Company will give to the Purchaser and its counsel, accountants and other representatives, full and free ac cess to all of the properties, books, contracts, commit ments and records of the Company and the Subsidiaries so that the Purchaser may have full opportunity to make such investigation as it shall desire to make of the affairs of the Company and each Subsidiary.

(c) CONSENTS AND APPROVALS. The Company and the Shareholders will use their best efforts to obtain the necessary consents and approvals of other persons which may be required to be obtained on their part to consum mate the transactions contemplated by this Agreement.

(d) NO SHOP. For so long as this Agreement remains in effect, neither the Company nor any Shareholder shall enter into any agreements or commitments, or initiate,

solicit or encourage any offers, proposals or expressions of interest, or otherwise hold any discussions with or respond to any inquiries or expressions of interest with any potential buyers, investors investment bankers or finders, with respect to the possible sale or other disposition of all or any substantial portion of the assets and business of the Company or any Subsidiary or any other sale of the Company or any Subsidiary (whether by merger, consolidation, sale of any shares of capital stock of the Company or any Subsidiary, or otherwise), other than with the Purchaser and the Acquisition Subsidiary as contemplated in this Agreement. If, during such period, the Company or any Shareholder receives an inquiry or expression of interest regarding any such transaction, the Company or such Shareholder, as the case may be, shall promptly notify the Purchaser of such fact; provided that the foregoing shall not require that the source of such expression of interest be disclosed.

7.2. COVENANTS OF THE PURCHASER AND THE ACQUISITION SUBSIDIARY. The Purchaser and the Acquisition Subsidiary jointly and severally covenant with the Shareholders that:

(a) CONSENTS AND APPROVALS. The Purchaser and the Acquisition Subsidiary will use their best efforts to obtain the necessary consents and approvals of other persons which may be required to be obtained on their part to consummate the transactions contemplated in this Agreement.

(b) SERIES F PREFERRED STOCK. From the date of this Agreement to the Closing Date: the Purchaser will not cause or permit any amendment or modification to the Series F Designation as in effect on the date of this Agreement and in the form delivered to the Shareholders pursuant to Section 6.1, nor shall the Purchaser issue to any person, other than to the Shareholders pursuant to this Agreement, any shares of Series F Preferred Stock, nor shall the Purchaser issue any shares of capital stock or take any action which would be prohibited under the provisions of, or would require the consent of the holders of, the Series F Preferred Stock, had the Series F Preferred Stock been issued and outstanding on the date hereof.

7.3. MUTUAL COVENANTS. Each party agrees with one another that:

(a) CONFIDENTIALITY. Prior to the Closing, such party will hold in confidence any data and information obtained with respect to the other party or parties from any representative, officer, director or employee thereof, including their accountants or legal counsel, or from any books or records of any of them, in connection with the transactions contemplated by this Agreement, except that such party may disclose such information to its outside attorneys and accountants and to its lenders, provided that the disclosing party shall remain responsi ble to the other parties for any unauthorized disclosure thereof by such attorneys, accountants or lenders. If the transactions contemplated hereby are not consummated, no party in receipt of such information shall disclose such data or information to others, except as such data or information is published or is a matter of public

knowledge or is required by an applicable law or regula tion to be disclosed. If this Agreement is terminated for any reason, any party receiving such confidential information shall return to the party which provided it all such data and information so obtained which is in written form.

(b) PUBLIC ANNOUNCEMENTS. Any public announcement with respect to this Agreement or the transactions con templated hereby will be issued, if at all, at such time and in such manner as may be determined by the Purchaser. Unless consented to by the Purchaser in advance, prior to the Closing neither the Company nor any Shareholder shall (and the Company shall not cause or permit any Subsidiary to) make any public announcement or disclosure of this Agreement or such transactions. The Purchaser and the Shareholders shall consult with one another concerning the means by which the employees, customers and suppliers of the Company and the Subsidiaries will be informed of such transactions, and representatives of the Purchaser shall have the right to be present for any such communication.

(c) HART-SCOTT-RODINO. The Company, as the "ulti mate parent entity" of the acquired person (as defined in the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, hereafter the "HSR Act") shall promptly pre pare and cause to be filed a premerger notification and report under the HSR Act, and the Purchaser, as the "ultimate parent entity" of the acquiring person, shall promptly prepare and cause to be filed a premerger notification and report under the HSR Act. The Purchaser shall bear sole responsibility for the cost of the filing fee due under ss.605 of PL 101-162 (103 Stat 1031), as amended by PL 103-317 (108 Stat 1724). Each such party shall request early termination in connection therewith and shall promptly respond to any inquiries of the Federal Trade Commission or Department of Justice in connection with such filings and shall coordinate the foregoing with one another.

(d) DANVILLE PROPERTY. At the Closing, and subject to the conditions herein specified, the Purchaser shall pay to BWB the sum of $669,647. From the date of this Agreement through the Closing, the Shareholders shall keep the Purchaser advised regarding the progress of the renovation and refurbishing of the improvements on the Danville Property. In addition, the Shareholders shall provide the Purchaser with periodic estimates of expenses incurred or to be incurred after October 11, 1996 in connection with such renovation and refurbishing ("Interim Expenses"), and for purposes of the Purchaser's expense reimbursement obligation set forth below, such estimates shall be subject to the Purchaser's approval, which approval shall not be unreasonably withheld or delayed. At the Closing, the Purchaser shall also pay, as a portion of the Merger Consideration under Section 3.1(C)(a), all Interim Expenses which have been so approved in advance by the Purchaser.

8. CONDITIONS TO CLOSING.

8.1. CONDITIONS TO OBLIGATIONS OF THE PURCHASER AND THE ACQUISITION SUBSIDIARY. The obligations of the Purchaser and

the Acquisition Subsidiary under this Agreement shall be sub ject to the following conditions, any of which may be express ly waived by the Purchaser in writing:

(a) REPRESENTATIONS AND WARRANTIES TRUE; COVENANTS PERFORMED. The Purchaser shall not have discovered any material error, misstatement or omission in the representations and warranties made by the Shareholders in Section 5 hereof; the representations and warranties made by the Shareholders herein shall be deemed to have been made again at and as of the time of Closing and shall then be true and correct; the Company and the Shareholders shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by them at or prior to the Closing; and the Purchaser shall have received a certifi cate, signed by the Shareholders and an executive officer of the Company, to the effect of the foregoing provisions of this Section 8.1(a).

(b) OPINION OF LEGAL COUNSEL. The Shareholders shall have caused to be delivered to the Purchaser an opinion of Freeland, Cooper, LeHocky & Hamburg, legal counsel for the Company, the Subsidiaries and the Shareholders, dated the Closing Date, in substantially the form attached as Exhibit F.

(c) CONSENTS AND APPROVALS. The Company and the Shareholders shall have obtained all consents and approvals of other persons and governmental authorities to the transactions contemplated by this Agreement. Without limiting the generality of the foregoing, the lessor under the Greer Lease shall have delivered to the Purchaser a written instrument pursuant to which such lessor (x) consents to the transactions hereunder (or certifies that such consent is not required) and (y) represents to the Purchaser that the Greer Lease is in full force and effect and that neither it nor, to its knowledge, Wilson & Kratzer is in default thereunder.

(d) NO MATERIAL ADVERSE CHANGE. Prior to the Closing there shall not have occurred any loss or damage to the assets and properties of the Company or any Subsidiary, including (without limitation) any of the Real Property or any improvements located thereon (regardless of whether such loss or damage was insured), or any other event or condition, the effect of which could reasonably be expected to have a material adverse effect on the condition, business, operations or prospects of the Company and the Subsidiaries, taken as a whole. The foregoing shall not be construed to include (i) events or conditions affecting the United States economy or the funeral/cemetery industry in general, or (ii) the consummation or failure to consummate any transaction unrelated to the transactions hereunder.

(e) RELATED TRANSACTIONS. The Shareholders shall have executed and delivered to the Purchaser the Registration Agreement; each of Wilson and Boyer shall have executed and delivered to the Acquisition Subsidiary their respective Employment Agreements and their respec tive Non-Competition Agreements; Wilson shall have exe cuted and delivered his plan adoption agreement pursuant to the terms of the Program; the Shareholders shall have

executed and delivered the Co-Sale Agreement; the Related Partnership shall have conveyed fee simple title to the Grant Real Property to Wilson & Kratzer in the manner specified in Section 4.2(g); and BWB shall have conveyed to Wilson & Kratzer the Danville Property and the Danville Agreements in the manner specified in Section 4.2(h).

(f) ENVIRONMENTAL, OSHA AND STRUCTURAL REPORTS. There shall have been conducted, at the Purchaser's expense, (i) a Phase I (and, if deemed necessary by Purchaser, a Phase II) environmental audit of each parcel of Real Property by an environmental consulting firm selected by Purchaser, (ii) a health and safety inspection of each Home and each building on the Cemetery by a person (who may be an employee of the Purchaser) or firm selected by the Purchaser and who is qualified and experienced in such matters in the funeral service indus try, and (iii) a structural inspection of each Home and each building on the Cemetery by an engineering firm selected by the Purchaser. The Shareholders agree to take the action (and pay any costs in taking such action) as may be reasonably recommended by such firms and/or persons, up to $10,000 in the aggregate at any Home or at the Cemetery, as the case may be. In any event, it shall be a condition to the Purchaser's obligations hereunder that the results of the reports of such firms or persons (together with any remedial action, if any, taken by Shareholders, regardless of the cost, in response there to) shall be satisfactory to Purchaser in its sole discretion.

(g) TITLE INSURANCE. The Shareholders shall have provided to the Acquisition Subsidiary a Leasehold Policy of Title Insurance (with respect to the Greer Real Property) and one or more Owner's Policies of Title Insurance (with respect to all other Real Property) issued to the applicable Subsidiary in agreed-upon amounts, issued by one or more title companies with offices in Contra Costa or Alameda County, California and reasonably acceptable to the Purchaser (whether one or more, the "Title Company"), insuring the applicable Subsidiary's leasehold or ownership interest (as the case may be) in the Real Property, subject only to the Per mitted Liens and any standard printed exceptions included in a California standard form Policy of Title Insurance; provided, however, that such policy shall have deleted any exception regarding restrictions or be limited to restrictions that are Permitted Liens, any standard exception pertaining to discrepancies, conflicts or shortages in area shall be deleted except for "shortages in area", and any standard exception for taxes shall be limited to subsequent years. The Purchaser and the Shareholders shall each bear one-half the cost of issuing such policies of title insurance under this paragraph (g) and for the surveys under paragraph (h) below, provided that in no event shall the Shareholders' aggregate share of such costs exceed $35,000.

(h) SURVEY. The Purchaser shall have received an ALTA/ACSM survey prepared by a licensed surveyor approved by the Purchaser and acceptable to the Title Company, with respect to each parcel of Real Property, which survey shall comply with any applicable standards under

California law, be sufficient for Title Company to delete any survey exception contained in each applicable policy of title insurance referred to in Section 8.1(g), save and except for the phrase "shortages in area", and otherwise be in form and content acceptable to the Purchaser.

(i) ZONING. The Purchaser shall have received a letter or other acceptable form of communication from a responsible officer of each of the municipalities or other governmental authorities having jurisdiction over zoning ordinances or regulations of all or substantially all of the Real Property, or an opinion of counsel for the Company, indicating the zoning classification for each such parcel, affirmatively stating that the use thereof as funeral homes or as a cemetery, as the case may be, complies with such classification.

(j) RELIANCE LETTERS. The Purchaser shall have received a letter or other written instrument acceptable in form and substance to the Purchaser from each of Alphonse deRoo & Associates and Hood and Strong, pursuant to which such firms permit the Purchaser to rely upon their respective review or compilation reports (as the case may be) referred to in Section 5.5 and waive any requirement or defense of privity in connection therewith.

(k) LIEN RELEASES. The holders of the Liens against any assets of the Company, including any of the Real Property (other than Permitted Liens, the vehicle lease described on Schedule 5.9 and any Liens securing Closing Date Liabilities which are deducted from the Merger Consideration under Section 3.1(c)(A)) shall have executed and delivered written releases of such Liens, all in recordable form and otherwise acceptable to the Purchaser.

(l) SCHEDULE DELIVERY. The Purchaser shall have received those schedules identified on the Exhibit/Schedule Page as "To Be Delivered," together with a certificate of the Shareholders certifying that the same are true and complete, on or before the 15th business day after the date hereof, and within ten (10) (10) business days thereafter the Purchaser shall not have evidenced its disapproval of any of such schedules (or the information disclosed therein) by written notice to such effect delivered to the Shareholders.

(m) BROWN & WILSON. All of the assets of Brown & Wilson shall have been conveyed and transferred to one or more of the Shareholders (or another person designated by them), and Brown & Wilson shall have been dissolved and liquidated, in accordance with the laws of the State of California, without any further liabilities or obligations continuing after the Closing Date.

(n) STEINER SHARES. Wilson & Kratzer shall have duly and validly acquired all of the Steiner Shares, for a consideration payable solely in cash, with the result that Wilson & Kratzer shall become a wholly owned Subsidiary of the Company.

8.2. CONDITIONS TO OBLIGATIONS OF THE COMPANY AND THE SHAREHOLDERS. The obligations of the Company and the Share holders under this Agreement shall be subject to the following conditions, any of which may be expressly waived by the Shareholders in writing:

(a) REPRESENTATIONS AND WARRANTIES TRUE; COVENANTS PERFORMED. The Shareholders shall not have discovered any material error, misstatement or omission in the representations and warranties made by the Purchaser and the Acquisition Subsidiary in Section 6 hereof; the representations and warranties made by the Purchaser and the Acquisition Subsidiary herein shall be deemed to have been made again at and as of the time of Closing and shall then be true and correct; the Purchaser and the Acquisition Subsidiary shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by them at or prior to the Closing; and the Shareholders shall have received a certificate, signed by an executive officer of each of the Purchaser and the Acquisition Subsidiary, to the effect of the foregoing provisions of this Section 8.2(a).

(b) OPINION OF LEGAL COUNSEL. The Purchaser shall have caused to be delivered to the Shareholders an opinion of Snell & Smith, A Professional Corporation, legal counsel for the Purchaser and the Acquisition Subsidiary, in substantially the form attached as Exhibit G.

(c) OPINION OF TAX COUNSEL. The Purchaser shall have caused to be delivered to the Shareholders an opinion of Arthur Andersen, L.L.P., tax counsel for the Purchaser and the Acquisition Subsidiary, in form and substance reasonably acceptable to the Shareholders, to the effect that the Series F Preferred Stock constitutes "stock" for purposes of Code Section 368(a)(2)(D).

(d) CONSENTS AND APPROVALS. The Purchaser and the Acquisition Subsidiary shall have obtained all consents and approvals of other persons and governmental authori ties to the transactions contemplated by this Agreement.

(e) NO MATERIAL ADVERSE CHANGE. Prior to the Closing there shall not have occurred any event or condition, the effect of which could reasonably be expected to have a material adverse effect on the condition, business, operations or prospects of the Purchaser and its consolidated subsidiaries, taken as a whole. The foregoing shall not be construed to include (i) events or conditions affecting the United States economy or the funeral/cemetery industry in general, or (ii) the consummation or failure to consummate any transaction unrelated to this transaction.

(f) RELATED TRANSACTIONS. The Purchaser shall have executed and delivered to the Shareholders the Registration Agreement; the number of positions on the Purchaser's Board of Directors shall have been increased by one (1) and Wilson shall have been elected to the vacancy created by such increase; the Acquisition Subsidiary shall have executed and delivered the Employment Agreements and the Non-Competition Agreements

to each of Wilson and Boyer; the Acquisition Subsidiary shall have established the Program and executed and delivered to Wilson his plan adoption agreement thereunder; and the Carriage Stockholders shall have executed and delivered the Co-Sale Agreement.

(g) MARKET PRICE. The Trading Price (as defined in the Series F Designation) as of the second trading day immediately preceding the Closing Date shall not be less than $15.00 per share of Class A Common Stock.

