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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, 2001

/ / 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.)
1900 SAINT JAMES PLACE, 4TH FLOOR, HOUSTON, TX	77056
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (713) 332-8400

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

CLASS A COMMON STOCK, $.01 PAR VALUE	NEW YORK STOCK EXCHANGE
(Title Of Class)	(Name of Exchange on which registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE

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 non-affiliates (affiliates being, for these purposes only, directors, executive officers and holders of more than 5% of Carriage's Class A Common Stock) of the Registrant as of March 25, 2002 was approximately $45,000,000 based on the closing price of $4.95 per share on the New York Stock Exchange.

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 March 25, 2002 was 16,912,596 and 0 respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement in connection with the 2002 annual meeting of shareholders, incorporated in Part III of this Report.

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FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report contains forward-looking statements made by the management of Carriage Services, Inc.(the "Company" or "Carriage"). Such statements are typically identified by terms expressing future expectations or goals. These forward-looking statements, although made in good faith, are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include the following: Carriage's inability to sell businesses and properties held for sale for their carrying value, to maintain or increase free cash flow from operations, or to achieve internal growth from our businesses; adverse changes in economic and financial market conditions, including declining stock prices, increasing interest rates, and restricted credit availability; lower death rates; changes in accounting principles; changing consumer preferences; competition in our markets; Carriage's inability to maintain operating ratios within the limits set out within our financing arrangements; loss contingencies and changes in government regulation of the death care industry. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision of these forward-looking statements. Readers should carefully review the Cautionary Statements described in this and other documents we file from time to time with the Securities and Exchange Commission, including Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed by Carriage throughout 2002.

CAUTIONARY STATEMENTS

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

(1) Maintaining or achieving growth in free cash flow from operations depends primarily on achieving anticipated levels of earnings before depreciation, amortization and other non-cash charges, maintaining the amount of expected cash income taxes payable, controlling capital expenditures to budgeted levels, collecting accounts receivable and managing preneed sales origination costs to current or lower levels.

(2) Achieving the Company's revenue goals is affected by the volume and prices of the products and services sold, as well as the mix of products and services sold. The annual sales targets set by the Company are believed to be achievable, but the inability of the Company to achieve planned volume or prices could cause the Company not to meet anticipated levels of revenue. In most markets the Company expects to increase prices, but in certain markets prices could be lowered to protect market share. The ability of the Company to achieve volume or price targets at any location depends on numerous factors, including the capabilities of the local operating staff, the local economy, the local death rate, competition and changes in consumer preferences, including cremations.

(3) Revenue also is affected by the level of preneed sales in both current and prior periods. The level of preneed sales may be adversely affected by numerous factors, including deterioration in the economy, which causes individuals to have less discretionary income, changes in consumer spending preferences, as well as changes in our marketing approach, commission practices and contractual terms. Future revenue will also be affected by the Company's decision in the latter half of 2000 to eliminate the national preneed sales and marketing organization and to manage future preneed activities at the local business level.

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

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

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

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

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

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

(f) Changes in government regulations, including tax rates and their effects on corporate structure.

(g) Changes in inflation and other general economic conditions domestically, affecting financial markets (e.g. marketable security values).

(h) Unanticipated legal proceedings and unanticipated outcomes of legal proceedings.

(i) Changes in accounting policies and practices required by generally accepted accounting principles or the Securities and Exchange Commission, such as writedowns to the asset carrying values for goodwill and other long-lived assets.

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

PART I

ITEM 1. BUSINESS

THE COMPANY

Carriage is a leading provider of death care services and products in the United States. As of December 31, 2001, we operated 148 funeral homes and 30 cemeteries in 29 states. Carriage provides a complete range of services relating to funerals, burials and cremations, including the planning and coordination of personalized funerals, use of funeral home facilities and providing transportation services, the performance of cemetery interment services and the management and maintenance of cemetery grounds. We also sell related products and merchandise including caskets, burial vaults, garments, cemetery interment rights, stone and bronze memorials, as well as other items. From 1996 to 1999, the Company grew rapidly as a result of a high level of acquisition activity. In 1999, growth slowed and the level of acquisition activity was sharply curtailed to allow Carriage to focus on the improvement of operating results. Fiscal 2000 was a transitional year including a decline in operating profitability, the adoption of a substantially changed accounting method for preneed cemetery sales, and the implementation of a two-year multi-element restructuring program termed "Fresh Start" which was intended to improve financial and operating performance. As a result of these factors, the 2000 earnings per share fell to $.06 from operations before special charges and cumulative effect of accounting changes and a loss of $8.23 per share including these special charges and the accounting change. Most of the elements of Fresh Start have now been accomplished, and we have seen the benefits of these actions in our 2001 operating results as diluted earnings per share was $.51; cash flow from operations exceeded $27 million and debt was reduced by $30 million.

Since Carriage's formation in 1991, we have focused on distinguishing ourselves from our competitors by developing an employee-driven organization that emphasizes: (i) providing the highest level of personalized service to client families, (ii) comprehensive employee training, (iii) a decentralized management structure, and (iv) location management incentive compensation which shares the benefits of location profitability above predetermined levels. Significant concerns existed at the end of 2000 regarding the financial stability and the credibility of the operating and consolidation models of the death care industry. The beginning of an industry-wide recovery from the high leverage and nominal cash flow of the past several years highlighted the year 2001. We, as well as other members of the industry, shifted our focus to improving existing businesses and selling those that do not fit into long-term strategies.

In response to the changing industry environment, we initiated, in July 2000, a review of our funeral home and cemetery portfolios, operating strategies, organizational structure, and financial covenants under Carriage's credit agreements. As a result, Carriage launched, in September 2000, a multi-faceted, restructuring program called "Fresh Start". During the last two quarters of 2000, we eliminated a large portion of our administrative and general overhead and began executing new operating strategies under new leadership. Carriage's preneed funeral strategy has now changed from a national, centralized strategy to a unique, local, decentralized strategy whereby each local business will have a program customized to its needs and managed by the local funeral home manager or regional manager. The cemetery organization has been substantially streamlined, and there is now singular responsibility and accountability for both sales and operations. Our human resources strategy is to high-grade our personnel, which includes promoting, recruiting, and training top-quality managers and leaders to replace those who are not able to perform up to our Fresh Start standards. We conducted a rigorous review of the businesses we own and stratified the funeral homes and cemeteries into three groups: a healthy core group, an underperforming group, and a group that we targeted to sell. Impairment and other special charges totaling $102.3 million were recorded in 2000 in connection with Fresh Start. One critical element of Fresh Start was to modify our financial covenants with our banks and insurance company lenders so that we could execute all elements of our plan, including any expected adjustments to Carriage's cemetery revenues, earnings and net worth resulting from the adoption of the Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. We believe that the implementation of Fresh Start has enhanced our ability to effectively compete.

The year 2001 was the first full year of Fresh Start and the positive results are apparent. By effectively executing the elements of the plan, we will set the stage for success in years to come. Cost reduction initiatives led to a decline of 15% in general and administrative expenses in comparing 2000 to 2001. We have turned to new leadership at all levels in the Company to reposition Carriage for the future. During 2001 new leaders in Human Resources and Information Technology were elevated to executive officers of the Company because of their strategic importance. We made good progress with our leadership upgrading initiatives in 2001, yet this remains our greatest opportunity in 2002. Our preneed funeral strategy has changed from a national, centralized one to a local, decentralized strategy which enabled us to decrease our cash investment in 2001 by approximately 60%, yet we believe that the quality of the program improved. We have recently adjusted the strategy in certain markets to increase the level of preneed funeral sales during 2002. Since Fresh Start was initiated, we have sold 27 funeral homes, 12 cemeteries and 9 parcels of excess real estate for approximately $17 million of net proceeds, of which $11.9 million was realized in 2001. While there could be additional dispositions in the future, we are more inclined to work on improving the results of the remaining underperforming businesses. We have invested heavily in new funeral home corporate leadership at the regional vice president and regional manager levels during 2001, which we expect to result in healthier and more profitable businesses in 2002 and into the future. We will also be investing in new cemetery leadership at the regional and location levels in 2002 in order to achieve higher revenues and profitability.

Carriage was incorporated in Delaware on December 29, 1993, and became a public reporting company in August 1996. Our principal executive office is located at 1900 Saint James Place, 4th Floor, Houston, Texas 77056, and our telephone number is (713) 332-8400.

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 23,000 funeral homes and 9,600 commercial (as opposed to religious, family, fraternal, military or municipal) cemeteries in the United States. Approximately 25% of the 2001 U.S. death care industry revenues are represented by Carriage and the three other 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 barrier for those wishing to enter an existing market. Heritage and tradition afford an established funeral home or cemetery a local franchise and provide 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. Since 2000, with many of the large death care consolidators restructuring their operating models, we have seen some barriers to entry lessened as new competitors have captured market share in some areas. We do not believe this trend represents a long-term change in the industry.

STABILITY. The death rates in the United States are relatively stable. The number of deaths in the United States has increased at a compounded rate of approximately 1% since 1980. While the number of deaths typically varies from year to year by 1-2%, industry studies show that the average age of the population is increasing. Because of the relative stability, individual funeral home business failures are uncommon. As a result, ownership of independent 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.

CONSOLIDATION. Until 1999, the industry experienced a trend toward consolidation of independent death care operations with a few large, primarily publicly owned death care providers that sought to benefit from economies of scale, improved managerial control and more effective strategic planning and greater financial resources. The trend resulted principally from increased regulation, a desire on the part of small, family operated funeral businesses to address family succession and estate planning issues, and a desire for liquidity. An active acquisition market for funeral homes and cemeteries provided a source of potential liquidity that was not as readily available to individual owners in the past. The consolidation trend was suspended in 1999, and none of the publicly traded companies are currently pursuing significant acquisitions at this time. The consolidators, including Carriage, were facing financial pressure and high debt levels as a result of having paid too much for businesses that are not performing as expected. Each of the consolidators began selling selected properties and other assets in 2000 in order to reduce their debt levels. Certain restructurings have also been announced during 2000 and 2001 that resulted in large nonrecurring charges as the consolidators changed various operating strategies.

PRENEED MARKETING. In addition to sales at the time of death or on an "at need" basis, death care products and services are being sold prior to the time of death or on a "preneed" basis by some 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 provides a backlog of future business. We believe sales of preneed products and services, including cemetery and interment rights and preneed funeral services, are purchased primarily by people between the ages of 50 and 80. In 2000, we modified our preneed funeral sales marketing from a nationwide sales program to a sales program which is controlled, on a market-by-market basis, and managed by the local funeral home manager or a third party contractor.

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 26% of the U.S. burial market in 2001 and are projected at 36% for 2010, 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 service package that includes traditional funeral services and memorialization.

BUSINESS STRATEGY

Our business strategy is to emphasize increasing operating cash flow and improving profitability at the business location level through strategies that do not require significant investments of new capital. We plan to continue reducing our debt and improving our leverage ratios. Our focus is on improving our organizational leadership and quality of personnel. We made outstanding progress in 2001 toward achievement of our Fresh Start goals. Continued successful execution during 2002 would, in our view, reposition the company as a leader in our industry and should enable us to resume careful, intelligent external growth in 2003.

"FRESH START" RESTRUCTURING PROGRAM. During the third quarter of 2000, Carriage initiated a multi-faceted restructuring program termed "Fresh Start" in response to the changing industry environment and deterioration of the Company's operating results during 2000. The program began with a review of the funeral home and cemetery portfolios, operating strategies, organizational structure, and financial covenants under the Company's credit agreements. Key elements of "Fresh Start" are as follows:

GOALS AND PRINCIPAL ELEMENTS. The two-year goals for the restructuring program, announced in November, 2000, were to (1) restore credibility to our operating and consolidation model; (2) increase and better align our earnings and cash flow; (3) restore market value credibility to our balance sheet; (4) reduce our debt; and (5) re-access the capital markets. The principal elements of Fresh Start included the downsizing of our corporate organization, changing our operating leadership, changing our preneed funeral marketing strategy, stratifying by performance the funeral home and cemetery portfolios, implementing action plans to improve underperforming businesses, disposing of some underperforming businesses, reviewing and adjusting the carrying basis of other underperforming businesses, and the modification of financial covenants with lenders to facilitate the execution of the program.

PROGRAM IMPLEMENTATION. Downsizing of our corporate organization was completed in the fourth quarter of 2000 and has resulted in the elimination of a large portion of our operating and

administrative overhead. Our infrastructure is now better suited for a non-acquisition environment, and we are executing our new operating strategies under new leadership.

The new operating leadership is widely dispersed from major divisions to individual locations, and we have recruited top-quality managers and leaders to replace those who were not able to perform up to our Fresh Start standards. Offering incentives to our new local leadership has become an important part of our Human Resources strategy. We have begun a new Funeral Home Partnership program designed to foster market share growth by establishing realistic short and long-term business plans and performance goals that are balanced with attractive short and long-term rewards.

Our preneed funeral strategy has also changed significantly. We have gone from a national, centralized strategy to a local, decentralized strategy in which each business will have a program customized to its local needs. Accordingly, we have eliminated the national funeral sales organization and consolidated most existing preneed investments with one trustee. This enabled us to substantially downsize the Houston administrative support infrastructure and relocate our smaller corporate staff to more modest facilities.

In reviewing our funeral home and cemetery portfolios, we divided all of our locations into two main groups: a healthy core group, which represents the majority of our revenues and cash flow, and a second underperforming group. There is a smaller third group that consists of businesses that we targeted for sale. After completing this stratification, we then established new performance standards consistent with our mission of 'Becoming the Best'. No longer will we allow the success of our best businesses, managers and employees to be unfairly diluted by the underperformance of our weaker businesses. Where there are local market share losses or leadership problems, specific action plans have been designed to deal with underperforming properties. These action plans included the decision to sell the businesses that cannot meet our new standards. Since Fresh Start was initiated in 2000, Carriage has sold 27 funeral properties, 12 cemeteries and 9 parcels of excess real estate for net proceeds of $17 million. A relatively small number of additional properties may be sold in 2002. The carrying value of the businesses targeted for sale were written down to the estimated net realizable value.

As the final element of Fresh Start we modified the financial covenants with our banks and insurance lenders so that we could execute all elements of the plan. Notwithstanding the difficult industry environment, we received strong support from our lenders for initiating an aggressive, proactive plan of action.

During 2001, we used cash flow from operations and proceeds from the sale of the businesses to reduce our debt by $30 million.

OPERATING STRATEGY. While our strategies have changed, our mission to become the best funeral and cemetery service organization in the industry has not. We believe our operating strategies increase the performance level of our properties significantly above the level that they could achieve if they were operating as stand-alone independent businesses. Key elements of our operating strategy that complement the restructuring program include the following:

PERSONALIZED SERVICE. We believe that providing personalized service results in increased customer satisfaction, increased market share, more motivated employees and consistently higher levels of profitability. We have placed a great deal of emphasis upon recruiting new leaders, communicating to our employees the linkage between personalized service, customer satisfaction, market share increases and profitability throughout the organization.

EMPLOYEE TRAINING. We have made a significant commitment of financial and human resources to a company-wide training effort. The training is designed to improve the management of and communication among employees and to develop personalized service that will be of value to clients. In training employees to deliver personalized service, we emphasize employee listening and communication skills in working towards the goal of uniquely memorializing the life of an individual. We have been focusing on integrating the concepts and practices of our training program into our

operations. We believe that this long-term investment in our employees will, over time, lead to increased market share, resulting in higher profitability.

ENHANCED SYSTEMS. We utilize a computer system linked to all of our funeral homes to monitor and access critical operating and financial data in order to analyze the performance of individual locations on a timely basis and institute corrective action if necessary. The Internet is used as a medium to internally disseminate information between locations. We began a program in mid 2001 to review our business processes and systems with the goals of simplifying and providing more useful, cost-efficient information to our field operations. We are planning to invest part of our improved profitability in a systems upgrade initiative in 2002 and 2003 which is intended to improve our performance and efficiency and position us for further growth.

HIGH STANDARDS OF PERFORMANCE. We continually establish targets to emphasize and enhance customer service and operational and financial performance. These standards are designed to identify management's expectations for high achievement in these three key performance areas and are communicated to employees through our extensive training programs and monitored by strong corporate leadership and a proactive corporate support system. We invested heavily in new funeral home corporate field leadership at the regional vice president and regional manager levels during 2001. We fully expect this investment in new, strong funeral home corporate leadership to result in a healthier and more profitable portfolio this year and in the future. We believe that the differential field level earnings before interest, taxes, depreciation and amortization (EBITDA) margin between our core and our underperforming groups, which was almost 500 basis points in 2001, will narrow substantially over the next two years. We will also be investing in new cemetery leadership at the regional and location levels in 2002 in order to achieve broader portfolio sales and profit performance through specific action plans.

QUALITY REVIEW MANAGEMENT SYSTEMS. We have developed quality-based management systems which operate within our decentralized management structure. These systems involve quantifiable customer survey input in addition to operational and financial measurements of performance. With the assistance of our training staff, these systems are being implemented at the local level under the direction of our regional vice presidents and regional managers. These leaders provide an additional level of operational support and feedback to our local managers.

INCENTIVE COMPENSATION. We have established a compensation structure that is designed to create and maintain an ownership mentality to align overall compensation to our performance objectives. Local management is awarded meaningful cash bonuses or other rewards for achieving specified service, operational and financial performance objectives. We also have stock option programs, which award options to certain employees based upon their performance. As a result, many management and key employees have the opportunity to increase their personal net worth through strong performance.

COST SAVINGS AND OPERATING EFFICIENCIES. Our larger size, as compared to local operators, 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 responsibility are retained at the local level, centralizing certain financial, accounting, legal, administrative and employee benefit functions allow for more efficient and cost-effective operations.

RATIONALIZATION OF OUR PRENEED FUNERAL SALES PROGRAM. We have developed a productive preneed funeral sales program that is expected to provide significant benefits for years into the future. This program has not been developed, however, without significant costs. Preneed sales frequently require an immediate cash outlay by the seller to fund commissions and promotional expenditures. Beginning in 2000, we began selling insurance funded contracts in most markets that allow us to earn commission income and improve our cash flow. In 2001 the program focused on markets that depended on preneed for market share and exposure with most of the sales coming from selling funeral directors. 2002 brings an expansion of the program with all locations utilizing some type of preneed program whether it be by in-house sales by funeral directors, in-house sales by sales counselors or by using third party sellers. We will continue to use insurance funded contracts as the main funding vehicle.

ACQUISITION STRATEGY. Since 1999, acquisitions by public consolidators of independent funeral homes and cemeteries have virtually ceased throughout the death care industry, including Carriage Services, as the focus has changed to improving cash flow and operating results from existing businesses. We believe that consolidation can work in this industry, but only if acquisition prices are substantially lower than we experienced during 1997-1999 and we are highly selective in the locations acquired. Acquisition activity is expected to be minimal during 2002 and then resume intelligently and strategically in 2003, funded primarily through internally generated cash flow.

IMPAIRMENTS AND ASSET DISPOSITION STRATEGY. In connection with Fresh Start, as previously stated, a review was performed of the businesses that we owned and those businesses were stratified into three groups: core, underperforming and targeted for sale. Long-term cash flow forecasts were prepared to determine whether we would recover our investment through operations on the underperforming properties. In those instances in which our investment in a business exceeded the estimated future cash flows, the investment was written down, through an impairment charge, to the present value of those future cash flows. Impairment charges totaled $51 million for the underperforming businesses that we will continue to operate. An estimate of the net realizable value was determined for those businesses targeted for sale to determine whether we could expect to recover our investment from the sale of those businesses. Where the investment exceeded the fair value less costs to sell, an impairment charge was recorded for the deficiency, which totaled approximately $30 million in the aggregate, reducing our investment in businesses targeted for sale to approximately $10 million.

For the year 2000, the underperforming group generated 31% of funeral home revenue and 28% of field level cash flow; and the targeted for sale group 8% of funeral home revenues and 4% of cash flow. For the year 2001, the underperforming group represented 30% of funeral home revenue and 27% of field level cash flow; while the targeted for sale (and businesses actually sold or closed in 2001) group was 6% of funeral home revenues and 4% of cash flow.

OPERATIONS

Our local funeral home operations, cemetery operations and preneed programs are managed by individuals with extensive death care industry experience. The local operators continue to have responsibility for day-to-day operations, but are required to follow centralized service and financial standards. We believe this strategy permits each local firm to maintain its unique style of operation and to capitalize on its reputation and heritage while Carriage maintains centralized supervisory controls and provides specialized services at the corporate level. We have a commitment to strong information systems. Systems are linked to all of the funeral homes to monitor and assess critical operating and financial data in order to analyze the performance of individual funeral homes on a timely basis. Management is able to access customer transaction data and other operating information from the Houston support center to ensure the quality of operating performance and to implement any necessary corrective actions.

FUNERAL HOME OPERATIONS. As of December 31, 2001, Carriage operated 148 funeral homes in 29 states. Funeral home revenues accounted for approximately 78% and 76% of our net revenues for each of the years ended December 31, 2000 and 2001, respectively. The funeral home operations are managed by a team of experienced death care industry professionals as well as selected

region-level individuals with substantial management experience in other service industries. These individuals were recruited from outside the industry bringing with them the best operating practices that have been proven successful in other service industries. See Note 14 to the consolidated financial statements for segment data related to funeral home operations.