(h) NO CHANGE IN CONTROL. The Purchaser shall not have announced, or entered into any agreement for, a transaction involving the sale of all or substantially all of its assets, the merger or consolidation of the Purchaser with an unaffiliated entity in which the Purchaser will not be the survivor, the sale of more than 50% of the voting control of the Purchaser's fully diluted Class A Common Stock, or any other equivalent change in control transaction.

(i) NO CHANGE IN TAX LAW. There shall not have been between the date of this Agreement and the Closing Date (i) any change in the Code or the Revenue Regulations promulgated thereunder, or (ii) any pronouncement by the Internal Revenue Service to the effect that a change in the interpretation of the Code or such regulations has occurred, in any case which, solely by virtue of such change, the Merger shall not qualify as a "reorganization" within the meaning of Section 368(a)(1)(A) of the Code.

8.3. MUTUAL CONDITIONS TO CLOSING. The respective obligations of each of the parties under this Agreement shall be subject to the following mutual conditions, which may be waived only by the unanimous agreement of all parties:

(a) HSR ACT. Any person required in connection with the transactions contemplated hereby to file a notification and report form in compliance with the HSR Act shall have filed such form and the applicable waiting period with respect to each such form (including any extension thereof by reason of a request for additional information) shall have expired or been terminated.

(b) CLOSING CERTIFICATES. The Company, the Purchaser and the Acquisition Subsidiary shall have executed and delivered to each other such certificates as to the incumbency of its officers who are executing and delivering documents hereunder and as to the adoption of resolutions by its directors and (where applicable) shareholders, and shall have provided certificates of public officials certifying as to their existence and good standing, all as shall be reasonably requested by the other parties hereunder.

(c) NO INJUNCTIONS. There shall not have been entered or issued any injunction, writ or order of a court of competent jurisdiction which prohibits or substantially limits the consummation of the transactions contemplated by this Agreement.

9. NATURE AND SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

9.1. NATURE OF STATEMENTS. All statements contained in this Agreement or any Schedule or Exhibit hereto shall be deemed representations and warranties of the party executing or delivering the same.

9.2. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. Regard less 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 any Schedule or Exhibit hereto or in connection with the trans actions contemplated hereby and thereby shall not terminate but shall survive the Closing and continue in effect thereafter.

10. INDEMNIFICATION.

10.1. INDEMNIFICATION BY THE SHAREHOLDERS. THE SHAREHOLDERS JOINTLY AND SEVERALLY AGREE TO INDEMNIFY AND HOLD HARMLESS THE PURCHASER AND (FOLLOWING THE EFFECTIVE TIME OF THE MERGER) THE SURVIVING CORPORATION, AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS, FROM AND AGAINST ANY AND ALL LOSSES, DAMAGES, LIABILITIES, OBLIGATIONS, COSTS OR EXPENSES (ANY ONE SUCH ITEM BEING HEREIN CALLED A "LOSS" AND ALL SUCH ITEMS BEING HEREIN COLLECTIVELY CALLED "LOSSES") WHICH ARE CAUSED BY OR ARISE OUT OF (I) ANY BREACH OR DEFAULT IN THE PERFORMANCE BY THE COMPANY OR ANY SHAREHOLDER OF ANY COVENANT OR AGREEMENT OF THE COMPANY OR THE SHAREHOLDERS CONTAINED IN THIS AGREE MENT, (II) ANY BREACH OF WARRANTY OR INACCURATE OR ERRONEOUS REPRESENTATION MADE BY ANY SHAREHOLDER HEREIN, IN ANY SCHEDULE DELIVERED TO THE PURCHASER PURSUANT HERETO OR IN ANY CERTIFI CATE OR OTHER INSTRUMENT DELIVERED BY OR ON BEHALF OF THE COMPANY OR ANY SHAREHOLDER PURSUANT HERETO, (III) ANY CLOSING DATE LIABILITY OF THE COMPANY OR ANY SUBSIDIARY OF ANY KIND OR NATURE, WHETHER ABSOLUTE OR CONTINGENT, KNOWN OR UNKNOWN, TO THE EXTENT NOT PAID OR DISCHARGED PRIOR TO THE EFFECTIVE TIME OF THE MERGER OR NOT DISCLOSED PURSUANT TO THE CERTIFICATE OF THE SHAREHOLDERS DELIVERED TO THE PURCHASER AS PROVIDED IN SECTION 3.7, (IV) ANY CLAIMS, ACTIONS, SUITES, PROCEEDINGS OR INVESTIGATIONS DISCLOSED ON SCHEDULE 5.18, (V) ANY LIABILITIES OR OBLIGATIONS OF ANY NATURE RELATING TO THE OPERATION OR OWNERSHIP OF BROWN & WILSON, AND (VI) ANY AND ALL ACTIONS, SUITS, PROCEEDINGS, CLAIMS, DEMANDS, JUDGMENTS, COSTS AND EXPENSES (INCLUDING REASONABLE LEGAL FEES) INCIDENT TO ANY OF THE FOREGOING.

10.2. INDEMNIFICATION BY THE PURCHASER. THE PUR CHASER AND THE ACQUISITION SUBSIDIARY JOINTLY AND SEVERALLY AGREE TO INDEMNIFY AND HOLD HARMLESS THE SHAREHOLDERS AND THEIR HEIRS AND ASSIGNS FROM AND AGAINST ANY LOSSES WHICH ARE CAUSED BY OR ARISE OUT OF (I) ANY BREACH OR DEFAULT IN THE PERFORMANCE BY THE PURCHASER OR THE ACQUISITION SUBSIDIARY OF ANY COVENANT OR AGREEMENT OF THE PURCHASER OR THE ACQUISITION SUBSIDIARY CONTAINED IN THIS AGREEMENT, (II) ANY BREACH OF WARRANTY OR INACCURATE OR ERRONEOUS REPRESENTATION MADE BY THE PURCHASER OR THE ACQUISITION SUBSIDIARY HEREIN OR IN ANY

CERTIFICATE OR OTHER INSTRUMENT DELIVERED BY OR ON BEHALF OF THE PURCHASER OR THE ACQUISITION SUBSIDIARY PURSUANT HERETO, (III) ANY CLOSING DATE LIABILITY OF THE COMPANY OR ANY SUBSIDIARY WHICH HAS BEEN DEDUCTED FROM THE CASH PORTION OF THE MERGER CONSIDERATION PURSUANT TO SECTION 3.1(C) OR ANY LIABILITY OF THE COMPANY OR ANY SUBSIDIARY WHICH IS DESCRIBED IN CLAUSES (I) THROUGH (IV) OF SECTION 3.7, AND (IV) ANY AND ALL ACTIONS, SUITS, PROCEEDINGS, CLAIMS, DEMANDS, JUDGMENTS, COSTS AND EXPENSES (INCLUDING REASONABLE LEGAL FEES) INCIDENT TO ANY OF THE FOREGOING.

10.3. THIRD PARTY CLAIMS. If any third person asserts a claim against a party entitled to indemnification hereunder ("indemnified party") that, if successful, might result in a claim for indemnification against another party hereunder ("indemnifying party"), the indemnifying party shall be given prompt written notice thereof and shall have the right (i) to participate in the defense thereof and be repre sented, at its own expense, by advisory counsel selected by it, and (ii) to approve any settlement if the indemnifying party is, or will be, required to pay any amounts in connec tion therewith, which approval shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, if within ten (10) business days after delivery of the indemnified party's notice described above, the indemnifying party indicates in writing to the indemnified party that, as between such parties, such claims shall be fully indemnified for by the indemnifying party as provided herein, then the indem nifying party shall have the right to control the defense of such claim, provided that the indemnified party shall have the right (i) to participate in the defense thereof and be repre sented, at its own expenses, by advisory counsel selected by it, and (ii) to approve any settlement if the indemnified party's interests are, or would be, affected thereby.

11. TERMINATION.

11.1. BEST EFFORTS TO SATISFY CONDITIONS. The Company and the Shareholders agree to use their best efforts to bring about the satisfaction of the conditions specified in Section 8.1 hereof; and the Purchaser and the Acquisition Subsidiary agree to use their best efforts to bring about the satisfaction of the conditions specified in Section 8.2 hereof.

11.2. TERMINATION. This Agreement may be terminated prior to Closing by:

(a) the mutual written consent of the Shareholders and the Purchaser;

(b) the Purchaser if a material default shall be made by the Company or any Shareholder in the observance or in the due and timely performance by any of their covenants herein contained, or if there shall have been a material breach or misrepresentation by the Company or any Shareholder of any of their warranties and representations herein contained, or if the conditions of this Agreement to be complied with or performed by the Company or any Shareholder at or before the Closing shall not have been complied with or performed at the time required for such compliance or performance and such

noncompliance or nonperformance shall not have been expressly waived by the Purchaser in writing;

(c) the Shareholders if a material default shall be made by the Purchaser or the Acquisition Subsidiary in the observance or in the due and timely performance by the Purchaser or the Acquisition Subsidiary of any of their covenants herein contained, or if there shall have been a material breach or misrepresentation by the Purchaser or the Acquisition Subsidiary of any of their warranties and representations herein contained, or if the conditions of this Agreement to be complied with or performed by the Purchaser and the Acquisition Subsidiary at or before the Closing shall not have been complied with or performed at the time required for such compli ance or performance and such noncompliance or nonper formance shall not have been expressly waived by the Shareholders in writing; or

(d) either the Shareholders or the Purchaser, if the Closing has not occurred by January 10, 1997.

11.3. LIABILITY UPON TERMINATION. If this Agreement is terminated under paragraph (a) or (d) of Section 11.2, then no party shall have any liability to any other parties here under. If this Agreement is terminated under paragraph (b) or (c) of Section 11.2, then (i) the party so terminating this Agreement shall not have any liability to any other party hereto, provided the terminating party has not breached any representation or warranty or failed to comply with any of its covenants in this Agreement, and (ii) such termination shall not prejudice the rights and remedies of the terminating party against any other party which has breached any of its representations, warranties or covenants herein prior to such termination.

12. POST-CLOSING COVENANTS.

12.1. TAX MATTERS. The Shareholders shall be fully responsible for all federal, state and local taxes (including, but not limited to, income taxes) of the Company accrued through the Closing and for completing, filing and handling all tax returns and reports in respect in of all periods through Closing and consummation of the Merger, including responding to any inquiries, examinations or audits regarding such taxes, returns and reports. Without limiting the generality of the foregoing, the Shareholders will cause the preparation of a short-period federal income tax return for the Company's current year through the Closing Date (after which time the Surviving Corporation and the Subsidiaries will be included as part of the consolidated group of which the Purchaser is the parent corporation), and the Shareholders shall pay or cause to be paid all federal income taxes in respect thereof. Without limiting the generality of the "Losses" for which the Purchaser and the Surviving Corporation shall be indemnified against under Section 10.1, such indemnity shall additionally include all Losses arising from (i) all federal, state and local taxes associated with the operation of the Company and the Subsidiaries and the ownership of their assets for all periods prior to the Effective Time of the Merger, together with any fees, interest, fines or penalties associated therewith, (ii) all returns and reports filed in respect of all such taxes, and (iii) any federal and state income tax liability (less the net

present value of any realized net federal income tax benefits) arising from any disallowance of the Merger as a "reorganization" within the meaning of Code Section 368(a)(1)(A), other than resulting from a violation of the Purchaser's covenants under Section 12.4.

12.2. EMPLOYEE MATTERS. At Closing, the Shareholders will cause the Company to pay or satisfy all vacation, holiday and other accrued benefits to employees of the Company and the Subsidiaries which are then outstanding. Following the Closing, the Shareholders shall be fully responsible for funding all necessary contributions to each pension, profit sharing or other similar employee benefit plan described on Schedule 5.22 that is required to be qualified under ERISA (collectively, "Pension Plans") for all periods, and following the Closing the Shareholders shall take all necessary action to terminate the Pension Plans in accordance with applicable law, in connection with which the Shareholders shall file all necessary forms and pay all appropriate fees, fines, penalties and other sums due in respect thereof and make any necessary distributions to plan beneficiaries. Without limiting the generality of Section 10.1, the "Losses" against which the Purchaser and the Surviving Corporation shall be indemnified against shall include all such liabilities, obligations and responsibilities arising in connection with the Pension Plans (whether arising before or after the Closing). The Shareholders shall keep the Purchaser reasonably informed regarding the progress of the termination, winding up and distribution of the Pension Plans.

12.3. LOCK-UP AGREEMENT. The Shareholders agree with the Purchaser and with the managing underwriters of the initial public offering of the Purchaser's Class A Common Stock ("Underwriters") that, during the period commencing on the Closing Date and ending on February 7, 1997, no Shareholder will, without the prior written consent of the Purchaser and the Underwriters, directly or indirectly, (i) offer, pledge, sell, contract to sell, sell any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of Purchaser Stock, whether owned on the date hereof or hereafter acquired by the Shareholders or with respect to which the Shareholders have or thereafter acquire the power of disposition, or file any registration statement under the Securities Act of 1933, as amended, with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Purchaser Stock, whether any such swap or transaction is to be settled by delivery of Purchaser Stock or other securities, in cash or otherwise.

12.4. NO SALE OF ASSETS. For a period of three (3) years following the Closing, the Purchaser shall not cause or allow the Surviving Corporation to dispose of a substantial interest in the stock of any Subsidiary or cause or allow either Subsidiary to sell or otherwise dispose of all or any material portion of its assets to any person, other than (in any such case) to another subsidiary included in the consolidated group of corporations of which the Purchaser is the corporate parent, provided such transferee subsidiary is at the same relative tier of ownership as the Subsidiary making such disposition, unless the Purchaser shall have first delivered to the Shareholders (i) the written opinion

(reasonably acceptable in form and substance to the Shareholders) of Arthur Andersen L.L.P. or another "big six" public accounting firm that such disposition should not cause a disallowance of the Merger as a "reorganization" within the meaning of Code Section 368(a)(1)(A), and (ii) the Purchaser's written agreement (reasonably acceptable in form and substance to the Shareholders), to indemnify the Shareholders for any Losses (including interest, fines, fees and penalties) they may suffer as a result of such disallowance due to such disposition. Without limiting the generality of the "Losses" for which the Shareholders shall be indemnified against hereunder, such indemnity shall include any federal and state income tax liability arising from any disallowance of the Merger as a "reorganization" within the meaning of Code Section 368(a)(1)(A), as a result of such disposition.

12.5. CURRENT PUBLIC INFORMATION. For so long after the Closing as the Shareholders hold Purchaser Stock and are eligible to dispose of Class A Common Stock in reliance on Rule 144 promulgated under the Securities Act of 1933, as amended (except to the extent that Rule 144(k) is available), the Purchaser shall maintain "current public information" as required under Rule 144(c) (for as long as Rule 144 requires such current public information to be so maintained for dispositions to be permitted under Rule 144).

13. MISCELLANEOUS.

13.1. EXPENSES. Regardless of whether the Closing occurs, the parties shall pay their own expenses in connection with the negotiation, preparation and carrying out of this Agreement and the consummation of the transactions contem plated herein. If the transactions contemplated by this Agreement and the Exhibits hereto are consummated, the Company shall have no obligation for, nor shall the Company be charged with, any such expenses of the Shareholders. All finders' and similar fees and expenses of Thomas Pierce & Co. shall be borne solely by the Purchaser, and in no event shall any Shareholder be charged or responsible therefor. All sales, transfer, stamp or other similar taxes, if any, which may be assessed or charged in connection with the transactions hereunder shall be borne by the Shareholders.

13.2. NOTICES. All notices, requests, consents and other communications hereunder shall be in writing and shall be deemed to have been given when personally delivered or three business days following the date, mailed, first class, registered or certified mail, postage prepaid, as follows:

(i) if to the Company or any Shareholder, to:

Wilson & Kratzer Mortuaries
455 - 24th Street
Richmond, California 94804
Facsimile: (415) 233-4383

with a copy to:

Freeland, Cooper, LeHocky & Hamburg
150 Spear Street, Suite 1800
San Francisco, California 94105
Attention: Mr. Steven A. Cooper, or
Mrs. Kate C. Freeland
Facsimile: (415) 495-4332

(ii) if to the Purchaser or the Acquisition Subsidiary, to:

Carriage Services, Inc.
1300 Post Oak Boulevard, Suite 1500
Houston, Texas 77056
Attention: Mr. Melvin C. Payne
Facsimile: (713) 556-7401

with a copy to:

Snell & Smith, A Professional Corporation
1000 Louisiana, Suite 3650
Houston, Texas 77002
Attention: Mr. W. Christopher Schaeper
Facsimile: (713) 651-8010

or to such other address as shall be given in writing by any party to the other parties hereto.

13.3. ASSIGNMENT. This Agreement may not be assigned by any party hereto without the prior written consent of the other parties; provided, however, that following the Closing the Purchaser or the Surviving Corporation may assign its rights hereunder without the consent of the Shareholders to a successor-in-interest to the Purchaser or the Surviving Corporation, as the case may be (whether by merger, sale of assets or otherwise).

13.4. SUCCESSORS BOUND. Subject to the provisions of Section 13.3, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs and personal representatives.

13.5. 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.

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

13.7. ENTIRE AGREEMENT. This Agreement and the Exhibits, Schedules, certificates and 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.

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

13.9. 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.

THE PURCHASER:

CARRIAGE SERVICES, INC.

By:_____
MELVIN C. PAYNE, President

THE ACQUISITION SUBSIDIARY:

CARRIAGE FUNERAL SERVICES
OF CALIFORNIA, INC.

By:_____
MELVIN C. PAYNE, President

THE COMPANY:

CNM

By:_____
MARK F. WILSON, President

THE SHAREHOLDERS:

_____
MARK WILSON

_____
WENDY WILSON BOYER

_____
WARREN A. BROWN, IV

THE BOYER FAMILY TRUST DATED
SEPTEMBER 22, 1986

By:_____
William Boyer, Trustee

By:_____
Wendy Wilson Boyer, Trustee

TRUST B UNDER AGREEMENT DATED
SEPTEMBER 9, 1977

By:_____
Marie Dietz, Trustee

By:_____
Mark F. Wilson, Trustee

TRUST C UNDER AGREEMENT DATED
SEPTEMBER 9, 1977

By:_____
Marie Dietz, Trustee

By:_____
Mark F. Wilson, Trustee

EXHIBIT / SCHEDULE PAGE

EXHIBIT	DESCRIPTION
A	Registration Agreement
B-1	Employment Agreement (Mark Wilson)
B-2	Employment Agreement (Wendy Wilson Boyer)
C	Carriage Partners Program
D-1	Non-Competition Agreement (Mark Wilson)
D-2	Non-Competition Agreement (Wendy Wilson Boyer)
E	Co-Sale Agreement
F	Opinion of Counsel for Company and Shareholders
G	Opinion of Counsel for Purchaser and Acquisition Subsidiary
H	Series F Designation

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II	The Shareholders
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5.5	Financial Information
5.6(c)	Danville Property
5.9	Liabilities
5.15	Intangible Rights
5.18	Pending or Threatened Litigation
5.20	Environmental Matters
5.23	Affiliated Party Transactions
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CARRIAGE SERVICES, INC.

1995 STOCK INCENTIVE PLAN

AS AMENDED AND RESTATED EFFECTIVE AS OF JANUARY 7, 1997

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CARRIAGE SERVICES, INC.

1995 STOCK INCENTIVE PLAN

AS AMENDED AND RESTATED EFFECTIVE AS OF JANUARY 7,1997

ARTICLE I. GENERAL

Section 1.1. PURPOSE. The purposes of this Stock Incentive Plan (the "Plan") are to: (1) closely associate the interests of the management of Carriage Services, Inc., a Delaware corporation (the "Company"), and its subsidiaries and affiliates (the Company, together with its subsidiaries and affiliates, being hereafter collectively referred to as "Carriage") with the stockholders of the Company to generate an increased incentive to contribute to the Company's future success and prosperity, thus enhancing the value of the Company for the benefit of its stockholders; (2) provide management with a proprietary ownership interest in the Company commensurate with Carriage's performance, as reflected in increased shareholder value; (3) maintain competitive compensation levels thereby attracting and retaining highly competent and talented directors and employees; and (4) provide an incentive to management for continuous employment with Carriage. The Plan as set forth herein constitutes an amendment and restatement, effective as of the date of the adoption of this amendment and restatement (the "Restatement Effective Date") by the Board of Directors of the Company (the "Board"), of the Plan as previously adopted and as subsequently amended by the Company, and shall supersede and replace in its entirety such prior plan.

Section 1.2. ADMINISTRATION.

(a) This Plan shall be administered by a committee (the "Committee") of, and appointed by, the Board, which shall be comprised solely of two or more "outside directors" within the meaning of section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") and applicable interpretive authority thereunder.

(b) The Committee shall have the authority, in its sole discretion and from time to time to:

(i) designate the employees or classes of employees of Carriage and other persons who are eligible to participate in this Plan;

(ii) grant awards ("Awards") provided in this Plan in such form and amount as the Committee shall determine;

(iii) impose such limitations, restrictions, and conditions, not inconsistent with this Plan, upon any such Award as the Committee shall deem appropriate; and

(iv) interpret this Plan and any agreement, instrument, or other document executed in connection with this Plan; adopt, amend, and rescind rules and regulations relating to this Plan; and make all other determinations and take all other action necessary or advisable for the implementation and administration of this Plan.

(c) Decisions and determinations of the Committee on all matters relating to this Plan shall be in its sole discretion and shall be final, conclusive, and binding upon all persons, including the Company, any participant, any shareholder of the Company, and any employee of Carriage. A majority of the members of the Committee may determine its actions and fix the time and place of its meetings. No member of the Committee shall be liable for any action taken or decision made in good faith relating to this Plan or any Award thereunder.

Section 1.3. ELIGIBILITY FOR PARTICIPATION. Participants in this Plan ("Participants") shall be selected by the Committee from the directors, executive officers and other employees of Carriage who are responsible for or contribute to the management, growth, success and, profitability of Carriage, and from persons (not otherwise specified above) who are former owners of funeral homes or cemeteries that have been acquired by Carriage. In making this selection and in determining the form and amount of Awards, the Committee shall consider any factors deemed relevant, including the individual's functions, responsibilities, value of services to Carriage, and past and potential contributions to Carriage's profitability and growth.

Section 1.4. TYPES OF AWARDS UNDER PLAN. Awards under this Plan may be in the form of any or more of the following:

(i) Stock Options, as described in Article II;

(ii) Incentive Stock Options, as described in Article III;

(iii) Reload Options, as described in Article IV;

(iv) Alternate Appreciation Rights, as described in Article V;

(v) Limited Rights, as described in Article VI; and/or

(vi) Stock Bonus Awards, as described in Article VII.

Awards under this Plan shall be evidenced by an Award Agreement between the Company and the recipient of the Award ("Award Agreement"), in form and substance satisfactory to the Committee, and not inconsistent with this Plan.

Section 1.5. AGGREGATE LIMITATION ON AWARDS.

(a) Shares of stock which may be issued under this Plan shall be authorized and unissued or treasury shares of either (i) Class A Common Stock, $.01 par value, of the Company ("Class A Common Stock") or (ii) Class B Common Stock, $.01 par value, of the Company ("Class B Common Stock"). As used herein, the term 'Common Stock' shall mean both Class A Common Stock and Class B Common Stock. The maximum number of shares of Common Stock that may be issued under this Plan shall be 700,000. The number of shares that may be issued under this Plan and as to which options may be granted shall be subject to adjustment as provided in Sections 8.10 and 8.11. Notwithstanding any provision in this Plan to the contrary, (1) Awards under this Plan that were granted prior to the date of the initial public offering of shares of Class A Common Stock shall be satisfied in shares of Class B Common Stock and (2) Awards under this Plan that are granted on or after the date of the initial public offering of shares of Class A Common Stock shall be satisfied in shares of Class A Common Stock. Further, upon the exercise of an Award, any exercise payment which is made in shares of Common Stock in accordance with Section 2.5 hereof shall be made (A) only in shares of Class B Common Stock if such Award is to be satisfied in Class B Common Stock or (B) only in shares of Class A Common Stock if such Award is to be satisfied in shares of Class A Common Stock. Notwithstanding any provision in the Plan to the contrary, the maximum number of shares of Common Stock that may be subject to Awards granted to any one employee during a calendar year is 200,000 shares of Common Stock subject to adjustment as provided in Sections 8.10 and 8.11. The limitation set forth in the preceding sentence shall be applied in a manner which will permit compensation generated under the Plan to constitute "performance-based" compensation for purposes of section 162(m) of the Code, including, without limitation, counting against such maximum number of shares, to the extent required under section 162(m) of the Code and applicable interpretive authority thereunder, any shares subject to Stock Options, Reload Options, Alternative Appreciation Rights and, if applicable, Bonus Stock Awards, that are canceled or repriced.

(b) For purposes of calculating the maximum number of shares of Common Stock that may be issued under this Plan:

(i) all the shares issued (including the shares, if any, withheld for tax withholding requirements) shall be counted when cash is used as full payment for shares issued upon exercise of a Stock Option, Incentive Stock Option, or Reload Option;

(ii) only the shares issued (including the shares, if any, withheld for tax withholding requirements) as a result of an exercise of Alternate Appreciation Rights shall be counted; and

(iii) only the net shares issued (including the shares, if any, withheld for tax withholding requirements) shall be counted when shares of Common Stock or another Award under this Plan are used or withheld as full or partial payment for shares issued upon exercise of a Stock Option, Incentive Stock Option, or Reload Option.

(c) In addition to shares of Common Stock actually issued pursuant to the exercise of Stock Options, Incentive Stock Options, Reload Options, or Alternate Appreciation Rights, there shall be deemed to have been issued a number of shares equal to the number of shares of Common Stock in respect of which Limited Rights (as described in Article VI) shall have been exercised.

(d) Shares tendered by a participant or withheld as payment for shares issued upon exercise of a Stock Option, Incentive Stock Option, or Reload Option shall be available for issuance under this Plan. Any shares of Common Stock subject to a Stock Option, Incentive Stock Option, or Reload Option that for any reason is terminated unexercised or expires shall again be available for issuance under this Plan, but shares subject to a Stock Option, Incentive Stock Option, or Reload Option that are not issued as a result of the exercise of Limited Rights shall not again be available for issuance under this Plan.

Section 1.6. EFFECTIVE DATE AND TERM OF PLAN.

(a) The Plan originally became effective on July 1, 1995. This amendment and restatement of the Plan shall become effective upon the Restatement Effective Date, provided that this amendment and restatement of the plan is approved by the stockholders of the Company within twelve (12) months thereafter.

(b) No Awards shall be made under this Plan after July 1, 2005; provided, however, that this Plan and all Awards made under this Plan prior to such date shall remain in effect until such Awards have been satisfied or terminated in accordance with this Plan and the terms of such Awards.

(c) Notwithstanding any provision herein to the contrary, if this amendment and restatement of the Plan is not approved by the stockholders of the Company within twelve (12) months after the Restatement Effective Date, then any Award made on or after the Restatement Effective Date shall be void and canceled in its entirety, and the Plan shall terminate with respect to any shares of Common Stock for which Awards were not granted prior to the Restatement Effective Date.

ARTICLE II. STOCK OPTIONS

Section 2.1. AWARD OF STOCK OPTIONS. The Committee may from time to time, and subject to the provisions of this Plan and such other terms and conditions as the Committee may prescribe, grant to any participant in this Plan one or more options to purchase the number of shares of Common Stock ("Stock Options") allotted by the Committee. The date a Stock Option is granted shall mean the date selected by the Committee as of which the Committee allots a specific number of shares to a participant pursuant to this Plan.

Section 2.2. STOCK OPTION AGREEMENTS. The grant of a Stock Option shall be evidenced by a written Award Agreement, executed by the Company and the holder of a Stock Option (the "Optionee"), stating the number of shares of Common Stock subject to the Stock Option evidenced thereby, and in such form as the Committee may from time to time determine.

Section 2.3. STOCK OPTION PRICE. The option price per share of Common Stock deliverable upon the exercise of a Stock Option shall be an amount selected by the Committee and shall not be less than 100% of the fair market value of a share of Common Stock on the date the Stock Option is granted.

Section 2.4. TERM AND EXERCISE. A Stock Option shall not be exercisable prior to six months from the date of its grant and unless a shorter period is provided by the Committee or by another Section of this Plan, may be exercised during a period of ten years from the date of grant thereof (the "Option Term"). No Stock Option shall be exercisable after the expiration of its Option Term.

Section 2.5. MANNER OF PAYMENT. Each Award Agreement providing for Stock Options shall set forth the procedure governing the exercise of the Stock Option granted thereunder, and shall provide that, upon such exercise in respect of any shares of Common Stock subject thereto, the Optionee shall pay to the Company, in full, the option price for such shares with cash, or with previously owned Common Stock, or at the discretion of the Committee, in whole or in part with, the surrender of another Award under this Plan, the withholding of shares of Common Stock issuable upon exercise of such Stock Option, other property, or any combination thereof (each based on the fair market value of such Common Stock, Award or other property on the date the Stock Option is exercised as determined by the Committee).

Section 2.6. DELIVERY OF SHARES. As soon as practicable after receipt of payment, the Company shall deliver to the Optionee a certificate or certificates for such shares of Common Stock. The Optionee shall become a shareholder of the Company with respect to Common Stock represented by share certificates so issued and as such shall be fully entitled to receive dividends, to vote and to exercise all other rights of a shareholder.

Section 2.7. DEATH, RETIREMENT AND TERMINATION OF EMPLOYMENT OF OPTIONEE. Unless otherwise provided in an Award Agreement or otherwise agreed to by the Committee:

(a) Upon the death of the Optionee, any rights to the extent exercisable on the date of death may be exercised by the Optionee's estate, or by a person who acquires the right to exercise such Stock Option by bequest or inheritance or by reason of the death of the Optionee, provided that such exercise occurs within both the remaining effective term of the Stock Option and one year after the Optionee's death. The provisions of this Section shall apply notwithstanding the fact that the Optionee's employment may have terminated prior to death, but only to the extent of any rights exercisable on the date of death.

(b) Upon termination of the Optionee's employment by reason of retirement or permanent disability (as each is determined by the Committee), the Optionee may, within up to a maximum of 36 months from the date of termination (or such shorter period of time as may be determined by the Committee in any instance, as reflected in each Optionee's Award Agreement), exercise any Stock Options to the extent such options are exercisable during such 36-month period.

(c) Except as provided in Subsections (a) and (b) of this Section 2.7, or except as otherwise determined by the Committee, all Stock Options shall terminate three months after the date of the termination of the Optionee's employment (or such shorter period of time as may be determined by the Committee in any instance, as reflected in each Optionee's Award Agreement).

Section 2.8. TAX ELECTION. Provided that the Company is a "reporting company" under the Securities Exchange Act of 1934, as amended, at the time of exercise of a Stock Option, recipients of Stock Options who are directors or executive officers of the Company or who own more than 10% of the Common Stock of the Company ("Section 16(a) Option Holders") at the time of exercise of a Stock Option may elect, in lieu of paying to the

Company an amount required to be withheld under applicable tax laws in connection with the exercise of a Stock Option in whole or in part, to have the Company withhold shares of Common Stock having a fair market value equal to the amount required to be withheld. Such election may not be made prior to six months following the grant of the Stock Option, except in the event of a Section 16(a) Option Holder's death or disability. The election may be made at the time the Stock Option is exercised by notifying the Company of the election, specifying the amount of such withholding and the date on which the number of shares to be withheld is to be determined ("Tax Date"), which shall be either (i) the date the Stock Option is exercised or (ii) a date six months after the Stock Option was granted, if later. The number of shares of Common Stock to be withheld to satisfy the tax obligation shall be the amount of such tax liability divided by the fair market value of the Common Stock on the Tax Date (or if not a business day, on the next closest business day). If the Tax Date is not the exercise date, the Company may issue the full number of shares of Common Stock to which the Section 16(a) Option Holder is entitled, and such option holder shall be obligated to tender to the Company on the Tax Date a number of such shares necessary to satisfy the withholding obligation. Certificates representing such shares of Common Stock shall bear a legend describing such Section 16(a) Option Holders obligation hereunder.