Our funeral homes offer a complete range of services to meet families' 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 religious services and transportation services. Most of our funeral homes have a non-denominational chapel on the premises, which permits family visitation and religious services to take place at one location, reducing inconvenience to the family.

CEMETERY OPERATIONS. As of December 31, 2001, we operated 30 cemeteries in 12 states. Cemetery revenues accounted for approximately 22% and 24% of our net revenues for each of the years ended December 31, 2000 and 2001, respectively.

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

At the beginning of the fourth quarter of 2000, Carriage Services, along with others in the industry, implemented the Securities and Exchange Commission's Staff Accounting Bulletin No. 101-"Revenue Recognition in Financial Statements" (SAB 101). The most significant impact of adopting SAB 101 was the deferral of revenue and related expenses for cemetery merchandise and services until they are delivered instead of recognizing them at the time of sale, as we did previously. Income earned on merchandise and services funds in trust are also deferred until delivery occurs. As a result of SAB 101, the Company has deferred cemetery revenue of approximately $90 million which will be recognized in future periods. Implementation of SAB 101 had the pro forma effect of reducing revenues by $9.8 million and pre-tax income by $5.1 million or $0.21 per diluted share for the full year 2000, compared to $13.6 million and $7.4 million or $0.30 per diluted share for 1999. Included in the Consolidated Statement of Operations for 2000 is a charge in the amount of $59.7 million, before taxes, relating to the cumulative effect of the change in accounting principle in connection with the implementation of SAB 101. The SAB 101 accounting changes have had no effect on cash flow. See Note 14 to the consolidated financial statements for segment data related to funeral home and cemetery operations.

PRENEED PROGRAMS. In addition to sales of funeral merchandise and services, cemetery interment rights and cemetery merchandise and services at the time of need, we also market 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 Carriage to establish a portion of our future market share. Proceeds from the sale of preneed funeral contracts are not recognized as revenue until the time the funeral service is performed.

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. During the early part of 2000, we shifted our focus from the sale of trust-funded contracts to

the sale of insurance funded contracts. The shift toward insurance products has improved the Company's cash flow and reduced the costs associated with the administration of trust accounts.

In addition to preneed funeral contracts, we also offer "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 a family to avoid the emotional strain of making death care plans at the time of need and enable a funeral home to establish relationships with a client that may eventually lead to an at-need sale.

In the fourth quarter of 2000, we eliminated the national and regional preneed funeral marketing organizations and assigned responsibility for preneed sales to the local funeral home manager. Preneed funeral sales are only emphasized in those markets that are most competitive. Preneed cemetery sales are overseen by the regional operating management. As of December 31, 2001, we employed a staff of 219 advance-planning representatives for the sale of preneed products and services, which represents an increase of 18% since 1997, but a reduction from the 290 employed at the end of 2000.

Carriage sold 7,651 and 5,459 preneed funeral contracts during the years ended December 31, 2000 and 2001, respectively. At December 31, 2001, we had a backlog of 64,947 preneed funeral contracts to be delivered in the future. Preneed cemetery sales are usually financed through interest-bearing installment sales contracts, generally with terms of up to five years. The interest rates generally range between 9% and 14%. Preneed sales of cemetery interment rights are recorded as revenue when 10% of the contract amount has been collected. Merchandise and services revenue is recorded when delivery has occurred. Costs related to the generation of the preneed contracts and delivery of the products and services are recognized concurrent with the related revenue. We always receive 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.

Cemetery revenues that originated from preneed contracts represented approximately 59% and 61% of Carriage's net cemetery revenues for the year 2000 and the year 2001, respectively.

COMPETITION

The operating environment in the death care industry has been highly competitive. Our publicly traded competitors are Service Corporation International, Alderwoods Group, Inc. (formerly known as The Loewen Group, Inc.), and Stewart Enterprises, Inc. In addition, a number of smaller companies have been active in acquiring and operating funeral homes and cemeteries.

Our funeral home and cemetery operations generally face competition in the markets that they serve. Our primary competition in most of our markets is from local independent operators. 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 a marketing tool to build market share. Because of the importance of reputation and heritage, market share increases are usually gained over a long period of time.

There have been some competitors adopting low-end pricing and service strategies. We also face competition from companies that market products and related information over the Internet, as well as non-traditional casket stores in certain markets. We have felt relatively limited impact in certain markets from these competitors to date.

TRUST FUNDS AND INSURANCE CONTRACTS

GENERAL. We have established a variety of trusts in connection with our 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 Carriage. We also use independent professional managers to advise us on investment matters.

PRENEED FUNERAL TRUSTS AND INSURANCE CONTRACTS. 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 fund 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 from the sale of preneed funeral contracts are a current use of cash, such costs are also deferred and amortized over the expected timing of the performance of the services related to the preneed funeral sales. The related assets and deferred revenue are reflected on Carriage's balance sheet. In most states, we are not permitted to withdraw principal or investment income from such trusts until the funeral service is performed. Some states, however, allow for the retention of a percentage (generally 10%) of the receipts to offset any administrative and selling expenses, which we defer until the service is provided. The aggregate balance of our preneed funeral contracts held in trust, insurance contracts and receivables from customers, was approximately $231.9 million and $220.0 million as of December 31, 2000 and 2001, respectively.

PRENEED CEMETERY MERCHANDISE AND SERVICE TRUSTS. We are generally required under applicable state laws to deposit a specified amount (which varies from state to state, generally 50% to 100% of selling price) into a merchandise and service trust fund for cemetery merchandise and services sold on a preneed basis. The related trust fund income earned is recognized when the related merchandise and services are delivered. We are permitted to withdraw the trust principal and the accrued income when the merchandise is purchased, when service is provided by us or when the contract is cancelled. The merchandise and service trust fund balances, in the aggregate, were approximately $30.2 million and $38.1 million as of December 31, 2000 and 2001, respectively.

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 earned is recognized in current revenues as trust earnings. While we are entitled to withdraw the income from our perpetual care trust to provide for the maintenance of the cemetery property and memorials, we are not entitled to withdraw any of the principal balance of the trust fund and therefore, none of the principal balance is reflected in Carriage's balance sheet. The perpetual care trust balances were approximately $29.4 million and $29.9 million as of December 31, 2000 and 2001, respectively.

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

REGULATION

Our 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.

We are 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 us to organize information about hazardous materials used or produced in our operations. Certain of this information must be provided to employees, state and local governmental authorities and local citizens. We are also subject to the Federal Americans with Disabilities Act and similar laws, which, among other things, may require that we modify our facilities to comply with minimum accessibility requirements for disabled persons.

Our operations, including our 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."

We believe that we are 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 Carriage's results of operations. We cannot predict the outcome of any proposed legislation or regulations or the effect that any such legislation or regulations might have on Carriage.

EMPLOYEES

As of December 31, 2001, the Company and its subsidiaries employed 1,907 employees, of whom 1,023 were full-time and 884 part-time. Included in the total number of employees are 219 advance planning representatives. All of our funeral directors and embalmers possess licenses required by applicable regulatory agencies. We believe that our relationship with our employees is good. No employees of Carriage or its subsidiaries are members of a collective bargaining unit.

ITEM 2. PROPERTIES

At December 31, 2001, we operated 148 funeral homes and 30 cemeteries in 29 states. Carriage owns the real estate and buildings for 75% of our funeral homes and leases facilities for the remaining 25%. Carriage owns 25 cemeteries and operates 5 cemeteries under long-term contracts with municipalities at December 31, 2001. Seven funeral homes are operated in combination with cemeteries. The 30 cemeteries operated by Carriage have an inventory of unsold developed lots totaling approximately 140,000 and 107,000 at December 31, 2000 and 2001, respectively. In addition, approximately 780 acres are available for future development. We anticipate having a sufficient inventory of lots to maintain our property sales for the foreseeable future.

The following table sets forth certain information as of December 31, 2001, regarding Carriage's funeral homes and cemeteries by state:

	NUMBER OF FUNERAL HOMES		NUMBER OF CEMETERIES	
STATE	OWNED	LEASED(1)	OWNED	MANAGED
Alabama	1	0	0	0
California	16	2	4	0
Connecticut	6	2	0	0
Florida	5	4	6	3
Georgia	4	2	0	0
Idaho	4	1	1	0
Illinois	0	6	1	0
Indiana	2	1	1	0
Iowa	4	0	0	0
Kansas	8	0	0	0
Kentucky	11	3	1	0
Maryland	0	1	0	0
Massachusetts	7	0	0	0
Michigan	3	2	0	0
Missouri	0	1	0	0
Montana	1	0	0	0
Nevada	2	0	2	1
New Jersey	3	2	0	0
New Mexico	1	0	0	0
New York	2	1	0	0
North Carolina	1	2	1	0
Ohio	6	3	0	1
Oklahoma	1	0	1	0
Rhode Island	4	0	0	0
Tennessee	2	1	0	0

Texas	12	0	6	0
Virginia	3	1	1	0
Washington	1	1	0	0
West Virginia	1	1	0	0
Total	111	37	25	5

- -----------------------

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

Carriage's corporate headquarters occupy approximately 32,500 square feet of leased office space in Houston, Texas.

At December 31, 2001, we operated 662 vehicles, of which 642 are owned and 20 are leased.

The specialized nature of our business requires that our facilities be well maintained. Management believes that this standard is met.

ITEM 3. LEGAL PROCEEDINGS

Carriage and our 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, we do not expect these matters to have a material adverse effect on us.

We carry insurance with coverages and coverage limits that we believe to be customary in the funeral home and cemetery industries. Although there can be no assurance that such insurance will be sufficient to protect us against all contingencies, we believe that our insurance protection is reasonable in view of the nature and scope of our 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

Carriage's Class A Common Stock is traded on the New York Stock Exchange under the symbol "CSV". The following table presents the quarterly high and low sale prices as reported by the New York Stock Exchange:

2000	HIGH	LOW
First Quarter	$6.1875	$3.875
Second Quarter	$4.625	$2.625
Third Quarter	$3.25	$1.5625
Fourth Quarter	$2.3125	$1.0625
2001		
First Quarter	$3.54	$1.3125
Second Quarter	$6.11	$2.85
Third Quarter	$8.74	$4.90
Fourth Quarter	$6.90	$4.25

As of March 25, 2002, there were 16,912,596 shares of Carriage's Class A Common Stock and no shares of the Class B Common Stock outstanding. All Class B Common Stock that was outstanding was automatically converted to Class A Common Stock on December 31, 2001. The holders of Class B Common Stock were previously 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 260 stockholders of record. Each Class A share is entitled to one vote on matters requiring the vote of shareholders. We believe there are approximately 4,000 beneficial owners of the Class A Common Stock.

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

During December 2000, the Company's Board of Directors authorized the issuance of an aggregate of 365,915 shares of our Class A Common Stock to executive officers and other key employees of the Company, as bonus grants in recognition of their performance in 2000, which were paid in 2001. The

Company relied upon the exemption provided by Section 4(2) of the Securities Act of 1933 in issuing the stock.

ITEM 6. SELECTED FINANCIAL DATA

The income statement data presented hereunder for the years 1997 through 1999 was prepared using the accounting principles employed prior to the implementation of SAB 101 which was effective January 1, 2000.

YEAR ENDED DECEMBER 31,	1997	1998	1999	2000	2001
(IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA)					
INCOME STATEMENT DATA:					
Revenue, net:					
Funeral	$ 64,888	$ 92,965	$125,264	$ 127,261	$124,284
Cemetery	12,533	23,876	43,203	35,345	38,209
Total net revenues	77,421	116,841	168,467	162,606	162,493
Gross profit:					
Funeral	16,484	28,036	35,539	26,891	31,471
Cemetery	2,899	6,288	10,945	5,285	8,824
Total gross profit	19,383	34,324	46,484	32,176	40,295
General and administrative expense	5,277	7,581	9,265	10,256	8,698
Special and other charges	--	--	2,500	102,250	--
Operating income (loss)	14,106	26,743	34,719	(80,330)	31,597
Interest expense, net	(5,889)	(9,720)	(17,358)	(20,705)	(20,344)
Other income	--	--	2,000	--	--
Income (loss) before income taxes	8,217	17,023	19,361	(101,035)	11,253
Provision (benefit) for income taxes	3,726	7,490	8,474	(8,032)	2,251
Net income (loss) before extraordinary item and cumulative effect of the change in accounting principle	4,491	9,533	10,887	(93,003)	9,002
Extraordinary item, net	(195)	--	(200)	--	--
Cumulative effect of the change in accounting, net	--	--	--	(38,993)	--
Net income (loss)	4,296	9,533	10,687	(131,996)	9,002
Preferred stock dividends	890	606	93	81	37
Net income (loss) available to common stockholders	$ 3,406	$ 8,927	$ 10,594	$(132,077)	$ 8,965
Earnings (loss) per share					
Basic: Continuing operations	$ .35	$ .67	$ .68	$ (5.80)	$ .54
Extraordinary item	(.02)	--	(.01)	--	--
Cumulative effect of the change in accounting principle	--	--	--	(2.43)	--
Basic earnings (loss) per share	$ .33	$ .67	$ .67	$ (8.23)	$ .54
Diluted: Continuing operations	$ .34	$ .65	$ .67	$ (5.80)	$ .51
Extraordinary item	(.02)	--	(.01)	--	--
Cumulative effect of the change in accounting principle	--	--	--	(2.43)	--
Diluted earnings (loss) per share	$ .32	$ .65	$ .66	$ (8.23)	$ .51
Pro forma amounts assuming the change in accounting is applied retroactively:					
Income (loss) before extraordinary item	$ 2,999	$ 6,673	$ 6,078	$ (93,003)	$ 9,002
Basic earnings (loss) per share	$ .21	$ .46	$ .38	$ (5.80)	$ .54
Diluted earnings (loss) per share	$ .20	$ .44	$ .37	$ (5.80)	$ .51
Net income (loss)	$ 2,804	$ 6,673	$ 5,878	$(131,996)	$ 9,002
Basic earnings (loss) per					

share.......................... $ .19 $ .46 $ .36 $ (8.23) $
.54 Diluted earnings (loss) per
share....................... $ .18 $ .44 $ .36 $ (8.23) $
.51 Weighted average number of common and common equivalent
shares outstanding:
Basic..
10,226 13,315 15,875 16,056 16,696 ======== ========
======== ========= ========
Diluted..
10,485 13,808 16,136 16,056 17,492 ======== ========
======== ========= ========

YEAR ENDED DECEMBER 31, ----------------------------
------------------------ 1997 1998 1999 2000 2001 ---
----- -------- -------- --------- -------- (IN
THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA)
OPERATING AND FINANCIAL DATA: Funeral homes at end of
period............................. 120 166 182 172
148 Cemeteries at end of
period................................. 20 27 41 38
30 Funeral services performed during
period.................... 12,131 16,881 22,869
23,150 21,547 Preneed funeral contracts
sold............................. 4,020 6,481 9,814
7,651 5,459 Backlog of preneed funeral
contracts....................... 34,797 57,185
83,754 89,391 64,947 Depreciation and
amortization.............................. $ 7,809 $
11,444 $ 16,992 $ 21,407 $ 16,968 BALANCE SHEET DATA:
Total
assets..
$277,940 $466,144 $539,590 $ 709,051 $672,112 Working
capital (deficit).................................
5,823 11,546 22,185 13,892 (592) Long-term debt, net
of current maturities.................. 21,553
212,972 178,942 176,662 148,508 Redeemable preferred
stock................................. 13,951 1,673
91,026 91,100 90,058 Shareholders'
equity....................................... $
98,565 $200,394 $212,009 $ 77,237 $ 81,579

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

OVERVIEW

Carriage is a leading provider of death care services and products in the United States. Our historical focus has been on operational enhancements at facilities currently owned to increase revenues and gross profit, as well as growth through acquisitions (although this activity was curtailed significantly beginning in 1999). That focus has resulted in high standards of service, operational performance, and an infrastructure containing measurement and management systems. In 2000, the operating strategy was dramatically shifted to focus upon increasing operating cash flow. In November 2000, we launched a multi-faceted, restructuring program, called "Fresh Start", which was designed to increase financial and operating performance, improve cash flow, reduce debt, and assist Carriage in fulfilling our mission of being the highest quality funeral and cemetery service organization in the industry. During the fourth quarter of 2000 and the year 2001, we were focused on executing the elements of Fresh Start.

The implementation of SAB 101 retroactively effective with the beginning of the year 2000 had a significant impact on our operating results, particularly on the accounting for cemetery revenues and costs. The accounting changes are summarized as follows:

1) Preneed sales of interment rights (burial property)-Revenue and all costs are now recognized in accordance with the retail land sales provisions of Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate". This method provides that revenue is recognized in the period in which the customer's cumulative payments equal or exceeds 10% of the contract price related to the interment right. Previously, the revenue and costs were recognized at the time of contract execution with the customer.

2) Preneed sales of merchandise-Revenue and all costs are now recognized when the merchandise is delivered. Previously, the revenue and costs were recognized at the time of contract execution with the customer.

3) Preneed sales of cemetery service fees (primarily openings and closings of burial property and installations of markers)-Revenue and all costs are deferred until the service is performed. Previously, the revenue and costs were recognized at the time of contract execution with the customer.

4) Earnings on cemetery merchandise and services trusts-The trust earnings are deferred until the underlying merchandise is delivered or the service is performed. Previously the earnings were recognized as they were earned on the trust investments.

5) Preneed cemetery trust funds-Previously, cemetery trust funds were netted against preneed liabilities on the balance sheet. The amount of these trusts, beginning January 1, 2000, are included in the non-current asset section of the balance sheet.

6) Preneed funeral contracts and deferred preneed funeral contract revenue-The amount of the preneed funeral contracts receivable, the amount of the funds deposited in trust and the amount of life insurance contracts are recognized as an asset on the balance sheet titled "Preneed funeral contracts". The amount of the preneed funeral contracts is also recognized in the liability section of the balance sheet titled "Deferred preneed funeral contracts revenue". Prior to January 1, 2000, these assets and liabilities were not recorded on the balance sheet.

The following table presents selected financial data for the years 1997 through 1999 on a pro forma basis assuming the application of the change in accounting principle at the beginning of the earliest year presented:

PRO FORMA	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
	(IN THOUSANDS)		
Revenue, net:			
Funeral	$64,539	$92,184	$123,921
Cemetery	9,251	16,908	30,975
Total net revenues	73,790	109,092	154,896
Gross profit:			
Funeral	16,184	27,623	34,529
Cemetery	903	2,301	4,556
Total gross profit	17,087	29,924	39,085
General and administrative expense	5,277	7,581	9,265
Special and other charges	--	--	2,500
Operating income	11,810	22,343	27,320
Interest expense, net	(5,889)	(9,720)	(17,358)
Settlement of litigation	--	--	2,000
Income before income taxes	5,921	12,623	11,962
Provision for income taxes	2,922	5,950	5,884
Net income before extraordinary item	2,999	6,673	6,078
Extraordinary item, net	(195)	--	(200)
Income after extraordinary item	2,804	6,673	5,878
Preferred stock dividends	890	606	93
Net income available to common stockholders	$ 1,914	$ 6,067	$ 5,785

All of the following 1997 through 1999 amounts, and comparisons thereto in the Overview, Results of Operations and Year Ended December 31, 2000 Compared to Year Ended December 31, 1999 sections, have been adjusted for the pro forma effect of applying the change in accounting to those periods for comparability. The principle reason for the change between the revenues and gross profits, when comparing the results for the year ended December 31, 2000 to the historical results for the year ended December 31, 1999, is the implementation of SAB 101.

Income from operations, which we define as earnings before special and other charges, interest and income taxes increased, as a percentage of net revenues, from 16.0% in 1997 to 20.5% in 1998

then decreased to 19.3% in 1999 and to 13.5% in 2000. For the year ended December 31, 2001, income from operations increased, as a percentage of net revenues, to 19.4% as a result of sales of poorly performing businesses, cost containment initiatives, as well as other benefits of Fresh Start. Gross margins for funeral homes increased from 25.1% in 1997 to 30.0% in 1998 and decreased to 27.9% in 1999 and to 21.1% in 2000 before increasing to 25.3% in 2001. As a percentage of cemetery net revenues, cemetery gross profit has steadily increased from 9.8% in 1997, to 13.6% in 1998, to 14.7% in 1999, and to 15.0% in 2000, then increased dramatically to 23.1% in 2001 as a result of revenues increasing 8.1% and a lower cost structure in 2001.

We experienced significant growth after the end of 1996 when we owned 86 facilities. We acquired 54 facilities in 1997, 55 facilities in 1998, 31 facilities in 1999 and two additional facilities in 2000. In a deliberate and managed process, we increased personnel and related infrastructure as a function of the increase in our revenue run-rate. As a consequence, general and administrative expenses increased from $5.3 million in 1997; to $7.6 million in

1998; to $9.3 million in 1999, excluding the special charge of $2.5 million; to $10.3 million in 2000, excluding the special and other charges totaling $102.3 million; and decreased to $8.7 million in 2001. However, general and administrative expenses, as a percentage of revenues over these periods, were 7.1% in 1997, 6.9% in 1998, 6.0% in 1999, exclusive of the special charge, 6.3% in 2000, exclusive of the special and other charges and 5.4% in 2001. A key element of the Fresh Start program was the downsizing of our corporate organization, which was completed during the fourth quarter of 2000.