Section 2.9. EFFECT OF EXERCISE. The exercise of any Stock Option shall cancel that number of related Alternate Appreciation Rights and/or Limited Rights, if any, that is equal to the number of shares of Common Stock purchased pursuant to said option unless otherwise agreed by the Committee in an Award Agreement or otherwise.

ARTICLE III. INCENTIVE STOCK OPTIONS

Section 3.1. AWARD OF INCENTIVE STOCK OPTIONS. The Committee may, from time to time and subject to the provisions of this Plan and such other terms and conditions as the Committee may prescribe, grant to any participant in this Plan one or more "incentive stock options" (intended to qualify as such under the provisions of Section 422 of the Code ("Incentive Stock Options") to purchase the number of shares of Common Stock allotted by the Committee. The date an Incentive Stock Option is granted shall mean the date selected by the Committee as of which the Committee allots a specific number of shares to a participant pursuant to this Plan.

Section 3.2. INCENTIVE STOCK OPTION AGREEMENTS. The grant of an Incentive Stock Option shall be evidenced by a written Award Agreement, executed by the Company and the holder of an Incentive Stock Option (the "Optionee"), stating the number of shares of Common Stock subject to the Incentive Stock Option evidenced thereby, and in such form as the Committee may from time to time determine.

Section 3.3. INCENTIVE STOCK OPTION PRICE. The option price per share of Common Stock deliverable upon the exercise of an Incentive Stock Option shall be at least 100% of the fair market value of a share of Common Stock on the date the Incentive Stock Option is granted; provided, however, the option price per share of Common Stock deliverable upon the exercise of an Incentive Stock Option granted to any owner of 10% or more of the total combined voting power of all classes of stock of the Company and its subsidiaries shall be at least 110% of the fair market value of a share of Common Stock on the date the Incentive Stock Option is granted.

Section 3.4. TERM AND EXERCISE. Each Incentive Stock Option shall not be exercisable prior to six months from the date of its grant and, unless a shorter period is provided by the Committee or another Section of this Plan, may be exercised during a period of ten years from the date of grant thereof (the "Option Term"). No Incentive Stock Option shall be exercisable after the expiration of its Option Term.

Section 3.5. MAXIMUM AMOUNT OF INCENTIVE STOCK OPTION GRANT. To the extent that the aggregate fair market value (determined at the time the respective Incentive Stock Option is granted) of stock with respect to which Incentive Stock Options are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company and its parent and subsidiary corporations exceeds $100,000, such excess Incentive Stock Options shall be treated as options which do not constitute Incentive Stock Options. The Committee shall determine, in accordance with applicable provisions of the Code, Treasury Regulations and other administrative pronouncements,

which of an Optionee's Incentive Stock Options will not constitute Incentive Stock Options because of such limitation and shall notify the Optionee of such determination as soon as practicable after such determination.

Section 3.6. DEATH OF OPTIONEE.

(a) Upon the death of the Optionee, any Incentive Stock Option exercisable on the date of death may be exercised by the Optionee's estate or by a person who acquires the right to exercise such Incentive Stock Option by bequest or inheritance or by reason of the death of the Optionee, provided that such exercise occurs within both the remaining option term of the Incentive Stock Option and one year after the Optionee's death.

(b) The provisions of this Section shall apply notwithstanding the fact that the Optionee's employment may have terminated prior to death, but only to the extent of any Incentive Stock Options exercisable on the date of death.

Section 3.7. RETIREMENT OR DISABILITY. Upon the termination of the Optionee's employment by reason of permanent disability or retirement (as each is determined by the Committee), the Optionee may, within 36 months from the date of such termination of employment (or such shorter period of time as may be determined by the Committee in any instance, as reflected in each Optionee's Award Agreement), exercise any Incentive Stock Options to the extent such Incentive Stock Options were exercisable at the date of such termination of employment. Notwithstanding the foregoing, the tax treatment available pursuant to Section 422 of the Code upon the exercise of an Incentive Stock Option will not be available to an Optionee who exercises any Incentive Stock Options more than (i) 12 months after the date of termination of employment due to permanent disability or (ii) three months after the date of termination of employment due to retirement.

Section 3.8. TERMINATION FOR OTHER REASONS. Except as provided in Sections 3.6 and 3.7 or except as otherwise determined by the Committee, all Incentive Stock Options shall terminate three months after the date of the termination of the Optionee's employment (or such shorter period of time as may be determined by the Committee in any instance, as reflected in each Optionee's Award Agreement).

Section 3.9. APPLICABILITY OF STOCK OPTIONS SECTIONS. Sections 2.5, Manner of Payment; 2.6, Delivery of Shares; 2.8, Tax Elections and 2.9, Effect of Exercise, applicable to Stock Options, shall apply equally to Incentive Stock Options. Such Sections are incorporated by reference in this Article III as though fully set forth herein.

ARTICLE IV. RELOAD OPTIONS

Section 4.1. AUTHORIZATION OF RELOAD OPTIONS. Concurrently with or subsequent to the award of Stock Options and/or the award of Incentive Stock Options to any participant in this Plan, the Committee may authorize reload options ("Reload Options") to purchase shares of Common Stock. The number of Reload Options shall equal (i) the number of shares of Common Stock used to pay the exercise price of the underlying Stock Options or Incentive Stock Options and (ii) to the extent authorized by the Committee, the number of shares of Common Stock withheld by the Company in payment of the exercise price underlying the Stock Option or Incentive Stock Option or used to satisfy any tax withholding requirement incident to the exercise of the underlying Stock Options or Incentive Stock Options. The grant of a Reload Option will become effective upon the exercise of underlying Stock Options, Incentive Stock Options, or Reload Options through the use of shares of Common Stock held by the Optionee or the withholding of shares by the Company in payment of the exercise price of the underlying Stock Option or Incentive Stock Option held by the Optionee. Notwithstanding the fact that the underlying option may be an Incentive Stock Option, a Reload Option is not intended to qualify as an "incentive stock option" under Section 422 of the Code.

Section 4.2. RELOAD OPTION AMENDMENT. Each Award Agreement shall state whether the Committee has authorized Reload Options with respect to the Stock Options and/or Incentive Stock Options covered by such Agreement. Upon the exercise of an underlying Stock Option, Incentive Stock Option, or other Reload Option, the

Reload Option will be evidenced by an amendment to the underlying Award Agreement in such form as the Committee shall approve.

Section 4.3. RELOAD OPTION PRICE. The option price per share of Common Stock deliverable upon the exercise of a Reload Option shall be the fair market value of a share of Common Stock on the date the grant of the Reload Option becomes effective.

Section 4.4. TERM AND EXERCISE. Each Reload Option is fully exercisable six months from the effective date of grant. The term of each Reload Option shall be equal to the remaining option term of the underlying Stock Option and/or Incentive Stock Option.

Section 4.5. TERMINATION OF EMPLOYMENT. Unless otherwise determined by the Committee in an Award Agreement or otherwise, no additional Reload Options shall be granted to Optionees when Stock Options, Incentive Stock Options, and/or Reload Options are exercised pursuant to the terms of this Plan following termination of the Optionee's employment.

Section 4.6. APPLICABILITY OF STOCK OPTIONS SECTIONS. Sections 2.5, Manner of Payment; 2.6 Delivery of Shares; 2.7, Death, Retirement and Termination of Employment of Optionee; 2.8, Tax Elections; and 2.9, Effect of Exercise, applicable to Stock Options, shall apply equally to Reload Options. Such Sections are incorporated by reference in this Article IV as though fully set forth herein.

ARTICLE V. ALTERNATE APPRECIATION RIGHTS

Section 5.1. AWARD OF ALTERNATE APPRECIATION RIGHTS. Concurrently with or subsequent to the award of any Stock Option, Incentive Stock Option, or Reload Option to purchase one or more shares of Common Stock, the Committee may, subject to the provisions of this Plan and such other terms and conditions as the Committee may prescribe, award to the Optionee with respect to each share of Common Stock covered by an Option, a related alternate appreciation right permitting the Optionee to be paid the appreciation on the Option in lieu of exercising the Option ("Alternate Appreciation Right").

Section 5.2. ALTERNATE APPRECIATION RIGHTS AGREEMENT. Alternate Appreciation Rights shall be evidenced by written Award Agreements in such form as the Committee may from time to time determine.

Section 5.3. EXERCISE. An Optionee who has been granted Alternate Appreciation Rights may, from time to time, in lieu of the exercise of an equal number of Options, elect to exercise one or more Alternate Appreciation Rights and thereby become entitled to receive from the Company payment in Common Stock of the number of shares determined pursuant to Sections 5.4 and 5.5. Alternate Appreciation Rights shall be exercisable only to the same extent and subject to the same conditions as the Options related thereto are exercisable, as provided in this Plan. The Committee may, in its discretion, prescribe additional conditions to the exercise of any Alternate Appreciation Rights.

Section 5.4. AMOUNT OF PAYMENT. The amount of payment to which an Optionee shall be entitled upon the exercise of each Alternate Appreciation Right shall be equal to 100% of the amount, if any, by which the fair market value of a share of Common Stock on the exercise date exceeds the option price per share on the Option related to such Alternate Appreciation Right. A Section 16(a) Option Holder may elect to withhold shares of Common Stock issued under this Section to pay taxes as described in Section 2.8.

Section 5.5. FORM OF PAYMENT. The number of shares to be paid shall be determined by dividing the amount of payment determined pursuant to Section 5.4 by the fair market value of a share of Common Stock on the exercise date of such Alternate Appreciation Rights. As soon as practicable after exercise, the Company shall deliver to the Optionee a certificate or certificates for such shares of Common Stock.

Section 5.6. EFFECT OF EXERCISE. Unless otherwise provided in an Award Agreement or agreed to by the Committee, the exercise of any Alternate Appreciation Rights shall cancel an equal number of Stock Options, Incentive Stock Options, Reload Options, and Limited Rights, if any, related to said Alternate Appreciation Rights.

Section 5.7. TERMINATION OF EMPLOYMENT, RETIREMENT, DEATH OR DISABILITY. Unless otherwise provided in an Award Agreement or agreed to by the Committee:

(a) Upon termination of the Optionee's employment (including employment as a director of the Company after an Optionee terminates employment as an officer or key employee of the Company) by reason of permanent disability or retirement (as each is determined by the Committee), the Optionee may, within six months from the date of such termination (or such shorter period of time as may be determined by the Committee in any instance, as reflected in each Optionee's Award Agreement), exercise any Alternate Appreciation Rights to the extent such Alternate Appreciation Rights are exercisable during such period.

(b) Except as provided in Section 5.7(a), all Alternate Appreciation Rights shall terminate three months after the date of the termination of the Optionee's employment or upon the death of the Optionee.

ARTICLE VI. LIMITED RIGHTS

Section 6.1. AWARD OF LIMITED RIGHTS. Concurrently with or subsequent to the award of any Stock Option, Incentive Stock Option, Reload Option, or Alternate Appreciation Right, the Committee may, subject to the provisions of this Plan and such other terms and conditions as the Committee may prescribe, award to the Optionee with respect to each share of Common Stock covered by an Option, a related limited right permitting the Optionee, during a specified limited time period, to be paid the appreciation on the option in lieu of exercising the option ("Limited Right").

Section 6.2. LIMITED RIGHTS AGREEMENT. Limited Rights granted under this Plan shall be evidenced by written Award Agreements in such form as the Committee may from time to time determine.

Section 6.3. EXERCISE PERIOD. Limited Rights are exercisable in full for a period of seven months following the date of a Change in Control of the Company (the "Exercise Period"); provided, however, that Limited Rights may not be exercised under any circumstances until the expiration of the six-month period following the date of grant. As used in this Plan, a "Change in Control" shall be deemed to have occurred if (a) the Company shall not be the surviving entity in any merger, consolidation or other reorganization (or survives only as a subsidiary of an entity), (b) the Company sells, leases or exchanges, or agrees to sell, lease or exchange, all or substantially all of its assets to any other person or entity, (c) the Company is to be dissolved and liquidated, (d) any person or entity, including a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, acquires or gains ownership or control (including, without limitation, power to vote) of more than 50% of the outstanding shares of the Company's voting stock (based upon voting power), or (e) as a result of or in connection with a contested election of directors, the persons who were directors of the Company before such election shall cease to constitute a majority of the Board.

Section 6.4. AMOUNT OF PAYMENT. The amount of payment to which an Optionee shall be entitled upon the exercise of each Limited Right shall be equal to 100% of the amount, if any, which is equal to the difference between the option price per share of Common Stock covered by the related option and the Market Price of a share of such Common Stock. "Market Price" is defined to be the greater of (i) the highest price per share of the Company's Common Stock paid in connection with any Change in Control and (ii) the fair market value per share of the Company's Common Stock determined in accordance with Section 8.7(c).

Section 6.5. FORM OF PAYMENT. Payment of the amount to which an Optionee is entitled upon the exercise of Limited Rights, as determined pursuant to Section 6.4, shall be made solely in cash.

Section 6.6. EFFECT OF EXERCISE. If Limited Rights are exercised, the Stock Options, Incentive Stock Options, Reload Options, and Alternate Appreciation Rights, if any, related to such Limited Rights shall cease to be exercisable to the extent of the number of shares with respect to which the Limited Rights were exercised. Upon the exercise or termination of the Stock Options, Incentive Stock Options, Reload Options, and Alternate Appreciation Rights, if any, related to such Limited Rights, the Limited Rights granted with respect thereto terminate to the extent of the number of shares as to which the related options and Alternate Appreciation Rights were exercised or terminated.

Section 6.7. RETIREMENT OR DISABILITY. Upon termination of the Optionee's employment (including employment as a director of the Company after an Optionee terminates employment as an officer or key employee of the Company) by reason of permanent disability or retirement (as each is determined by the Committee), the Optionee may, within six months from the date of termination, exercise any Limited Right to the extent such Limited Right is exercisable during such six-month period.

Section 6.8. DEATH OF OPTIONEE OR TERMINATION FOR OTHER REASONS. Except as provided in Sections 6.7 and 6.9, or except as otherwise determined by the Committee, all Limited Rights granted under this Plan shall terminate upon the termination of the Optionee's employment or upon the death of the Optionee.

Section 6.9. TERMINATION RELATED TO A CHANGE IN CONTROL. The requirement that an Optionee be terminated by reason of retirement or permanent disability or be employed by Carriage at the time of exercise pursuant to Sections 6.7 and 6.8 respectively, is waived during the Exercise Period as to an Optionee who (i) was employed by Carriage at the time of the Change in Control and (ii) is subsequently terminated by Carriage other than for just cause or who voluntarily terminates if such termination was the result of a good faith determination by the Optionee that as a result of the Change in Control he is unable to effectively discharge his present duties or the duties of the position which he occupied just prior to the Change in Control. As used herein "just cause" shall mean willful misconduct or dishonesty or conviction of or failure to contest prosecution for a felony, persistent failure or refusal to attend to duties or follow Company policy, or excessive absenteeism unrelated to illness.

ARTICLE VII. BONUS STOCK AWARDS

Section 7.1. AWARD OF BONUS STOCK. The Committee may from time to time, and subject to the provisions of this Plan and such other terms and conditions as the Committee may prescribe, grant to any participant in this Plan shares of Common Stock ("Stock Bonus").

Section 7.2. STOCK BONUS AGREEMENTS. The grant of a Stock Bonus shall be evidenced by a written Award Agreement, executed by the Company and the recipient of a Stock Bonus, in such form as the Committee may from time to time determine, providing for the terms of such grant, including any vesting schedule, restrictions on the transfer of such Common Stock or other matters. Specifically, the Committee may provide that the restrictions on the transfer of such Common Stock shall lapse upon (i) the attainment of targets established by the Committee that are based on (1) the price of a share of Stock, (2) the Company's earnings per share, (3) the Company's revenue, (4) the revenue of a business unit of the Company designated by the Committee, (5) the return on stockholders' equity achieved by the Company, or (6) the Company's pre-tax cash flow from operations (ii) the Participant's continued employment with the Company for a specified period of time, or (iii) a combination of any two or more of the factors listed in clauses (i) and (ii) of this sentence.

Section 7.3. TRANSFER RESTRICTION. Any Award Agreement providing for the issuance of Bonus Stock to any person who, at the time of grant, is a person described in Section 16(a) under the Securities Exchange Act of 1934 shall provide that such Common Stock cannot be resold for a period of six months following the grant of such Bonus Stock.

ARTICLE VIII. MISCELLANEOUS

Section 8.1. GENERAL RESTRICTION. Each Award under this Plan shall be subject to the requirement that, if at any time the Committee shall determine that (i) the listing, registration, or qualification of the shares of Common

Stock subject or related thereto upon any securities exchange or under any state or Federal law, or (ii) the consent or approval of any government regulatory body, or (iii) an agreement by the grantee of an Award with respect to the disposition of shares of Common Stock, is necessary or desirable as a condition of, or in connection with, the granting of such Award or the issue or purchase of shares of Common Stock thereunder, such Award may not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee.

Section 8.2. NON-TRANSFERABILITY. An Incentive Stock Option and all rights granted thereunder shall not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), as amended, or the rules thereunder, and shall be exercisable during the Optionee's lifetime only by the Optionee or the Optionee's guardian or legal representative. An Award (other than an Incentive Stock Option) shall not be transferable otherwise than (i) by will or the laws of descent and distribution, (ii) pursuant to a qualified domestic relations order as defined by the Code or Title I of ERISA or (iii) with the consent of the Committee.

Section 8.3. WITHHOLDING TAXES. Whenever the Company proposes or is required to issue or transfer shares of Common Stock under this Plan, the Company shall have the right to require the grantee to remit to the Company an amount sufficient to satisfy any Federal, state, and/or local withholding tax requirements prior to the delivery of any certificate or certificates for such shares. Alternatively, the Company may issue or transfer such shares of the Company net of the number of shares sufficient to satisfy the withholding tax requirements. For withholding tax purposes, the shares of Common Stock shall be valued on the date the withholding obligation is incurred.

Section 8.4. RIGHT TO TERMINATE EMPLOYMENT. Nothing in this Plan or in any agreement entered into pursuant to this Plan shall confer upon any participant the right to continue in the employment of Carriage or affect any right which Carriage may have to terminate the employment of such participant.

Section 8.5. NON-UNIFORM DETERMINATIONS. The Committee's determinations under this Plan (including without limitation determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, awards under this Plan, whether or not such persons are similarly situated.

Section 8.6. RIGHTS AS A SHAREHOLDER. The recipient of any Award under this Plan shall have no rights as a shareholder with respect thereto unless and until certificates for shares of Common Stock are issued to him or her.

Section 8.7. DEFINITIONS. In this Plan the following definitions shall apply:

(a) "Subsidiary" means any corporation of which, at the time more than 50% of the shares entitled to vote generally in an election of directors are owned directly or indirectly by the Company or any subsidiary thereof.

(b) "Affiliate" means any person or entity which directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the Company.

(c) "Fair market value" as of any date and in respect or any share of Common Stock means (i) until such time as the Common Stock is traded on a national securities exchange or over-the-counter and reported on the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), then the price per share determined in good faith by the Committee, taking into consideration all factors it deems relevant, including liquidity, priority, minority interest discount, and the price per share at which other securities of the Company have been issued; (ii) if the Common Stock is traded on a national securities exchange, then the closing price on such date or on the next business day, if such date is not a business day, of a share of Common Stock reflected in the consolidated trading tables of THE WALL STREET JOURNAL or any other publication selected by the Committee; or (iii) if the Common Stock is traded over-the-counter and

reported on NASDAQ, then the average of the high and low sales prices on such trading day as reported in such publication or, if not so published, then as reported by NASDAQ, and if the Common Stock is not in the NASDAQ National Market System on such trading day, then the representative bid and asked prices at the end of such trading day in such market as reported by NASDAQ. In no event shall the fair market value of any share of Common Stock be less than its par value.

(d) "Option" means Stock Option, Incentive Stock Option, or Reload Option.

(e) "Option price" means the purchase price per share of Common Stock deliverable upon the exercise of a Stock Option, Incentive Stock Option, or Reload Option.

Section 8.8. LEAVES OF ABSENCE. The Committee shall be entitled to make such rules, regulations, and determinations as it deems appropriate under this Plan in respect of any leave of absence taken by the recipient of any Award. Without limiting the generality of the foregoing, the Committee shall be entitled to determine (i) whether or not any such leave of absence shall constitute a termination of employment within the meaning of this Plan and (ii) the impact, if any, of any such leave of absence on Awards under this Plan theretofore made to any recipient who takes such leave of absence.

Section 8.9. NEWLY ELIGIBLE EMPLOYEES. The Committee shall be entitled to make such rules, regulations, determinations and awards as it deems appropriate in respect of any employee who becomes eligible to participate in this Plan or any portion thereof after the commencement of an award or incentive period.

Section 8.10. ADJUSTMENTS. In any event of any change in the outstanding Common Stock by reason of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or the like, the Committee may appropriately adjust the number of shares of Common Stock that may be issued under this Plan, the number of shares of Common Stock subject to Options theretofore granted under this Plan, and any and all other matters deemed appropriate by the Committee.

Section 8.11. CHANGES IN THE COMPANY'S CAPITAL STRUCTURE.

(a) The existence of outstanding Options, Alternate Appreciation Rights, or Limited Rights shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) If, while there are outstanding Options, the Company shall effect a subdivision or consolidation of shares or other increase or reduction of the number of shares of the Common Stock outstanding without receiving compensation therefor in money, services or property, then (a) in the event of an increase in the number of such shares outstanding, the number of shares of Common Stock then subject to Options hereunder shall be proportionately increased; and (b) in the event of a decrease in the number of such shares outstanding the number of shares then available for Option hereunder shall be proportionately decreased.

(c) After a merger of one or more corporations into the Company, or after a consolidation of the Company and one or more corporations in which the Company shall be the surviving corporation, which transaction alters the outstanding capital structure of the Company, then each holder of an outstanding Option shall, at no additional cost, be entitled upon exercise of such Option to receive (subject to any required action by stockholders) in lieu of the number of shares as to which such Option shall then be so exercisable, the number and class of shares of stock or other securities to which such holder would have been entitled to receive pursuant to the terms of the agreement of merger or consolidation if, immediately prior to such

merger or consolidation, such holder had been the holder of record of a number of shares of the Company equal to the number of shares as to which such Option had been exercisable.

(d) If the Company is merged into or consolidated with another corporation or other entity under circumstances where the Company is not the surviving corporation, or if the Company sells or otherwise disposes of substantially all of its assets to another corporation or other entity while unexercised Options remain outstanding, then the Committee may direct that any of the following shall occur:

(i) If the successor entity is willing to assume the obligation to deliver shares of stock or other securities after the effective date of the merger, consolidation or sale of assets, as the case may be, each holder of an outstanding Option shall be entitled to receive, upon the exercise of such Option and payment of the option price, in lieu of shares of Common Stock, such shares of stock or other securities as the holder of such Option would have been entitled to receive had such Option been exercised immediately prior to the consummation of such merger, consolidation or sale, and any related Alternate Appreciation Right and Limited Right associated with such Option shall apply as nearly as practicable to the shares of stock or other securities purchasable upon exercise of the Option following such merger, consolidation or sale of assets.

(ii) The Committee may waive any limitations set forth in or imposed pursuant to this Plan or any Award Agreement with respect to such Option and any related Alternate Appreciation Right or Limited Option such that such Option and related Alternate Appreciation Right and Limited Right shall become exercisable prior to the record or effective date of such merger, consolidation or sale of assets.

(iii) The Committee may cancel all outstanding Options and Alternate Appreciation Rights (but not Limited Rights) as of the effective date of any such merger, consolidation, or sale of assets provided that prior notice of such cancellation shall be given to each holder of an Option at least 30 days prior to the effective date of such merger, consolidation, or sale of assets, and each holder of an Option shall have the right to exercise such Option and any related Alternate Appreciation Right in full during a period of not less than 30 days prior to the effective date of such merger, consolidation, or sale of assets. No action taken by the Committee under this subsection shall have the effect of terminating, and nothing in this subsection shall permit the Committee to terminate, any Limited Right held by an Optionee.

(e) Except as herein provided, the issuance by the Company of Common Stock or any other shares of capital stock or securities convertible into shares of capital stock, for cash property, labor done or other consideration, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock then subject to outstanding Options.

Section 8.12. AMENDMENT OF THIS PLAN.

(a) The Committee may, without further action by the stockholders and without receiving further consideration from the participants, amend this Plan or condition or modify Awards under this Plan in response to changes in securities or other laws or rules, regulations or regulatory interpretations thereof applicable to this Plan or to comply with stock exchange rules or requirements.

(b) The Committee may at any time and from time to time terminate or modify or amend this Plan in any respect, except that without shareholder approval the Committee may not (i) increase the maximum aggregate number of shares of Common Stock which may be issued under this Plan (other than increases pursuant to Sections 8.10 and 8.11) or (ii) change the class of employees eligible to receive Awards under the Plan. The termination or any modification or amendment of this Plan, except as provided in subsection (a), shall not, without the consent of a participant, affect his or her rights under an Award previously granted to him or her.

CARRIAGE SERVICES, INC.

1996 STOCK OPTION PLAN

AS AMENDED AND RESTATED EFFECTIVE AS OF JANUARY 7, 1997

I. PURPOSE OF THE PLAN

The CARRIAGE SERVICES, INC. 1996 STOCK OPTION PLAN (the "Plan") is intended to provide a means whereby certain employees of CARRIAGE SERVICES, INC., a Delaware corporation (the "Company"), and its subsidiaries may develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to remain with and devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its stockholders. Accordingly, the Company may grant to certain employees ("Optionees") the option ("Option") to purchase shares of the Class A common stock of the Company ("Stock"), as hereinafter set forth. Options granted under the Plan may be either incentive stock options, within the meaning of section 422(b) of the Internal Revenue Code of 1986, as amended (the "Code"), ("Incentive Stock Options") or options which do not constitute Incentive Stock Options.

The Plan as set forth herein constitutes an amendment and restatement, effective as of the date of the adoption of this amendment and restatement (the "Restatement Effective Date") by the Board of Directors of the Company (the "Board"), of the Plan as previously adopted by the Company, and shall supersede and replace in its entirety such prior plan.

II. ADMINISTRATION

The Plan shall be administered by a committee (the "Committee") of, and appointed by, the Board, which shall be comprised solely of two or more "outside directors" within the meaning of section 162(m) of the Code and applicable interpretive authority thereunder. The Committee shall have sole authority to select the Optionees from among those individuals eligible hereunder and to establish the number of shares which may be issued under each Option; provided, however, that, notwithstanding any provision in the Plan to the contrary, the maximum number of shares that may be subject to Options granted under the Plan to an individual Optionee during any calendar year may not exceed 200,000 (subject to adjustment in the same manner as provided in Paragraph VIII hereof with respect to shares of Stock subject to Options then outstanding). The limitation set forth in the preceding sentence shall be applied in a manner which will permit compensation generated under the Plan to constitute "performance-based" compensation for

purposes of section 162(m) of the Code, including, without limitation, counting against such maximum number of shares, to the extent required under section 162(m) of the Code and applicable interpretive authority thereunder, any shares subject to Options that are canceled or repriced. In selecting the Optionees from among individuals eligible hereunder and in establishing the number of shares that may be issued under each Option, the Committee may take into account the nature of the services rendered by such individuals, their present and potential contributions to the Company's success and such other factors as the Committee in its discretion shall deem relevant. The Committee is authorized to interpret the Plan and may from time to time adopt such rules and regulations, consistent with the provisions of the Plan, as it may deem advisable to carry out the Plan. All decisions made by the Committee in selecting the Optionees, in establishing the number of shares which may be issued under each Option and in construing the provisions of the Plan shall be final.

III. OPTION AGREEMENTS

(a) Each Option shall be evidenced by a written agreement between the Company and the Optionee ("Option Agreement") which shall contain such terms and conditions as may be approved by the Committee. The terms and conditions of the respective Option Agreements need not be identical. Specifically, an Option Agreement may provide for the surrender of the right to purchase shares under the Option in return for a payment in cash or shares of Stock or a combination of cash and shares of Stock equal in value to the excess of the fair market value of the shares with respect to which the right to purchase is surrendered over the option price therefor ("Stock Appreciation Rights"), on such terms and conditions as the Committee in its sole discretion may prescribe; provided, that, except as provided in Subparagraph VIII(c) hereof, the Committee shall retain final authority (i) to determine whether an Optionee shall be permitted, or (ii) to approve an election by an Optionee, to receive cash in full or partial settlement of Stock Appreciation Rights. Moreover, an Option Agreement may provide for the payment of the option price, in whole or in part, by the delivery of a number of shares of Stock (plus cash if necessary) having a fair market value equal to such option price.

(b) For all purposes under the Plan, the fair market value of a share of Stock on a particular date shall be equal to the mean of the high and low sales prices of the Stock (i) reported by the National Market System of NASDAQ on that date or (ii) if the Stock is listed on a national stock exchange, reported on the stock exchange composite tape on that date; or, in either case, if no prices are reported on that date, on the last preceding date on which such prices of the Stock are so reported. If the Stock is traded over the counter at the time a determination of its fair market value is required to be made hereunder, its fair market value shall be deemed to be equal to the average between the reported high and low or closing bid and asked prices of Stock on the most recent date on which Stock was publicly traded. In the event Stock is not publicly traded at the time a determination of its value is required to be made hereunder, the determination of its fair market value shall be made by the Committee in such manner as it deems appropriate.

Notwithstanding the foregoing, the fair market value of a share of Stock on the date of an initial public offering of Stock shall be the offering price under such initial public offering.

(c) Each Incentive Stock Option and all rights granted thereunder shall not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), as amended, or the rules thereunder, and shall be exercisable during the Optionee's lifetime only by the Optionee or the Optionee's guardian or legal representative. Each Option that does not constitute an Incentive Stock Option and all rights granted thereunder shall not be transferable otherwise than (i) by will or the laws of descent and distribution, (ii) pursuant to a qualified domestic relations order as defined by the Code or Title I of ERISA or (iii) with the consent of the Committee.

IV. ELIGIBILITY OF OPTIONEE

Options may be granted only to individuals who are employees (including officers and directors who are also employees) of the Company or any parent or subsidiary corporation (as defined in section 424 of the Code) of the Company at the time the Option is granted. Options may be granted to the same individual on more than one occasion. No Incentive Stock Option shall be granted to an individual if, at the time the Option is granted, such individual owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporation, within the meaning of section 422(b)(6) of the Code, unless (i) at the time such Option is granted the option price is at least 110% of the fair market value of the Stock subject to the Option and (ii) such Option by its terms is not exercisable after the expiration of five years from the date of grant. To the extent that the aggregate fair market value (determined at the time the respective Incentive Stock Option is granted) of stock with respect to which Incentive Stock Options are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company and its parent and subsidiary corporations exceeds $100,000, such excess Incentive Stock Options shall be treated as Options which do not constitute Incentive Stock Options. The Committee shall determine, in accordance with applicable provisions of the Code, Treasury Regulations and other administrative pronouncements, which of an Optionee's Incentive Stock Options will not constitute Incentive Stock Options because of such limitation and shall notify the Optionee of such determination as soon as practicable after such determination.