During 1997, we acquired 44 funeral homes and ten cemeteries for an aggregate consideration of approximately $118 million. We acquired 48 funeral homes and seven cemeteries during 1998 for approximately $159 million. During 1999, we acquired 17 funeral homes and 14 cemeteries for an aggregate consideration of approximately $45 million. We funded these acquisitions through cash flow from operations, additional borrowings under our credit facilities and issuance of preferred and common stock. During 1999, we reduced the prices we were willing to pay for businesses as compared to the two most recent years, which resulted in a decline in acquisitions and related spending for 1999. In 2000, acquisition activity was limited to one funeral home and a long-term agreement to manage a municipal cemetery. We did not acquire any new businesses in 2001.

By the middle of 2000 it became clear that we were losing market share in certain of our markets and costs were not being reduced where we were losing business. As part of our Fresh Start program, a rigorous review of the funeral home and cemetery businesses was conducted during the third and fourth quarter of 2000, and our businesses were stratified into three groups: core, underperforming and targeted for sale. An estimate of the fair value less costs to sell was determined for each of the businesses that are categorized as targeted for sale. Impairment charges aggregating approximately $29.3 million are included in special and other charges in the 2000 Consolidated Statement of Operations for those businesses targeted for sale to reduce the carrying value to the estimated fair value less costs to sell. Since Fresh Start was initiated, we have sold 27 funeral homes, 12 cemeteries and 9 parcels of excess real estate for approximately $17 million of net proceeds. Long-term cash flow forecasts were prepared to evaluate the carrying value for those businesses categorized as underperforming. In those instances in which our investment in the long-lived assets of particular businesses was determined to exceed estimated future cash flows, the investment was written down, through an impairment charge, to the present value of those future cash flows. Impairment charges totaling $51 million are also included in Special and other charges in the 2000 Statement of Operations for the businesses that are categorized as underperforming.

In the 2000 Consolidated Statement of Operations, other items included in special and other charges, that totaled $18.4 million, consists of costs related to employee terminations as a result of downsizing the corporate organization, accruals for office closures, write-offs of other assets and adjustments to depreciation and amortization that resulted from restructuring actions.

Special charges totaling approximately $7.5 million and $4.4 million are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet at December 31, 2000 and 2001, respectively.

RESULTS OF OPERATIONS

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

	YEAR ENDED DECEMBER 31,		
	1999 (PRO FORMA)	2000	2001
Total revenues, net	100.0%	100.0%	100.0%
Total gross profit	25.2	19.8	24.8
General and administrative expenses	6.0	6.3	5.4
Operating income, excluding special charges	19.2	13.5	19.4
Interest expense, net	11.2	12.7	12.5
Net income before extraordinary item, special charges and cumulative effect of the change in accounting principle	5.5	0.6	5.5

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

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
Funeral homes at beginning of period	166	182	172
Acquisitions or openings	17	1	2
Divestitures, mergers or closures of existing funeral homes	1	11	26
Funeral homes at end of period	182	172	148

	1999	2000	2001
Cemeteries at beginning of period	27	41	38
Acquisitions	14	1	--
Divestitures	--	4	8
Cemeteries at end of period	41	38	30

The following is a discussion of the Company's results of operations in 1999, 2000 and 2001. For purposes of this discussion, the Company's locations are in three groups, as a result of the stratification of our funeral home and cemetary portfolios in 2000. A "core" group which represents approximately two-thirds of our revenues and cash flow, a second "underperforming" group, and a third group consisting of businesses that are "targeted for sale." Additionally, funeral homes and cemetaries owned and operated for the entirety of each period being compared are referred to as "existing operations."

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Funeral Home Segment. The following sets forth certain information regarding Carriage's net revenues and gross profit from our funeral home operations during the years ended December 31, 2000 and 2001:

	YEAR ENDED DECEMBER 31, 2000	2001	CHANGE AMOUNT	PERCENT
(DOLLARS IN THOUSANDS)				
Net location same-store revenues:				
Core	$ 76,462	$ 77,592	$1,130	1.5%
Underperforming	34,316	35,460	1,144	3.3%
Targeted for sale	3,710	3,923	213	5.7%
Total same-store revenue	$114,488	$116,975	$2,487	2.2%
Sold and discontinued	10,766	3,639	(7,127)	*
Preneed insurance commissions revenue	2,007	3,670	1,663	82.9%
Total net revenues	$127,261	$124,284	$2,977	2.3%
Gross profit:				
Core	$ 18,423	$ 19,251	$ 828	4.5%
Underperforming	5,561	7,061	1,500	27.0%
Targeted for sale	284	873	589	207.4%
Total same-store gross profit	$ 24,268	$ 27,185	2,917	12.0%
Sold and discontinued	616	616	--	--
Preneed insurance commissions revenue	2,007	3,670	1,663	82.9%
Total gross profit	$ 26,891	$ 31,471	$4,580	17.0%

- ------------------------

* Not meaningful.

Funeral same-store revenues for the year ended December 31, 2001 were up 2.2% when compared to the year ended December 31, 2000, as we experienced a decrease of 0.9% in the number of services and an increase of 3.1% in the average revenue per service for those existing operations. The lower total net revenues were primarily a result of the decline in revenues related to the businesses that we have sold during 2000 and 2001. The number of funeral services decreased 1.5% for the core group in comparing 2001 to 2000, while the average revenue per service for those existing locations increased 3.0% in comparing the two years. The number of funeral services for the underperforming group decreased 0.1% while the average revenue per service increased 3.4% in comparing 2001 to 2000.

In addition to the net revenues from funeral location operations above, insurance commission revenues from preneed funeral contract sales totaled $2.0 million and $3.7 million for the years ended December 31, 2000 and 2001, respectively. Revenue in 2001 included higher than normal level of commissions resulting from the conversion of previously sold trust funded contracts to insurance funded contracts. Commissions received from new sales of preneed funeral insurance were also higher than in 2000. These commissions are recorded when they have been held beyond their refund period, which is generally one year. The shift in preneed marketing strategy which led to a year-over-year decline in preneed funeral sales during 2001, and the one-year lag in reporting commissions received as revenue, are expected to result in a decrease in 2002 revenue and gross profit from preneed insurance commissions of approximately $1.3 million.

Total funeral same-store gross profit for the year ended December 31, 2001 increased $2.9 million or 12.0% from the year ended December 31, 2000. The higher gross profit is due primarily to

depreciation and amortization that was $3.1 million less than the prior period due to the impairments recorded in the latter half of 2000.

Cemetery Segment. The following sets forth certain information regarding Carriage's net revenues and gross profit from cemetery operations for the years ended December 31, 2000 and 2001:

	YEAR ENDED DECEMBER 31,		CHANGE	
	2000	2001	AMOUNT	PERCENT
	(DOLLARS IN THOUSANDS)			
Net same-store revenues:				
Core	$29,994	$33,127	$3,133	10.4%
Targeted for sale	2,936	3,404	468	15.9%
Total same-store revenue	$32,930	$36,531	$3,601	10.9%
Acquired or sold	2,415	1,678	(737)	*
Total net revenues	$35,345	$38,209	$2,864	8.1%
Gross profit:				
Core	$ 4,869	$ 7,449	$2,580	53.0%
Targeted for sale	471	872	401	85.1%
Total same-store gross profit	$ 5,340	$ 8,321	$2,981	55.8%
Acquired or sold	(55)	503	558	*
Total gross profit	$ 5,285	$ 8,824	$3,539	67.0%

- ------------------------

* Not meaningful.

Cemetery same-store net revenues for the year ended December 31, 2001 increased $3.6 million over the year ended December 31, 2000, and cemetery same-store gross profit increased $3.0 million over the year 2000. The higher same-store net revenues resulted primarily from an increase of $3.1 million from core operations. The higher same-store gross profit reflected an increase of $2.6 million from core operations and $0.4 million from cemeteries that have been targeted for sale. Total gross margin increased from 15.0% for the year ended December 31, 2000 to 23.1% for the year ended December 31, 2001, primarily due to a higher level of deliveries of previously contracted preneed merchandise and services, increased property sales and improved business practices.

Other

General and administrative expenses for the year ended December 31, 2001, decreased $1.6 million or 15.2% from 2000. As a percentage of net revenues, general and administrative expenses decreased from 6.3% in 2000 to 5.4% in 2001 resulting from the downsizing of the corporate organization and other cost saving initiatives of Fresh Start.

Interest expense and financing costs for the year ended December 31, 2001, decreased $0.4 million or 1.7% from 2000. While the average debt outstanding during 2001 was less than the average debt outstanding during 2000, we experienced higher amortization of loan costs in 2001 due to debt modification fees incurred late in the year 2000. Additionally, the amount of interest capitalized on construction in progress declined from $621,000 in 2000 to $298,000 in 2001.

There were no special charges for the year ended December 31, 2001. Special charges and other charges for the year ended December 31, 2000, were $102.3 million as discussed in the "Overview" section above.

Preferred dividends of $81,000 for 2000 and $37,000 for 2001 were subtracted from net income in computing earnings attributable to common stockholders for purposes of computing basic and diluted earnings per common share.

We provided for tax benefits and income taxes on income before income taxes at a combined state and federal tax rate of 7.9% and 20.0% for the years ended December 31, 2000 and 2001, respectively. The sale of properties in 2000 and 2001 generated substantial losses for income tax purposes. The low tax rate for the year 2000 was due to the limitation on the tax benefit, of the losses deducted in 2000, to the amount that can reasonably be expected to be refunded in the foreseeable future from carrybacks of the tax loss. The rate for 2001 benefited from the utilization of tax benefits that were generated in the fourth quarter of 2000, those tax benefits are recognized when realized through taxable income. We will continue to evaluate the realizability of the valuation allowance for deferred taxes in each future reporting period. If the valuation allowance is determined to be realizable, the allowance will be reversed and the ongoing effective tax rate will increase to a tax rate that is closer to 37%.