V. SHARES SUBJECT TO THE PLAN

The aggregate number of shares which may be issued under Options granted under the Plan shall not exceed 600,000 shares of Stock. Such shares may consist of authorized but unissued shares of Stock or previously issued shares of Stock reacquired by the Company. Any of such shares which remain unissued and which are not subject to outstanding Options at the termination of the Plan shall cease to be subject to the Plan, but, until termination of the Plan, the Company

shall at all times make available a sufficient number of shares to meet the requirements of the Plan. Should any Option hereunder expire or terminate prior to its exercise in full, the shares theretofore subject to such Option may again be subject to an Option granted under the Plan to the extent permitted under Rule 16b-3. The aggregate number of shares which may be issued under the Plan shall be subject to adjustment in the same manner as provided in Paragraph VIII hereof with respect to shares of Stock subject to Options then outstanding. Exercise of an Option in any manner, including an exercise involving a Stock Appreciation Right, shall result in a decrease in the number of shares of Stock which may thereafter be available, both for purposes of the Plan and for sale to any one individual, by the number of shares as to which the Option is exercised. Separate stock certificates shall be issued by the Company for those shares acquired pursuant to the exercise of an Incentive Stock Option and for those shares acquired pursuant to the exercise of any Option which does not constitute an Incentive Stock Option.

VI. OPTION PRICE

The purchase price of Stock issued under each Option shall be determined by the Committee, but such purchase price shall not be less than the fair market value of Stock subject to the Option on the date the Option is granted.

VII. TERM OF PLAN

The Plan originally became effective on July 18, 1996. This amendment and restatement of the Plan shall become effective upon the Restatement Effective Date, provided that this amendment and restatement of the plan shall be effective upon the date of its adoption by the Board, provided the Plan is approved by the stockholders of the Company within twelve months thereafter. Except with respect to Options then outstanding, if not sooner terminated under the provisions of Paragraph IX, the Plan shall terminate upon and no further Options shall be granted after July 18, 2006. Notwithstanding any provision herein to the contrary, if this amendment and restatement of the Plan is not approved by the stockholders of the Company within twelve months after the Restatement Effective Date, then any Option granted on or after the Restatement Effective Date shall be void and canceled in its entirety, and the Plan shall terminate with respect to any shares of Stock for which Options were not granted prior to the Restatement Effective Date.

VIII. RECAPITALIZATION OR REORGANIZATION

(a) The existence of the Plan and the Options granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) The shares with respect to which Options may be granted are shares of Stock as presently constituted, but if, and whenever, prior to the expiration of an Option theretofore granted, the Company shall effect a subdivision or consolidation of shares of Stock or the payment of a stock dividend on Stock without receipt of consideration by the Company, the number of shares of Stock with respect to which such Option may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased.

(c) If the Company recapitalizes, reclassifies its capital stock, or otherwise changes its capital structure (a "recapitalization"), the number and class of shares of Stock covered by an Option theretofore granted shall be adjusted so that such Option shall thereafter cover the number and class of shares of stock and securities to which the Optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to the recapitalization, the Optionee had been the holder of record of the number of shares of Stock then covered by such Option. If (i) the Company shall not be the surviving entity in any merger, consolidation or other reorganization (or survives only as a subsidiary of an entity), (ii) the Company sells, leases or exchanges, or agrees to sell, lease or exchange, all or substantially all of its assets to any other person or entity, (iii) the Company is to be dissolved and liquidated, (iv) any person or entity, including a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), acquires or gains ownership or control (including, without limitation, power to vote) of more than 50% of the outstanding shares of the Company's voting stock (based upon voting power), or (v) as a result of or in connection with a contested election of directors, the persons who were directors of the Company before such election shall cease to constitute a majority of the Board (each such event is referred to herein as a "Corporate Change"), no later than (a) ten days after the approval by the stockholders of the Company of such merger, consolidation, reorganization, sale, lease or exchange of assets or dissolution or such election of directors or (b) thirty days after a change of control of the type described in Clause (iv), the Committee, acting in its sole discretion without the consent or approval of any Optionee, shall act to effect one or more of the following alternatives, which may vary among individual Optionees and which may vary among Options held by any individual Optionee: (1) accelerate the time at which Options then outstanding may be exercised so that such Options may be exercised in full for a limited period of time on or before a specified date (before or after such Corporate Change) fixed by the Committee, after which specified date all unexercised Options and all rights of Optionees thereunder shall terminate, (2) require the mandatory surrender to the Company by selected Optionees of some or all of the outstanding Options held by such Optionees (irrespective of whether such Options are then exercisable under the provisions of the Plan) as of a date, before or after such Corporate Change, specified by the Committee, in which event the Committee shall thereupon cancel such Options and the Company shall pay to each Optionee an amount of cash per share equal to the excess, if any, of the amount calculated in Subparagraph (d) below (the "Change of Control Value") of the shares subject to such Option over the exercise price(s) under such

Options for such shares, (3) make such adjustments to Options then outstanding as the Committee deems appropriate to reflect such Corporate Change (provided, however, that the Committee may determine in its sole discretion that no adjustment is necessary to Options then outstanding) or (4) provide that the number and class of shares of Stock covered by an Option theretofore granted shall be adjusted so that such Option shall thereafter cover the number and class of shares of stock or other securities or property (including, without limitation, cash) to which the Optionee would have been entitled pursuant to the terms of the agreement of merger, consolidation or sale of assets and dissolution if, immediately prior to such merger, consolidation or sale of assets and dissolution, the Optionee had been the holder of record of the number of shares of Stock then covered by such Option.

(d) For the purposes of clause (2) in Subparagraph (c) above, the "Change of Control Value" shall equal the amount determined in clause (i), (ii) or (iii), whichever is applicable, as follows: (i) the per share price offered to stockholders of the Company in any such merger, consolidation, reorganization, sale of assets or dissolution transaction, (ii) the price per share offered to stockholders of the Company in any tender offer or exchange offer whereby a Corporate Change takes place, or (iii) if such Corporate Change occurs other than pursuant to a tender or exchange offer, the fair market value per share of the shares into which such Options being surrendered are exercisable, as determined by the Committee as of the date determined by the Committee to be the date of cancellation and surrender of such Options. In the event that the consideration offered to stockholders of the Company in any transaction described in this Subparagraph (d) or Subparagraph (c) above consists of anything other than cash, the Committee shall determine the fair cash equivalent of the portion of the consideration offered which is other than cash.

(e) Any adjustment provided for in Subparagraphs (b) or (c) above shall be subject to any required stockholder action.

(f) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to Options theretofore granted or the purchase price per share.

IX. AMENDMENT OR TERMINATION OF THE PLAN

The Board in its discretion may terminate the Plan at any time with respect to any shares for which Options have not theretofore been granted. The Board shall have the right to alter or amend the Plan or any part thereof from time to time; provided, that no change in any Option theretofore granted may be made which would impair the rights of the Optionee without the

consent of such Optionee; and provided, further, that the Board may not make any alteration or amendment which would increase the aggregate number of shares which may be issued pursuant to the provisions of the Plan or change the class of individuals eligible to receive Options under the Plan without the approval of the stockholders of the Company.

X. SECURITIES LAWS

(a) The Company shall not be obligated to issue any Stock pursuant to any Option granted under the Plan at any time when the offering of the shares covered by such Option have not been registered under the Securities Act of 1933 and such other state and federal laws, rules or regulations as the Company or the Committee deems applicable and, in the opinion of legal counsel for the Company, there is no exemption from the registration requirements of such laws, rules or regulations available for the offering and sale of such shares.

(b) It is intended that the Plan and any grant of an Option made to a person subject to Section 16 of 1934 Act meet all of the requirements of Rule 16b-3 promulgated under the 1934 Act, as currently in effect or as hereinafter modified or amended ("Rule 16b-3"). If any provision of the Plan or any such Option would disqualify the Plan or such Option under, or would otherwise not comply with, Rule 16b-3, such provision or Option shall be construed or deemed amended to conform to Rule 16b-3.

CARRIAGE SERVICES, INC.

1996 DIRECTORS' STOCK OPTION PLAN

AS AMENDED AND RESTATED EFFECTIVE AS OF JANUARY 7, 1997

(1) PURPOSE OF THE PLAN

The CARRIAGE SERVICES, INC. 1996 DIRECTORS' STOCK OPTION PLAN (the "Plan") is intended to promote the interests of CARRIAGE SERVICES, INC., a Delaware corporation (the "Company"), and its stockholders by helping to award and retain highly-qualified independent directors, and allowing them to develop a sense of proprietorship and personal involvement in the development and financial success of the Company. Accordingly, the Company shall grant to directors of the Company who are not executive officers of the Company ("Eligible Directors") the option ("Option") to purchase shares of the Class A common stock of the Company ("Stock"), as hereinafter set forth. Options granted under the Plan shall be options which do not constitute incentive stock options, within the meaning of section 422(b) of the Internal Revenue Code of 1986, as amended.

The Plan as set forth herein constitutes an amendment and restatement, effective as of the date this amendment and restatement of the Plan is approved by stockholders of the Company (the "Restatement Effective Date"), of the Carriage Services, Inc. 1996 Nonemployee Directors' Stock Option Plan, as previously approved by the stockholders of the Company, and shall supersede and replace in its entirety such plan.

(2) OPTION AGREEMENTS

Each Option shall be evidenced by a written agreement (an "Option Agreement"). Options shall not be exercisable after the expiration of ten years from the date of grant thereof unless otherwise specified in an Option Agreement. Each Option Agreement shall provide that an Option and all rights granted thereunder shall not be transferable otherwise than (i) by will or the laws of descent and distribution, (ii) pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended or (iii) with the consent of the Board of Directors of the Company (the "Board").

1. ELIGIBILITY OF OPTIONEE; OPTION AWARDS

A. Options may be granted only to individuals who are Eligible Directors of the Company and who do not currently participate in any other stock incentive plan of the Company.

A director who had previously received options under another stock incentive plan of the Company which are still outstanding, but who does not receive options during the current calendar year under

any other stock incentive plan of the Company, shall be eligible to participate in the Plan during the current calendar year.

B. Each Eligible Director who is elected or appointed to the Board for the first time after the Restatement Effective Date of the Plan shall receive, as of the date of his or her election or appointment and without the exercise of the discretion of any person or persons, an Option exercisable for (i) 15,000 shares of Stock (subject to adjustment in the same manner as provided in Paragraph VII hereof with respect to shares of Stock subject to Options then outstanding) if such Eligible Director is not also appointed to the Company's Executive Committee on such date or (ii) 25,000 shares of Stock (subject to adjustment in the same manner as provided in Paragraph VII hereof with respect to shares of Stock subject to Options then outstanding) if such Eligible Director is also appointed to the Company's Executive Committee on such date.

C. As of the date of the annual meeting of the stockholders of the Company in each year that the Plan is in effect as provided in Paragraph VI hereof, each Eligible Director then in office or elected to the Board on such date shall receive, without the exercise of the discretion of any person or persons, an Option exercisable for 6,000 shares of Stock (subject to adjustment in the same manner as provided in Paragraph VII hereof with respect to shares of Stock subject to Options then outstanding).

D. If, as of any date that the Plan is in effect, there are not sufficient shares of Stock available under the Plan to allow for the grant to each Eligible Director of an Option for the number of shares provided herein, each Eligible Director shall receive an Option for his or her pro-rata share of the total number of shares of Stock then available under the Plan. All Options granted under the Plan shall be at the Option price set forth in Paragraph V hereof and shall be subject to adjustment as provided in Paragraph VII hereof.

a. SHARES SUBJECT TO THE PLAN

The aggregate number of shares which may be issued under Options granted under the Plan shall not exceed 200,000 shares of Stock. Such shares may consist of authorized but unissued shares of Stock or previously issued shares of Stock reacquired by the Company. Any of such shares which remain unissued and which are not subject to outstanding Options at the termination of the Plan shall cease to be subject to the Plan, but, until termination of the Plan, the Company shall at all times make available a sufficient number of shares to meet the requirements of the Plan. Should any Option hereunder expire or terminate prior to its exercise in full, the shares theretofore subject to such Option may again be subject to an Option granted under the Plan. Exercise of an Option shall result in a decrease in the number of shares of Stock which may thereafter be available, both for purposes of the Plan and for sale to any one individual, by the number of shares as to which the Option is exercised.

(a) OPTION PRICE

The purchase price of Stock issued under each Option described in Paragraphs IIIB and IIIC hereof after the Restatement Effective Date of the Plan shall be the fair market value of the Stock

subject to the Option as of the date the Option is granted. For all purposes under the Plan, the fair market value of a share of Stock on a particular date shall be equal to the mean of the high and low sales prices of the Stock (i) reported by the National Market System of NASDAQ on that date or (ii) if the Stock is listed on a national stock exchange, reported on the stock exchange composite tape on that date; or, in either case, if no prices are reported on that date, on the last preceding date on which such prices of the Stock are so reported. If the Stock is traded over the counter at the time a determination of its fair market value is required to be made hereunder, its fair market value shall be deemed to be equal to the average between the reported high and low or closing bid and asked prices of Stock on the most recent date on which Stock was publicly traded. In the event Stock is not publicly traded at the time a determination of its value is required to be made hereunder, the determination of its fair market value shall be made by the Board in such manner as it deems appropriate.

(1) TERM OF PLAN

The Plan originally became effective on July 18, 1996. This amendment and restatement of the Plan shall be effective on the Restatement Effective Date. Except with respect to Options then outstanding, if not sooner terminated under the provisions of Paragraph VIII, the Plan shall terminate upon and no further Options shall be granted after July 18, 2006.

b. RECAPITALIZATION OR REORGANIZATION

A. The existence of the Plan and the Options granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

B. The shares with respect to which Options may be granted are shares of Stock as presently constituted, but if, and whenever, prior to the expiration of an Option theretofore granted, the Company shall effect a subdivision or consolidation of shares of Stock or the payment of a stock dividend on Stock without receipt of consideration by the Company, the number of shares of Stock with respect to which such Option may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased.

C. If the Company recapitalizes, reclassifies its capital stock, or otherwise changes its capital structure (a "recapitalization"), the number and class of shares of Stock covered by an Option theretofore granted shall be adjusted so that such Option shall thereafter cover the number and class of shares of stock and securities to which the optionee would have been entitled pursuant to the terms

of the recapitalization if, immediately prior to the recapitalization, the optionee had been the holder of record of the number of shares of Stock then covered by such Option.

D. Any adjustment provided for in Subparagraphs B or C above shall be subject to any required stockholder action.

E. Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to Options theretofore granted or the purchase price per share.

F. For purposes of the Plan, a "Corporate Change" shall occur if (i) the Company is to be dissolved or liquidated, (ii) the Company shall not be the surviving entity in any merger, consolidation or other reorganization, (iii) the Company sells, leases, or exchanges, or agrees to sell, lease, or exchange, all or substantially all of its assets, (iv) any person or entity, including a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), acquires or gains ownership or control (including, without limitation, power to vote) of more than 50% of the outstanding shares of the Company's voting stock (based upon voting power), or (v) as a result of or in connection with a contested election of directors, the persons who were directors of the Company before such election shall cease to constitute a majority of the Board.

1. AMENDMENT OR TERMINATION OF THE PLAN

The Board in its discretion may terminate the Plan at any time with respect to any shares for which Options have not theretofore been granted. The Board shall have the right to alter or amend the Plan or any part thereof from time to time; provided, that no change in any Option theretofore granted may be made which would impair the rights of the optionee without the consent of such optionee.

(1) SECURITIES LAWS

F. The Company shall not be obligated to issue any Stock pursuant to any Option granted under the Plan at any time when the offering of the shares covered by such Option have not been registered under the Securities Act of 1933, as amended, and such other state and federal laws, rules or regulations as the Company deems applicable and, in the opinion of legal counsel for the Company, there is no exemption from the registration requirements of such laws, rules or regulations available for the offering and sale of such shares.

G. It is intended that the Plan and any grant of an Option made to a person subject to Section 16 of the 1934 Act, meet all of the requirements of Rule 16b-3, as currently in effect or as

hereinafter modified or amended ("Rule 16b-3"), promulgated under the 1934 Act. If any provision of the Plan or any such Option would disqualify the Plan or such Option under, or would otherwise not comply with, Rule 16b-3, such provision or Option shall be construed or deemed amended to conform to Rule 16b-3.

EMPLOYMENT AGREEMENT

THIS AGREEMENT, made effective as of the 8th day of October, 1996, is between CARRIAGE SERVICES, INC., a Delaware corporation (the "Company"), and GARY O'SULLIVAN, a resident of Harris County, Texas (the "Employee").

1. EMPLOYMENT TERM. The Company hereby employs the Employee for a term commencing on the date hereof and, subject to earlier termination as provided in Section 7 hereof, continuing for a period of five (5) years thereafter (such term being herein referred to as the "term of this Agreement"). The Employee agrees to accept such employment and to perform the services specified herein, all upon the terms and conditions hereinafter stated.

2. DUTIES. The Employee shall serve the Company and shall report to, and be subject to the general direction and control of, the Executive Vice President of Operations of the Company. The Employee shall perform the management and administrative duties of Senior Vice President - Marketing of the Company. The Employee shall also serve in such capacity on subsidiaries of the Company and shall perform such other duties as are from time to time assigned to him by the Executive Vice President - Operations of the Company and as are not inconsistent with the provisions hereof.

3. EXTENT OF SERVICE. The Employee shall devote his full business time and attention to the business of the Company, and, except as may be specifically permitted by the Company, shall not be engaged in any other business activity during the term of this Agreement. The foregoing shall not be construed as preventing the Employee from making passive investments in other businesses or enterprises, provided, however, that such investments will not require services on the part of the Employee which would in any way impair the performance of his duties under this Agreement.

4. COMPENSATION. During the term of this Agreement, the Company shall pay the Employee a salary of $15,833.33 per full calendar month of service completed, appropriately prorated for partial months at the commencement and end of the term of this Agreement. The salary set forth herein shall be payable in bi-weekly installments in accordance with the payroll policies of the Company in effect from time to time during the term of this Agreement. The Company shall have the right to deduct from any payment of all compensation to the Employee hereunder (x) any federal, state or local taxes required by law to be withheld with respect to such payments, and (y) any other amounts specifically authorized to be withheld or deducted by the Employee.

5. BENEFITS. In addition to the base salary under Section 4, the Employee shall be entitled to participate in the following benefits during the term of this Agreement:

(a) A performance-based bonus payable in respect of each fiscal year of the Company, equal to (i) $40,000.00 if the Company's consolidated net revenues (as hereafter defined) from cemetery activities for such year is at least the Budgeted Amount (as hereafter defined) and (ii) $25,000.00 if the Company's consolidated net revenues from funeral activities for such year is at least the Budgeted Amount. For purposes hereof, "consolidated net revenues" means for any fiscal year the gross revenues of the Company and its consolidated subsidiaries from cemetery or funeral activities (as the case may be) for such year, less cancellations, discounts and returns, determined in accordance with generally accepted accounting principles, and "Budgeted Amount" means an amount determined from year to year by the Chief Executive Officer of the Company, in consultation with the Chief Financial Officer and the Executive Vice President of Operations, and communicated to the Employee, it being understood, however, that the Budgeted Amount may be subject to adjustment during any year based upon the Company's determination of its growth in relation to its assumptions upon which the original Budgeted Amount was set;

(b) Options under the Company's 1996 Stock Option Plan for 30,000 shares, at an exercise price of $18.00 per share, subject to vesting in the same manner as other options heretofore granted under such Plan; and

(c) Such other employee benefits as are available generally to employees of the Company.

6. CERTAIN ADDITIONAL MATTERS. The Employee agrees that at all times during the term of this Agreement:

(a) The Employee will not knowingly or intentionally do or say any act or thing which will or may impair, damage or destroy the goodwill and esteem for the Company of its suppliers, employees, patrons, customers and others who may at any time have or have had business relations with the Company.

(b) The Employee will not reveal to any third person any difference of opinion, if there be such at any time, between him and the management of the Company as to its personnel, policies or practices.

(c) The Employee will not knowingly or intentionally do any act or thing detrimental to the Company or its business.

7. TERMINATION.

(a) DEATH. If the Employee dies during the term of this Agreement and while in the employ of the Company, this Agree-ment shall automatically terminate and the Company shall have

no further obligation to the Employee or his estate except that the Company shall pay the Employee's estate that portion of the Employee's base salary under Section 4 accrued through the date on which the Employee's death occurred. Such payment of base salary to the Employee's estate shall be made in the same manner and at the same times as they would have been paid to the Employee had he not died.

(b) DISABILITY. If during the term of this Agreement, the Employee shall be prevented from performing his duties hereunder by reason of disability, and such disability shall continue for a period of six months, then the Company may terminate this Agreement at any time after the expiration of such six-month period. For purposes of this Agreement, the Employee shall be deemed to have become disabled when the Company, upon the advice of a qualified physician, shall have determined that the Employee has become physically or mentally incapable (excluding infrequent and temporary absences due to ordinary illness) of performing his duties under this Agreement. In the event of a termination pursuant to this paragraph (b), the Company shall be relieved of all its obligations under this Agreement, except that the Company shall pay to the Employee, or his estate in the event of his subsequent death, the Employee's base salary under Section 4 through the date on which such termination shall have occurred, reduced during such period by the amount of any benefits received under any disability policy maintained by the Company. All such payments to the Employee or his estate shall be made in the same manner and at the same times as they would have been paid to the Employee had he not become disabled.

(c) DISCHARGE FOR CAUSE. Prior to the end of the term of this Agreement, the Company may discharge the Employee for Cause and terminate this Agreement. In such case this Agreement shall automatically terminate and the Company shall have no further obligation to the Employee or his estate other than to pay to the Employee or his estate in the event of his subsequent death that portion of the Employee's salary accrued through the date of termination. For purposes of this Agreement, the Company shall have "Cause" to discharge the Employee or terminate the Employee's employment hereunder upon (i) the Employee's commission of any felony or any other crime involving moral turpitude, (ii) the Employee's failure or refusal to perform all of his duties, obligations and agreements herein contained or imposed by law, including his fiduciary duties, to the reasonable satisfaction of the Executive Vice President of Operations, (iii) the Employee's commission of acts amounting to gross negligence or willful misconduct to the material detriment of the Company, or (iv) the Employee's breach of any provision of this Agreement.

(d) DISCHARGE WITHOUT CAUSE. Prior to the end of the term of this Agreement, the Company may discharge the Employee without Cause (as defined in paragraph (c) above) and terminate this Agreement. In such case this Agreement shall automatically terminate and the Company shall have no further obligation to the Employee or his estate, except that the Company shall continue to pay to the Employee or his estate in the event of his subsequent death the Employee's base salary under Section 4, and shall continue to include the Employee in any group health and hospitalization insurance program on the same terms as other employees of the Company, for the remainder of the term of this Agreement. All such payments to the Employee or his estate shall be made in the same manner and at the same times as they would have been paid to the Employee had he not been discharged.

8. RESTRICTIVE COVENANT. If the employment of the Employee is terminated for any reason (including voluntary resignation), then the Employee agrees that for a period of two (2) years thereafter, he will not, directly or indirectly:

(i) alone or for his own account, or as a partner, member, employee, advisor, or agent of any partnership or joint venture, or as a trustee, officer, director, shareholder, employee, advisor, or agent of any corporation, trust, or other business organization or entity, encourage, support, finance, be engaged in, interested in, or concerned with any business having an office or being conducted within a radius of fifty (50) miles of any funeral home or cemetery business owned or operated by the Company or any of its subsidiaries at the time of such termination, which business is directly or indirectly in competition with the business of the Company;

(ii) induce or assist anyone in inducing in any way any employee of the Company to resign or sever his or her employment or to breach an employment contract with the Company; or

(iii) own, manage, advise, encourage, support, finance, operate, join, control, or participate in the ownership, management, operation, or control of or be connected in any manner with any business which is or may be in the funeral, mortuary, crematory, cemetery or burial insurance business or in any business related thereto within a radius of fifty (50) miles of any funeral home or cemetery business owned or operated by the Company or any of its subsidiaries at the time of such termination.

The foregoing covenants shall not be held invalid or unen- forceable because of the scope of the territory or actions subject hereto or restricted hereby, or the period of time within which such covenants respectively are operative, but the maximum

territory, the action subject to such covenants and the period of time they are enforceable are subject to any determination by a final judgment of any court which has jurisdiction over the parties and subject matter.

9. CONFIDENTIAL INFORMATION. The Employee acknowledges that in the course of his employment by the Company he has received and will continue to receive certain trade secrets, lists of customers, management methods, operating techniques, prospective acquisitions, employee lists, training manuals and procedures, personnel evaluation procedures, financial reports and other confidential information and knowledge concerning the business of the Company and its affiliates (hereinafter collectively referred to as "Information") which the Company desires to protect. The Employee understands that the Information is confidential and he agrees not to reveal the Information to anyone outside the Company so long as the confidential or secret nature of the Information shall continue. The Employee further agrees that he will at no time use the Information in competing with the Company. Upon termination of this Agreement, the Employee shall surrender to the Company all papers, documents, writings and other property produced by his or coming into his possession by or through his employment or relating to the Information and the Employee agrees that all such materials will at all times remain the property of the Company. The Employee further agrees to maintain as confidential, and to not disclose to any other person (including other employees of the Company), the terms of this Agreement (including the compensation and benefits described in Sections 4 and 5), except that such terms may be disclosed to the Company's payroll clerk responsible for paying the Employee's compensation, appropriate taxing authorities, and otherwise as authorized by the Company. The Employee acknowledges that a remedy at law for any breach or attempted breach of the foregoing provisions of this Section 9 or under Section 8 above will be inadequate, and agrees that the Company shall be entitled to specific performance and injunctive and other equitable relief in case of any such breach or attempted breach.

10. NOTICES. All notices, requests, consents and other communications under this Agreement shall be in writing and shall be deemed to have been delivered on the date personally delivered or three business days after the date mailed, postage prepaid, by certified mail, return receipt requested, or when sent by telex or telecopy and receipt is confirmed, if addressed to the respective parties as follows:

If to the Employee: Mr. Gary O'Sullivan
15 North Meadowmist
The Woodlands, Tx 77381

If to the Company: Carriage Services, Inc.
1300 Post Oak Boulevard, Suite 1500
Houston, Texas 77056
Attn: President

Either party hereto may designate a different address by providing written notice of such new address to the other party hereto.

11. SEVERABILITY. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such provision or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

12. ASSIGNMENT. This Agreement may not be assigned by the Employee. Neither the Employee nor his estate shall have any right to commute, encumber or dispose of any right to receive payments hereunder, it being agreed that such payments and the right thereto are nonassignable and nontransferable.

13. BINDING EFFECT. Subject to the provisions of Section 12 of this Agreement, this Agreement shall be binding upon and inure to the benefit of the parties hereto, the Employee's heirs and personal representatives, and the successors and assigns of the Company.

14. CAPTIONS. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

15. COMPLETE AGREEMENT. This Agreement represents the entire agreement between the parties concerning the subject hereof and supersedes all prior agreements and arrangements between the parties concerning the subject thereof.

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

17. COUNTERPARTS. This Agreement may be executed in multiple original counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.

CARRIAGE SERVICES, INC.

By:_____
MELVIN C. PAYNE,
Chief Executive Officer

_____
GARY O'SULLIVAN

CARRIAGE SERVICES, INC.
EXECUTIVE EMPLOYMENT AGREEMENT

THIS AGREEMENT by and between CARRIAGE SERVICES, INC., a Delaware corporation (hereinafter called the "Company"), and THOMAS C. LIVENGOOD (hereinafter called the "Executive"), a resident of Spring, Texas,

W I T N E S S E T H:

That for and in consideration of TEN and NO/100 DOLLARS ($10.00) and other good and valuable consideration the receipt and sufficiency of which are hereby confessed and acknowledged by the Executive, the Company does hereby agree to employ the Executive, and the Executive hereby agrees to be an employee of the Company, under the following terms and conditions, to-wit:

1. DEFINITIONS

For the purposes of this Agreement, the following terms shall have the meanings specified in Paragraph 1:

A. "Company" means Carriage Services, Inc.

B. "Affiliate" means any corporation, general or limited partnership, limited liability company or joint venture that (i) is owned by or (ii) owns the Company. For the purposes of this definition, ownership, directly or indirectly, of 50% or more of the capital stock having the right to vote for directors of a corporation, or 50% or more of the equity interest of a general or limited partnership, joint venture or other business entity, shall constitute ownership thereof.

C. "Confidential Information" means trade secrets and business information of the Company or any Affiliate which is not generally known by others, including, by way of illustration and not limitation, all such information relating to corporate opportunities, research, financial and sales data, pricing and trading terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contracts within the customer's organization or within the organization of acquisition prospects, or marketing and merchandising techniques, prospective names and marks, whether or not such information has been reduced to documentary form.

D. "Conflicting Product or Service" means any product or service which competes with or is designed to compete with a product or service sold by the Company or any Affiliate, about which Executive has acquired or acquires Confidential Information.

E. "Conflicting Organization" means any person, firm, association or corporation which is engaged in or is about to become engaged in development,

production, marketing or selling of, a Conflicting Product or Service in a market or territory in which the Company or any Affiliate offers or intends to offer products or services that would compete with the Conflicting Product or Service.

F. "Cause" shall mean that the Executive has

(a) failed to cure, after reasonable notice of not less than thirty (30) days, a material breach of any of the terms of this Agreement;

(b) been convicted of a felony involving moral turpitude, fraud, theft, embezzlement, assault, battery, rape or other violent act or another crime;

(c) engaged in willful misconduct in the performance of the duties and services required of the Executive pursuant to this Agreement that has a material adverse effect on the Company; provided, however, no act or failure to act shall be deemed "willful" if due primarily to an error in judgment or negligence or if made in good faith and with reasonable belief that such act is in the best interest of the Company;

(d) committed any act that constitutes a material or repeated failure to perform his duties in a manner consistent with his position of employment; or

(e) been excessively absent from his employment not related to illness.

G. "Board of Directors" means the board of directors of the Company.

H. "Monthly Severance Payment" with respect to the Executive shall be equal the quotient resulting from dividing (a) the aggregate sum of all salary paid to, and incentive bonuses earned by, the Executive pursuant to this Agreement and prior employment with the Company during the three year period ended December 31 of the year prior to the date of termination of the Executive's employment by (b) 36.

I. "Expiration Date" shall be December 31, 2001.

2. TERM AND TERMINATION

A. Subject to the termination provisions herein contained, the employment of Executive by the Company pursuant to this Agreement shall commence

on the 13th day of December, 1996, and continue thereafter until terminated in accordance with this paragraph 2 or, if not earlier so terminated, until the Expiration Date (the "Employment Term").

B. If the Executive dies during the term of the Agreement and while in the employ of the Company, this Agreement shall automatically terminate and the Company shall have no further obligation to the Executive or his estate except that the Company shall pay to the

Executive's estate (i) on the next regular payroll payment date the unpaid salary through the date of death, and (ii) on or before April 15 of the next succeeding year a proportionate part of the incentive bonus as provided in paragraph 3A hereof as is in the same ratio to the full bonus as the number of days in the year until the date of death is to 365.

C. If, during the term of this Agreement, the Executive, by reason of a disability, (I.E., a physical or mental impairment), cannot perform each of the essential functions of his position, with reasonable accommodation, for a period of one hundred eighty consecutive days, the Company, on thirty days prior written notice to the Executive, may terminate this Agreement as of the date specified in the notice. In the event of a termination pursuant to this paragraph 2C, the Company shall be relieved of all of its obligations under this Agreement, except that the Company shall pay to the Executive, or his estate in the event of his subsequent death: (i) that portion of the Executive's salary through the 30th day after notice of termination and (ii) on or before April 15 of the next succeeding year, the Company shall pay to the Executive a proportionate part of the incentive bonus as provided in paragraph 3A hereof as is in the same ratio to the full bonus as the number of days in the year until the date of termination is to 365.