Effective October 1, 2001, we changed the period over which we recognize the costs of obtaining preneed sales contracts to more closely track actuarial statistics provided by a third party administrator based on the actual contracts held by Carriage. The effect of this change was to reduce expense in the fourth quarter of 2001 by approximately $0.5 million from that which would have been recorded using the prior methodology.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Funeral Home Segment. The following table sets forth certain information regarding Carriage's net revenues and gross profit from our funeral home operations during the years ended December 31, 1999 and 2000:

	YEAR ENDED DECEMBER 31, PRO FORMA 1999	2000	CHANGE AMOUNT	CHANGE PERCENT
	(DOLLARS IN THOUSANDS)			
Net revenues	$123,921	$127,261	$ 3,340	2.7%
Gross profit	$ 34,529	$ 26,891	$(7,638)	(22.1)%

Existing operations performed 504 (2.5%) fewer services in 2000, compared to 1999, at an average price that was $12 higher than 1999, resulting in a decrease in revenue of $2,481,000 from 2000 to 1999. Acquired operations provided an increase in revenue of $5,869,000, and there was a decrease in revenue in comparing 2000 to 1999 of $1,245,000 because of businesses that were sold or discontinued during the period.

The impact on field level revenues by the three groups was as follows:

	REVENUES %	NUMBER OF SERVICES %	AVERAGE REVENUE PER SERVICE (IN 000'S) $	%
2000 INCREASE (DECREASE) AS COMPARED TO 1999				
Core	1.8	0.9	1,688	2.7
Underperforming	(9.0)	0.5	(3,208)	(8.5)
Targeted for sale	(6.9)	(6.0)	(961)	(12.9)

Gross profit decreased from 1999 to 2000 primarily because of the operating results of the underperforming and targeted for sale groups and higher operating costs that we did not effectively pass through by way of higher prices to the consumer. Within our existing businesses, the decline in gross profit was very pronounced in the underperforming and targeted for sale groups. Higher

operating costs occurred in the form of casket and merchandise price increases, insurance increases, as well as general inflation in salaries and wages. Additionally, depreciation and amortization were higher in 2000, compared to 1999.

Cemetery Segment. The following sets forth certain information regarding Carriage's net revenues and gross profit from cemetery operations for the years ended December 31, 1999 and 2000:

	YEAR ENDED DECEMBER 31, PRO FORMA 1999	2000	CHANGE AMOUNT	CHANGE PERCENT
	(DOLLARS IN THOUSANDS)			
Net revenues	$30,975	$35,345	$4,370	14.1%
Gross profit	$ 4,556	$ 5,285	$ 729	16.0%

Cemeteries acquired in 1999 and 2000 contributed additional revenues of approximately $4 million and attributed to the majority of the increase in gross profit.

Other

General and administrative expenses for the year ended December 31, 2000, increased $1.0 million or 10.7% over 1999. As a percentage of net revenues, general and administrative expenses increased from 6.0% in 1999 to 6.3% in 2000.

Interest expense for the year ended December 31, 2000, increased $3.3 million or 19.3% over 1999 resulting from higher financing costs and interest rates, and higher debt levels resulting from the prior year acquisitions.

Preferred dividends of $93,000 for 1999 and $81,000 for 2000 were subtracted from net income in computing earnings attributable to common stockholders for purposes of computing basic and diluted earnings per common share.

Carriage provided for income taxes and tax benefits on income before income taxes and extraordinary item at a combined state and federal tax rate of 43.8% and 7.9% for the years ended December 31, 1999 and 2000, respectively. Amortization of goodwill related to certain acquisitions, which is nondeductible, is the primary cause of our effective rate exceeding the combined federal and state statutory income tax rates in 1999. The sale of properties in 2000 generated substantial losses for income tax purposes. The low tax rate for the year 2000 is due to the limitation on the tax benefit, of those losses, to the amount that can reasonably be expected to be refunded in the foreseeable future from carrybacks of the tax loss.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2001, cash provided by operations was $27.7 million as compared to $16.9 million for the year ended December 31, 2000. The improvement came despite the divestiture of a significant number of properties in 2001. Specifically, we decreased corporate overhead, spent $6.3 million less in our preneed programs and accelerated collections of accounts receivable and trust distributions from matured preneed contracts. Pretax free cash flow from operations increased

from $1.7 million in 2000 to $18.2 million in 2001 benefiting from a lower level of capital expenditures as indicated below:

	1999	2000	2001
	(IN MILLIONS)		
Pretax free cash flow from operations:			
Net cash provided by operating activities..........	$ 9.4	$ 16.9	$27.7
Net tax payments (refunds) included in net cash provided in operating activities.................	8.0	(4.7)	(4.5)
Capital expenditures...............................	(17.4)	(10.5)	(5.0)
	$ --	$ 1.7	$18.2

Refer to the consolidated statements of cash flows for a detail of all items effecting cash flows during the three years ended December 31, 2001.

Cash provided by investing activities was $6.8 million for the year ended December 31, 2001 compared to cash used by investing activities of $18.5 million in 2000, primarily because of the lower capital expenditures and higher proceeds from sales of businesses in 2001 as compared to 2000. In 2001, cash flow used by financing activities amounted to approximately $35.0 million, primarily due to the payments to reduce our debt, a critical element in our Fresh Start restructuring program. As part of the purchase price consideration in the acquisition of certain funeral homes and cemeteries, we issued shares of common stock and guaranteed the stock would trade at certain agreed-upon levels. At December 31, 2001, the Company had two remaining contingent stock price guarantees payable to prior owners outstanding totaling $5.3 million which are scheduled to be paid during the first quarter of 2002. Aside from these obligations, the Company currently intends to utilize the majority of free cash flow and proceeds from the sale of assets to reduce the amount of debt outstanding and thereby improve credit ratios. Cash and cash equivalents totaled $2.7 million at December 31, 2001, representing a decrease of $466,000 from December 31, 2000.

On June 3, 1999, the Company's subsidiary, Carriage Services Capital Trust, completed the sale of 1,875,000 units of 7% convertible preferred securities, with a maturity in 30 years, resulting in approximately $90 million in net proceeds that are included in the Company's consolidated balance sheets as Company-obligated mandatorily redeemable convertible preferred securities of Carriage Services Capital Trust. Dividends are tax deductible and may be deferred at our option for up to five years. For purposes of debt ratios, under our revolving credit and senior note agreements, the convertible preferred securities are treated as equity.

On July 1, 1999, the Company issued $110 million in senior debt notes for which $102 million is outstanding at December 31, 2001. The notes are unsecured, mature in traunches of $23 million in 2004, $56 million in 2006 and $23 million in 2008 and bear interest at the fixed rates of 7.73%, 7.96% and 8.06%, respectively.

As of December 31, 2000, we had 1,182,500 shares of Series D Preferred Stock issued and outstanding. During 2001, we redeemed 1,000,000 shares in a noncash exchange in connection with the sale of certain businesses to the holder of those shares at value of $1.00 per share. Effective December 31, 2001, we redeemed the remaining 182,500 shares at a redemption price of $1.00 per share.

At December 31, 1999, the Company had a credit facility with a group of banks for a $260 million revolving line of credit. On November 6, 2000, we modified our credit agreement to include a reduction in our bank revolving credit facility from $260 million to $100 million. The reduction in the revolving credit capacity reflected our intention to not make any additional large acquisitions and, therefore we did not wish to continue paying a commitment fee for availability above $100 million.

With $32.0 million outstanding and $68.0 million available under our revolving credit facility at December 31, 2001, the Company is currently positioned with adequate financial liquidity. We have no significant maturities until 2004 and expect to have sufficient free cash flow to satisfy or refinance our scheduled maturities as they occur. At December 31, 2001, the Company's debt to total capitalization was 47.8 percent.

The Company's credit facility and senior note modifications in late 2000 included new covenants containing the following: (1) flexibility in the minimum net worth requirement to allow for the restructuring charges taken as part of the Fresh Start Initiative; (2) the addition of a limit on the maximum ratio of debt to earnings before interest, taxes, depreciation and amortization, which becomes more restrictive over time; and (3) the addition of a provision limiting acquisitions above a certain size without prior approval. While the Company projects that we will be able to stay within our financial covenants, there is no assurance that we will be successful in doing so.

Related modifications to the senior note agreement additionally require that a significant portion of any proceeds from the sales of assets be offered to the note holders as prepayment of the amounts outstanding. These prepayments are made at par value. During 2001 prepayments were made in the amount of $8.0 million related to the proceeds from the sales of assets.

We do not have any liquidity sources or financing arrangements with unconsolidated or limited purpose entities in which we may be economically or legally required or reasonably likely to fund losses of an unconsolidated, limited purpose entity, provide it with additional funding, issue securities pursuant to a call option held by that entity, purchase the entity's capital stock or assets, or otherwise may be financially affected by the performance or non-performance of an entity or counterparty to a transaction or arrangement.

During 2000 the Company modified its approach to marketing preneed funeral contracts to: (1) emphasize insurance products over trust products; (2) eliminate the national and regional overhead management structure: and (3) outsource a significant portion of the administration. These changes significantly reduced the cash investment that has historically been required to generate this backlog of business. In 1999, $49.1 million of preneed funeral sales were generated for a cash outlay of $9.5 million. In 2000, $33.7 million of preneed funeral sales were generated for a cash outlay of $6.0 million. In 2001, $23.9 million of preneed funeral sales were generated for a cash outlay of $2.1 million.

During the twelve months ended December 31, 2001, the Company incurred approximately $5.0 million in capital expenditures, primarily related to refurbishing and improving funeral home facilities and construction of lawn crypts and mausoleums at cemeteries. The Company believes that cash flow from operations and borrowings under the credit facility should be sufficient to fund anticipated capital expenditures as well as other ongoing operating requirements. During 2000, the Company spent approximately $2 million for the acquisition of a cemetery municipal agreement, one funeral home and other acquisition related activity. Acquisition spending during 2001 was limited to a performance-based contingent consideration payment on a prior year acquisition. The Company anticipates that the capital expenditures in 2002 will primarily be limited to those that are required to maintain the revenue capability of its existing businesses. It does not anticipate making significant capital expenditures to grow or enhance new revenue streams or acquire new businesses. Other commitments for investing activities for 2002 include the final payment in the amount of $1,040,442 related to a performance-based contingent purchase price payment. Because future cash flows and the availability of financing are subject to a number of variables, there can be no assurance that the Company's capital resources will be sufficient to fund its capital needs. Additional debt and equity financings may be required in the future. The availability and terms of these capital sources will depend on prevailing market conditions and interest rates and the then-existing financial condition of the Company.

The following table summarizes our obligations and commitments to make future payments under contracts, such as debt and lease agreements, as well as other financial commitments. Where appropriate we have indicated the footnote to our annual consolidated financial statements where additional information is available.

		PAYMENTS BY PERIOD (IN MILLIONS)						
CONTRACTUAL OBLIGATIONS	FOOTNOTE REFERENCE:	TOTAL	2002	2003	2004	2005	2006	AFTER 5 YEARS
Long-term debt........................	5	$151.5	$ 2.5	$2.3	$57.6	$2.2	$57.8	$ 29.1
Redeemable convertible preferred securities...........................	6	90.1	--	--	--	--	--	90.1
Capital lease obligations..............	8	13.2	0.5	0.5	0.5	0.5	0.4	10.8
Operating leases........................	8	11.0	2.1	2.1	2.1	1.8	1.3	1.6
Contingent stock price guarantees.......	10	5.3	5.3	--	--	--	--	--
Contingent								

performance-based acquisition
consideration.........................
12 1.0 1.0 -- -- -- -- -- Noncompete
agreements.................. 8 6.7
1.7 1.5 1.3 1.0 0.6 0.6 ------ -----
---- ----- ---- ----- ------ Total
contractual cash obligations......
$278.8 $13.1 $6.4 $61.5 $5.5 $60.1
$132.2 ====== ===== ==== ===== ====
===== ======

RELATED PARTY TRANSACTIONS

Two of the Company's directors are prior owners of previously unrelated businesses that Carriage acquired in 1997. As an incentive, the Company entered into arrangements with the directors to pay them 10% of the amount by which the annual field level cash flow exceeds predetermined targets on certain businesses in their respective geographic region through 2008, with a final payment equal to a multiple of six times the average of the last three years payments. The business purpose of the arrangements was to incentivise the directors to provide Carriage with high quality acquisition targets and to participate in the management of those businesses post-acquisition so that cash flows grow over time. The terms were determined by reference to similar arrangements within the death care industry. The incentives earned by the two directors totaled $92,000, $117,000 and $136,000 for the years 1999, 2000 and 2001, respectively.

In connection with the 1997 acquisition of two funeral homes from a group of individuals, one of which is one of the directors referred to in the preceding paragraph, a portion of the purchase price of each of those funeral homes was to be payable based on a formula related to the annual field level cash flows subsequent to the year of acquisition. The business purpose was to determine the final purchase prices of the acquisitions since both were expected to show strong growth in cash flow. The terms were negotiated by the sellers, one of which later was appointed to director of Carriage. The contingent purchase price payments paid to the director totaled $524,107 and $47,673 during the years 2000 and 2001, respectively. The final contingent purchase price payment totals $1,040,442, of which $572,107 is payable to the director in March 2002.

The Company rents office space, at an annual rate of $19,000 per year through 2005, from an entity in which one of the Company's directors has a financial interest. The terms were determined by reference to rentals of similar office space in the area.

ACCOUNTING CHANGES

(A) PRENEED REVENUES AND COSTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101--"Revenue Recognition in Financial Statements" (SAB 101). This SAB deals with various revenue recognition issues; certain ones of which are pertinent to the death care industry. As a result,

we have changed our method of recognizing preneed revenues and certain related costs of originating preneed cemetery contracts. SAB 101 was effective as of the beginning of 2000, but because of extensions to allow for implementation, we implemented the changes beginning with the fourth quarter of 2000 and restated quarters 1 through 3 in our annual report on Form 10-K for the year ended December 31, 2000.

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

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

The Company recorded a non-cash charge of approximately $39.0 million, after reduction for income taxes of approximately $21 million, or $2.43 per share, to reflect the cumulative effect of the change in accounting principle as of the beginning of 2000. The effect of this change on the nine months ended September 30, 2000, before the cumulative effect of the accounting change, was to decrease net income $3.3 million, or $.21 per diluted share. The revenue not recognized is included in the accompanying consolidated balance sheet in the caption "Deferred revenue and preneed liabilities".

(B) DERIVATIVE FINANCIAL INSTRUMENTS

The Financial Accounting Standards Board (FASB) has issued Statement of

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

The Company recorded a non-cash benefit of $1,000, net of related income tax benefit, in the consolidated statement of comprehensive income to reflect the cumulative effect of the change in accounting principle as of the beginning of 2001.

The Company recorded non-cash charges of approximately $1.1 million, excluding the related income tax benefit, in the consolidated statement of comprehensive income and $180,000, before related tax benefit, in the consolidated statements of operations to record the changes in the liability for the interest rate swaps during the year ended December 31, 2001.

(C) GOODWILL AND OTHER INTANGIBLE ASSETS

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 Goodwill. Such

amounts are amortized over 40 years using the straight-line method. Many of our 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. Carriage reviews the carrying value of Goodwill at least quarterly on a location-by-location basis to determine, if facts and circumstances exist which would suggest that this intangible asset might be impaired or that the amortization period needs to be modified. If indicators are present which indicate impairment may be present, we have prepared a projection of the undiscounted cash flows of the location to determine if the intangible assets, as well as the investment in other long-lived assets, are recoverable based on these undiscounted cash flows. If impairment was indicated, then an adjustment was made to reduce the carrying amount of Goodwill and other long-lived assets to their fair value. During the year ended December 31, 2000, approximately $61.6 million of impairments were recorded against Goodwill (see Note 7).

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. The provisions also apply to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later.

The provisions of SFAS No. 142 are required to be applied starting with fiscal years beginning after December 15, 2001. Goodwill and intangible assets acquired after June 30, 2001, were subject immediately to the amortization provisions of this Statement. We adopted SFAS No. 142 on January 1, 2002.

The effect of SFAS No. 142 on the Company will be the elimination of the amortization of goodwill, which is currently being amortized over 40 years, and the testing for impairments of goodwill on an annual basis. The Company estimates that the proforma earnings, excluding goodwill amortization, for 2001 would have been earnings of $0.71 per diluted share, compared to a proforma loss of $0.35 per diluted share for 2000. While we have not yet completed our review of goodwill, we have no reason to believe that any impairment will be required, primarily because of the extensive review and related impairment charges recorded in 2000 as part of Fresh Start.

(D) IMPAIRMENT OF LONG-LIVED ASSETS

In August 2001 the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting of long-lived assets, other than goodwill, that are to be disposed by sale or otherwise, and is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company believes that the implementation of SFAS No. 144 will not have a material effect on the Company's financial position or results of operations.

SEASONALITY

Although the death care business is relatively stable and fairly predictable, our business can be affected by seasonal fluctuations in the death rate. Generally, death rates are higher during the winter months.

INFLATION

Inflation has not had a significant impact on the results of Carriage's operations during the last three years.

ITEM 7A. QUANTITATIVE AND QUALITATIVE MARKET RISK DISCLOSURE

Carriage is exposed to market risk primarily related to potential adverse changes in interest rates as discussed below. Management is actively involved in monitoring exposure to market risk and developing and utilizing appropriate risk management techniques. We are not exposed to any other significant market risks including commodity price risk, nor foreign currency exchange risk.

Carriage is currently exposed to market risk from changes in interest rates. Our variable rate long-term borrowings primarily consist of the $32 million outstanding under our $100 million floating rate line of credit maturing in 2004. Any change in the floating rate will cause a change in interest expense. We seek to minimize the risk that interest rates will increase by entering into interest rate swap transactions. As of December 31, 2001, we were engaged in two interest rate swaps in which we exchange the floating rate payments for fixed rate payments at 90-day intervals. The interest rate swaps have a combined notional amount of $30 million, mature in 2003, and have a weighted average fixed rate of 5.5475% and a fair value of ($1,238) at December 31, 2001. The fair value of the swaps are recorded as a liability in the balance sheet at December 31, 2001. Any decrease in market interest rates, assuming all other things being equal, causes the fair value of our interest rate swaps to decrease. The remainder of Carriage's long-term debt and leases consist of non-interest bearing notes and fixed rate instruments. Any increase in market interest rates causes the fair value of those liabilities to decrease.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data 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 2002 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 2002 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 2002 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 2002 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:

(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:

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 Carriage Services, Inc. and payment of a reasonable fee.

EXHIBIT NO. DESCRIPTION - ------------- -------- ---- ------------- ------------- ------------- ------------- ---- 3.1 Amended and Restated Certificate of Incorporation, as amended, of the Company. Incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996.

EXHIBIT NO. DESCRIPTION - ---------- ---------- ------------ ------------ ------------ ------------ ------------ 3.2 Certificate of Amendment dated May 7, 1997. Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997.

3.3 Certificate of Decrease, reducing the authorized Series D Preferred Stock. Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997.

3.4 Certificate of Decrease, reducing the authorized Series F Preferred Stock. Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997.

3.5 Certificate of Elimination of the Series F Preferred Stock. Incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended June 30, 1999.

3.6 Certificate of Designation of the Company's Series G Junior Participating Preferred Stock. Incorporated by reference to Exhibit C to the Rights Agreement with American Stock Transfer & Trust Company dated December 18, 2000, which is attached as Exhibit 1 to the

Company's Form 8-A filed December 29, 2000. *3.7 Certificate of Elimination of the Series D Preferred Stock. 3.8 Amended and Restated Bylaws of the Company. Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (File No. 333-05545). 3.9 Amendments to the Bylaws of the Company effective December 18, 2000. 4.1 Certificate of Trust of Carriage Services Capital Trust. Incorporated by reference to Exhibit 4.6 to the Company's Form S-3 Registration Statement No. 333-84141. 4.2 Amended and Restated Declaration of Trust of Carriage Services Capital Trust, dated June 3, 1999 among the Company, Wilmington Trust Company, Wilmington Trust Company, and Mark W. Duffey, Thomas C. Livengood and Terry E. Sanford. Incorporated by reference to Exhibit 4.7 to the Company's Form S-3 Registration Statement No. 333-84141. 4.3 Indenture for the Convertible Junior Subordinated Debentures due 2029 dated June 3, 1999 between the Company and

Wilmington Trust Company. Incorporated by reference to Exhibit 4.8 to the Company's Form S-3 Registration Statement No. 333-84141. 4.4 Form of Carriage Services Capital Trust 7% Convertible Preferred Securities. Incorporated by reference to Exhibit 4.10 to the Company's Form S-3 Registration Statement No. 333-84141. 4.5 Form of the Company's Convertible Junior Subordinated Debentures due 2029. Incorporated by reference to Exhibit 4.11 to the Company's Form S-3 Registration Statement No. 333-84141. 4.6 Preferred Securities Guarantee dated June 3, 1999 between the Company and Wilmington Trust Company. Incorporated by reference to Exhibit 4.12 to the Company's Form S-3 Registration Statement No. 333-84141. 4.7 Common Securities Guarantee, dated June 3, 1999 by Carriage Services, Inc. as Guarantor. Incorporated by reference to Exhibit 4.13 to the Company's Form S-3 Registration Statement No. 333-84141. 4.8 Amendment No. 1 to Amended and Restated Declaration of Trust of Carriage

Services Capital Trust. Incorporated by reference to Exhibit 4.14 to the Company's Form S-3 Registration Statement No. 333-84141. 4.9 Rights Agreement with American Stock Transfer & Trust Company dated December 18, 2000. Incorporated by reference to Exhibit 1 to the Company's Form 8-A filed December 29, 2000.