D. At any time prior to the Expiration Date of this Agreement the Company may terminate this Agreement for Cause (as herein defined) without further obligation or liability hereunder to the Executive, his spouse, estate, heirs or assignees except for the obligation of the Company to pay to the Executive his salary earned through the date of discharge.

E. The Executive may give written notice of voluntary termination of employment at any time, and upon giving of the notice, the employment shall terminate on the earlier of the date set forth in the notice or 30 days after the notice is received by the Company ("Voluntary Termination Date"). Upon the Voluntary Termination Date, the Company shall have no further obligation or liability hereunder to the Executive, his spouse, heirs or estate, except to pay to the Executive any unpaid salary earned through the Voluntary Termination Date (subject to the terms of any other employee benefit plan of the Company in which the Executive participates).

F. The Company may terminate the employment of the Executive at any time WITHOUT CAUSE upon written notice to the Executive of such termination, which notice shall set forth the date of termination ("Without Cause Termination Date"). Upon the Without Cause Termination Date, the Company shall have no further obligation or liability hereunder to the Executive or his spouse, heirs or estate, except that (i) after the Without Cause Termination Date and continuing monthly until the later of the Expiration Date or two years after the termination date, or if earlier the last day of the month following the date of death of the Executive, the Company shall pay to the Executive each month, in accordance with the Company's payroll policies then in effect, an amount equal to the Monthly Severance Payment, (ii) on or before April 15 of the next succeeding year following the Without Cause Termination Date the Company shall pay to the Executive a proportionate part of the incentive bonus as provided in paragraph 3A hereof as is in the same ratio to the full bonus as the number of days in the calendar year up to the Without Cause Termination Date is to 365 and (iii) after the Without Cause Termination Date and continuing monthly during the period the Executive is receiving the

Monthly Severance Payments specified in subparagraph F(i) above, Executive and his family shall be entitled to participate in any welfare benefit plans, programs, or policies in which Executive and his family were participating at the time of his termination of employment for group and/or executive life, accident, health, dental, or medical/hospital insurance (whether funded by actual insurance or self insured by the Company); provided, however, that the rights of the Executive and his family thereunder shall be governed by the terms thereof and shall not be enlarged hereunder.

G. Any termination of the employment relationship, whether termination is effected by the Company or the Executive, shall be without prejudice to or waiver of the obligations of the Executive to maintain in secrecy and confidence all Confidential Information, pursuant to paragraph 5 hereof, and not to render prohibited services to any Conflicting Organization, pursuant to paragraph 6 hereof.

3. EMPLOYMENT AND SALARY

A. During the Employment Term, the Company shall employ the Executive and the Executive shall serve in the employ of the Company at a continuing salary of One Hundred Seventy-Five Thousand Dollars ($175,000.00) per year, subject to increases as provided below (the "Annual Base Salary"), payable in accordance with the Company's payroll policies applicable to executives as established by the Company from time to time. The Board of Directors shall review and in its sole discretion may increase Executive's Annual Base Salary annually commencing for 1998. Once established at a specified increased rate, the Annual Base Salary shall not thereafter be reduced.

B. During the Employment Term, the Executive shall also be entitled to be paid an incentive bonus in an amount, if any, as shall be determined by the Board of Directors in its sole discretion. The incentive bonus, if any, shall be paid prior to the close of business on April 15 of each year. Except for termination by reason of death or disability or termination WITHOUT CAUSE, the incentive bonus shall not be earned in whole or in part, until the close of business on December 31 of each year ("Bonus Entitlement Date") and shall be paid annually prior of the close of business on April 15 following the Bonus Entitlement Date. Termination for Cause pursuant to paragraph 2D or voluntary termination pursuant to paragraph 2E shall terminate the right of the Executive to receive any incentive bonus under this Section 3A that has not yet been earned; provided that any termination of employment after the incentive bonus has been earned, but prior to its payment, shall not terminate the Executive's right to receive such incentive bonus.

C. The Executive shall receive such further benefits as may be accorded other executives under the established plans and programs of the Company to the extent the executive is eligible for participation therein based on the eligibility criteria applicable to other Executives, all as determined by the Company from time to time in its sole discretion.

D. The Executive shall be entitled to receive reimbursement for, or seek payment directly by the Company of, all reasonable expenses incurred by the Executive in the performance

of his duties under this Agreement. The Executive shall use his best efforts to obtain approval prior to incurring any expenses. Unreasonable expenses or expenses out of the ordinary course of business not approved in advance shall not be reimbursed by the Company. Neither shall the Company be obligated to reimburse expenses if reimbursement is not sought on a timely basis.

4. DUTIES

The Executive shall serve the Company in an executive capacity and shall report to, and be subject to the general direction and control of the Chief Executive Officer of the Company. The Executive shall perform such duties and responsibilities and in such capacities as may be established by the Board of Directors and the Chief Executive Officer from time to time. The Executive shall perform his duties and discharge his obligations well and faithfully and to the utmost of his ability, and shall use his best efforts to promote the success, reputation and good will of the Company and its Affiliates. The Executive also agrees to perform, without additional compensation, such services for any Affiliate as the Board of Directors may designate; provided that the Executive's performance of duties and services for any Affiliate shall not unreasonably be added to the time required for performance of his assigned duties and services for the Company. The Company agrees that it will assign to the Executive only those duties and responsibilities of the type, nature and dignity normally assigned to an executive employee of his position in an enterprise of the size, stature and nature of the Company. The Executive agrees to devote his full business time, attention, skill and effort exclusively to the performance of his duties and responsibilities hereunder during the term of his employment and any extension or renewal thereof. In addition, except for such personal and business investment activities as are essentially passive in nature and do not involve any breach of fiduciary duty or duty of loyalty to the Company or its Affiliates, the Executive shall not, during the term of his employment hereunder, engage in any other activity, whether or not such activity is conducted or pursued for gain, profit or other pecuniary advantage, if it conflicts or interferes with or adversely affects in any material respect the performance or discharge of Executive's duties and responsibilities hereunder. Without the prior written consent of the Company the Executive shall not, during the term of his employment hereunder, serve as a principal, partner, employee, officer, consultant, advisor or director of any other business concern conducting business for profit except for such personal and business investment activities as are essentially passive in nature.

The Executive acknowledges that the Executive is employed in an executive and administrative position that is not subject to overtime pay under the federal wage and hour law.

5. COVENANT OF SECRECY

The Executive agrees that, except as required by his duties to the Company, he will not:

A. disclose or use for himself or others Confidential Information during or after his employment with the Company, except as required by law (provided that the Executive shall first advise the Company of any proposed disclosure to afford the Company the opportunity to take any protective measures); or

B. except as is necessary in the performance of his duties, take any documents or physical objects constituting or containing Confidential Information from facilities of the Company or its Affiliates, without first obtaining written authorization from the Company. The Executive agrees to return to the Company all documents or other physical objects constituting or containing Confidential Information and all reproductions thereof upon request, and in any event immediately upon termination by either party for any reason of his employment with the Company.

6. RESTRICTIVE COVENANT

A. In consideration for the agreement to employ the Executive and to provide Monthly Severance Payments under the conditions described in paragraph 2F, in consideration of the options granted to the Executive under the Incentive Stock Option Agreement of even date herewith, and the other valuable consideration provided to the Executive hereunder: (1) during the term hereof, the Executive shall not: (i) either directly or indirectly, for himself or any third party, divert or attempt to divert any existing business of the Company, or (ii) either directly or indirectly, for himself or any third party, cause or induce any present or future employee of the Company to accept employment with another employer; or (2) during the two-year period commencing upon the termination of the Executive's employment hereunder by either party for any reason and during the period the Executive is to receive the Monthly Severance Payments the Executive shall not, within 50 miles of any facility owned or operated by the Company or any Affiliate, render advice or service to, or otherwise assist a Conflicting Organization. The Company and Executive expressly agree that in the event that Executive is entitled to receive Monthly Severance Payments pursuant to paragraph 2F, Executive in his sole discretion may irrevocably elect to forego such payments and thereafter shall not be prevented from rendering advice or service to, or otherwise assist a Conflicting Organization following Executive's termination of employment; provided, however, Executive shall not be relieved his obligations contained in paragraph 5.

B. Both parties recognize that the services to be rendered under this Agreement by the Executive are special, unique, and of extraordinary character, and that in the event of the breach by the Executive of the terms and conditions of the covenants contained in paragraphs 5 and/or 6, the Company shall be entitled, if it so elects, to suspend (if applicable) salary payments, Monthly Severance Payments and bonus payments and/or to institute and prosecute proceedings in any court of competent jurisdiction to enforce through injunctive relief such covenants. The Executive acknowledges and agrees that there is no adequate remedy at law for his violation of such covenants and that in light of the numerous years and the scope of his Executive-level responsibilities with the Company, the restrictions as to time, geographic scope and scope of activities restrained in paragraph 6A and 6C are both reasonable and necessary to protect the goodwill and other legitimate business interests of the Company. Indeed, the Executive acknowledges that the term of his employment hereunder, the post employment Monthly Severance Payments and bonus payments and the amount of salary and bonus provided by the Company hereunder are in significant part provided by the Company to secure the Executive's agreement to such covenants. The Executive agrees to waive and hereby waives any requirement

for the Company to secure any bond in connection with the obtaining of such injunction or other equitable relief.

C. Both parties recognize that the covenants set forth in paragraph 6 constitute a restraint on the future employment opportunities of the Executive and as such are enforceable only to the extent necessary to protect and preserve to the Company its valuable goodwill and other legitimate business interests including but not limited to Confidential Information ("Protectable Interests"), as they now exist and may be developed and expanded prior to the termination of the Executive's employment hereunder. The Company and the Executive recognize that the business of the Company and its Protectable Interests are not restricted to a single market or geographic area but extend to many different markets and geographic areas and that the duties and the Executive-level activities of the Executive are applicable to all such markets and geographic areas. The Company and the Executive have entered into this Agreement with the expectation that as the business of the Company and the duties and activities of the Executive expand, the Executive may acquire relationships and Confidential Information that will constitute a part of the evolving Protectable Interests of the Company. It is the parties' mutual intent that the covenants contained in paragraph 6 be limited to only those time, geographic and activity restrictions that are necessary to protect the Protectable Interests of the Company.

D. During the period that Executive may not render advice or service to, or otherwise assist a Conflicting Organization, Executive shall refrain from making any statement, except for an isolated idle comment made in a non-business contact, which has the effect of demeaning the name or business reputation of the Company or any Affiliate, or which materially adversely affects the best interests (economic or otherwise) of the Company or any Affiliate.

7. NOTICE

Any notice or communication to the parties to this contract shall be deemed to have been sufficiently given for all purposes hereof if mailed by United States Mail, postage prepaid, Return Receipt Requested, addressed as follows, to-wit:

To the Executive: Thomas C. Livengood
8002 Hertfordshire Circle
Spring, Texas 77379

To the Company: Carriage Services, Inc.
1300 Post Oak Blvd., Suite 1500
Houston, Texas 77056-3012
Attention: Chief Executive Officer

or such other address as may be set forth in a notice given in accordance with the provisions hereof.

8. MISCELLANEOUS

A. This Agreement supersedes all prior agreements and understandings between the Company and the Executive with respect to the subject matter hereof and may not be changed or terminated except by an instrument in writing duly authorized by the Board of Directors and executed by the Executive and the President of the Company.

B. This Agreement shall be interpreted and construed in accordance with the laws of the State of Texas or any other jurisdiction in which the Company seeks to enforce paragraph 5 or 6 hereof. Should any portion of this Agreement be adjudged or held to be invalid, unenforceable or void, such holdings shall not have the effect of invalidating or voiding the remainder of this Agreement, and the parties hereto agree that the portion so held invalid, unenforceable or void shall, if possible, be deemed amended or reduced in scope, or to otherwise be stricken from this Agreement to the extent required for the purposes of validity and enforcement thereof.

C. This Agreement may not be assigned by the Executive. The Executive and his spouse, heirs and estate shall not have any right to commute, encumber or dispose of any right to receive payments hereunder, it being understood that such payments and the right thereto are nonassignable and nontransferable. Subject to the limitation in the immediate preceding sentence, this Agreement shall be binding upon and inure to the benefit of the parties hereto, the Executive's spouse, heirs and estate, and the successors and assigns of the Company. It is specifically agreed that in the event that the Company's business or any part thereof should be sold in any fashion and this Agreement is assigned to the purchaser, the purchaser shall be entitled to specifically enforce the terms and provisions of this Agreement.

D. The Executive represents and warrants to the Company that (i) he has fulfilled all of the terms and conditions of all prior employment agreements to which he was or has been a party and that he is not violating and will not violate any term or provision of any employment agreement or confidentiality agreement to which he is or has been a party by entering into or performing his obligations under this Agreement and (ii) he is not violating and will not violate his fiduciary duty to any prior employer by entering into or performing his obligations under this Agreement.

E. The waiver by the Company of the breach of any provision of this Agreement by the Executive shall not operate or be construed as a waiver of any subsequent or continuing breach of this Agreement by the Executive.

F. Except for disputes regarding the Executive's failure to comply with paragraph 5 or 6 hereof, if a dispute arises out of or relates to this Agreement or its breach, and if the dispute cannot be settled through direct discussions, then the Company and the Executive agree first to endeavor to settle the dispute in an amicable manner by mediation, under the applicable provisions of Section 154.002, ET SEQ., Texas Civil Practices and Remedies Code, as

supplemented by the rules of the American Arbitration Association, before having recourse to any other proceeding or forum.

G. This Agreement has been entered into by the parties in Harris County, Texas where the parties agree venue will lie for any action brought to enforce or interpret the provisions hereof.

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

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement in Houston, Texas, effective for all purposes as of the 13th day of December, 1996.

CARRIAGE SERVICES, INC.

By:_____
MELVIN C. PAYNE, Chairman and
Chief Executive Officer

EXECUTIVE:

THOMAS C. LIVENGOOD

EXHIBIT 21.1

SUBSIDIARIES OF THE COMPANY

Carriage Funeral Holdings, Inc.
CFS Funeral Services, Inc.
Carriage Holding Company, Inc.
Carriage Funeral Services of Michigan, Inc.
Carriage Funeral Services of Ohio, Inc.
CFS Funeral Services of Ohio, Inc.
The Lusk Funeral Home, Incorporated
James E. Drake Funeral Home, Inc.
Hennessy-Bagnoli Funeral Home, Inc.
Carriage Funeral Services of Idaho, Inc.
Dwayne R. Spence Funeral Home, Inc.
Carriage Funeral Services of Kentucky, Inc.
Ceballos-Diaz Funeral Home, Incorporated
Carriage Funeral Services of South Carolina, Inc.
Palms Memorial Park, Inc.
Carriage Funeral Services of Connecticut, Inc.
CFS Funeral Services of Connecticut, Inc.
CSI Funeral Services of Connecticut, Inc.
Carriage Funeral Services of Indiana, Inc.
Carriage Funeral Services of Texas, Inc.
Watson & King Co.
Frank J. Calcaterra Funeral Home, Inc.
Carriage Funeral Services of California, Inc.
Dakan Funeral Chapel, Inc.
Hillcrest Memorial Gardens, Inc.
Richmond County Memorial Park, Inc.
Bryan Funeral Home, Inc.
Cox Funeral Home, Incorporated
Wilson & Kratzer Mortuaries
Rolling Hills Memorial Park
Stevens Funeral Homes, Inc.
Grandview Memorial Gardens, Inc.
Carriage Funeral Services of Kansas, Inc.
CFS Funeral Services of Kansas, Inc.
CFS Services of Kentucky, Inc.
CFS Services of Illinois, Inc.
CFS Funeral Services of New York, Inc.

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THE FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1000

12-MOS
DEC-31-1996
DEC-31-1996
1,712
53
6,195
530
2,344
953
50,207
4,095
131,308
6,311
0
0
0
85
56,958
131,308
40,348
40,348
33,182
33,182
0
0
4,347
345
138
207
0
(498)
0
(913)
(.19)
(.19)