EXHIBIT NO. DESCRIPTION
- ---------

- ---------

10.1 Credit Agreement among the Company, Bank of America, N.A. and the other lenders named therein dated June 14, 1999. Incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended June 30, 1999. 10.2 Registration Rights Agreement, dated June 3, 1999, by and among Carriage Services Capital Trust, Carriage Services, Inc. and Credit Suisse First Boston Corporation.

(10.1) 10.3 Amendment No. 1 to Credit Agreement among the Company, Bank of America, N.A. and the other lenders named therein dated July 1, 1999. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended September 30, 1999.

10.4 Amendment No. 2 to Credit Agreement among the Company, Bank of America, N.A. and the other lenders named therein dated September 20, 1999. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended September 30, 1999.

10.5 Amendment No. 3 to Credit Agreement among the Company, Bank of America, N.A. and the other lenders named therein dated September 15, 2000. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended September 30, 2000.

10.6 Note Purchase

Agreement dated July 1, 1999, for Senior Notes Issuable in Series. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended September 30, 1999.

10.7 Amendment No. 1 to Note Purchase Agreement dated November 6, 2000. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its quarter ended September 30, 2000.

10.8 Amended and Restated 1995 Stock Incentive Plan. Incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996.

10.9 Amendment No. 2 to 1995 Stock Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Company's Form S-8 Registration Statement No. 333-85961.

10.10 Amended and Restated 1996 Stock Option Plan. Incorporated herein by reference to Exhibit 10.24 to the

Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996.

10.11 Amendment No. 2 to 1996 Stock Option Plan. Incorporated by reference to Exhibit 10.2 to the Company's Form S-8 Registration Statement No. 333-85961.

10.12 Amended and Restated 1996 Directors' Stock Option Plan. Incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996.

10.13 Amendment No. 1 to 1996 Directors' Stock Option Plan. Incorporated by reference to Exhibit 10.3 to the Company's Form S-8 Registration Statement No. 333-85961.

10.14 Amendment No. 2 to 1996 Directors' Stock Option Plan. Incorporated by reference to Exhibit 10.4 to the Company's Form S-8 Registration Statement No. 333-85961.

10.15 1998 Stock Option Plan for Consultants. Incorporated by reference to Exhibit 10.1 to the Company's Form S-8 Registration Statement No. 333-62593.

10.16 Employment Agreement with Melvin C. Payne, dated November 8, 1999. Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1999.

EXHIBIT NO. DESCRIPTION - ------------- -------- ---- ------------- ------------- ------------- ------------- ----

10.17 Employment Agreement with Thomas C. Livengood, dated November 8, 1999. Incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1999.

10.18 Indemnity Agreement with Melvin C. Payne dated December 18, 2000. Incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000.

10.19 Indemnity Agreement with Thomas C. Livengood dated December 18, 2000. Incorporated by reference to Exhibit

10.22 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. 10.20 Indemnity Agreement with Jay D. Dodds dated December 18, 2000. Incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. 10.21 Indemnity Agreement with Mark F. Wilson dated December 18, 2000. Incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. 10.22 Indemnity Agreement with Greg M. Brudnicki dated December 18, 2000. Incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. 10.23 Indemnity Agreement with Stuart W. Stedman dated December 18, 2000. Incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. 10.24 Indemnity Agreement with Ronald A. Erickson dated December 18, 2000. Incorporated by reference to Exhibit 10.27 to the

Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. 10.25 Indemnity Agreement with Vincent D. Foster dated December 18, 2000. Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. 10.26 Employment Agreement with Mark F. Wilson dated January 1, 2001. Incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. 10.27 Employment Agreement with Greg M. Brudnicki dated January 1, 2001. Incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. 10.28 Employment Agreement with Jay D. Dodds dated November 8, 1999. Incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000. *10.29 Employment Agreement with James J. Benard dated January 1, 2001. *10.30 Employment Agreement with Mark Groeneman dated January 1, 2000. *11.1

Statement regarding computation of per share earnings. *12 Calculation of Ratio of Earnings to Fixed Charges. *21.1 Subsidiaries of the Company. *23.1 Consent of Arthur Andersen LLP. *99 Representation of Arthur Andersen, LLP

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(*) Filed herewith.

(b) REPORTS ON FORM 8-K

None

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED ON MARCH 28, 2002.

CARRIAGE SERVICES, INC.

By: /s/ MELVIN C. PAYNE

Melvin C. Payne
CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICER, AND PRESIDENT

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
--------- ----- ----
Chairman of the Board, Chief /s/ MELVIN C. PAYNE Executive Officer, President ------------------------------------ and Director (Principal March 28, 2002 Melvin C. Payne Executive Officer) Executive Vice President, Chief /s/ THOMAS C. LIVENGOOD Financial Officer and -------------------------------------- Secretary

(Principal
March 28,
2002
Thomas C.
Livengood
Financial
and
Accounting
Officer)
/s/ MARK
F. WILSON

Director
March 28,
2002 Mark
F. Wilson
/s/ GREG
M.
BRUDNICKI

Director
March 28,
2002 Greg
M.
Brudnicki
/s/
VINCENT D.
FOSTER ---

Director
March 28,
2002
Vincent D.
Foster /s/
STUART W.
STEDMAN --

Director
March 28,
2002
Stuart W.
Stedman
/s/ RONALD
A.
ERICKSON -

Director
March 28,
2002
Ronald A.
Erickson

CARRIAGE SERVICES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2000 and 2001 and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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, 2000 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

As explained in Note 2 to the consolidated financial statements, the Company changed, effective January 1, 2000, its method of accounting for revenue and costs related to sales of cemetery interment rights, together with the associated merchandise and services, and the related trust earnings, as well as the balance sheet presentation of preneed funeral contracts to conform to the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements".

ARTHUR ANDERSEN LLP

Houston, Texas
March 10, 2002

CARRIAGE SERVICES, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

DECEMBER 31,	2000	2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,210	$ 2,744
Accounts receivable- Trade, net of allowance for doubtful accounts of $4,572 in 2000 and $3,515 in 2001	18,019	15,660
Other	742	773
	18,761	16,433
Assets held for sale, net	10,018	2,287
Inventories and other current assets	9,152	6,983
Total current assets	41,141	28,447
Property, plant and equipment, at cost net of accumulated depreciation of $19,156 in 2000 and $24,176 in 2001	119,252	114,217
Cemetery property, at cost	61,529	61,630
Goodwill, net of accumulated amortization of $18,211 in 2000 and $22,592 in 2001	166,585	160,576
Deferred charges and other non-current assets	58,506	49,159
Preneed funeral contracts	231,874	219,975
Preneed cemetery merchandise and service trust funds	30,164	38,108
Total assets	$709,051	$ 672,112
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 24,013	$ 26,551
Current portion of long-term debt and obligations under capital leases	3,236	2,488
Total current liabilities	27,249	29,039
Deferred cemetery revenue and preneed liabilities	89,894	89,969
Deferred preneed funeral contracts revenue	241,603	227,658
Long-term debt, net of current portion	176,662	148,508
Obligations under capital leases, net of current portion	5,306	5,093
Total liabilities	540,714	500,267
Commitments and contingencies		
Minority interest in consolidated		

subsidiary................ -- 209 Redeemable preferred
stock.................................. 1,172 --
Company-obligated mandatorily redeemable convertible
preferred securities of Carriage Services Capital
Trust... 89,928 90,058 Stockholders' equity: Class A
Common Stock, $.01 par value; 40,000,000 shares
authorized; 14,302,000 and 16,811,000 issued and
outstanding in 2000 and 2001,
respectively............. 143 168 Class B Common
Stock; $.01 par value; 10,000,000 shares authorized;
1,845,000 issued and outstanding in 2000.... 18 --
Contributed
capital....................................... 193,234
189,449 Accumulated
deficit......................................
(116,158) (107,193) Unrealized loss on interest rate
swaps, net of tax
benefit..
-- (846) -------- --------- Total stockholders'
equity........................... 77,237 81,578 ------
-- --------- Total liabilities and stockholders'
equity.......... $709,051 $ 672,112 ======== =========

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

CARRIAGE SERVICES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

FOR THE YEARS ENDED DECEMBER 31, ------------------------
---------- 1999 2000 2001 --------- ---------- ---------
Revenues, net
Funeral...
$125,264 $ 127,261 $124,284
Cemetery..
43,203 35,345 38,209 -------- --------- -------- 168,467
162,606 162,493 Costs and expenses
Funeral...
89,725 100,370 92,813
Cemetery..
32,258 30,060 29,385 -------- --------- -------- 121,983
130,430 122,198 -------- --------- -------- Gross
profit...
46,484 32,176 40,295 General and administrative
expenses........................ 9,265 10,256 8,698
Special and other
charges................................. 2,500 102,250
-- -------- --------- -------- Operating income
(loss).................................. 34,719 (80,330)
31,597 Interest expense,
net..................................... (13,566)
(14,052) (13,579) Financing costs of company-obligated
mandatorily redeemable convertible preferred securities
of Carriage Services Capital
Trust..
(3,792) (6,653) (6,765) Settlement of
litigation.................................. 2,000 -- -
- -------- --------- -------- Income (loss) before income
taxes, extraordinary item and cumulative effect of the
change in accounting principle... 19,361 (101,035) 11,253
Provision (benefit) for income
taxes....................... 8,474 (8,032) 2,251 -------
- --------- -------- Net income (loss) before
extraordinary item and cumulative effect of the change in
accounting principle............. 10,887 (93,003) 9,002
Extraordinary item--loss on early extinguishment of debt,
net of income tax benefit of
$151........................ (200) -- -- Cumulative
effect on prior years of the change in accounting
principle, net of income tax benefit of
$20,755........... -- (38,993) -- -------- --------- ----
---- Net income
(loss)....................................... 10,687
(131,996) 9,002 Preferred stock dividend
requirements...................... 93 81 37 -------- ---
------ -------- Net income (loss) available to common
stockholders........ $ 10,594 $(132,077) $ 8,965 ========
========= ======== Basic earnings (loss) per share: Net
income (loss) before extraordinary item and cumulative
effect of the change in accounting principle...........
$ .68 $ (5.80) $ .54 Extraordinary
item...................................... (.01) -- --
Cumulative effect of the change in accounting principle,
net..
-- (2.43) -- -------- --------- -------- Net income
(loss)....................................... $ .67 $
(8.23) $ .54 ======== ========= ======== Diluted earnings
(loss) per share: Net income (loss) before extraordinary

item and cumulative effect of the change in accounting principle............ $ .67 $ (5.80) $ .51 Extraordinary item....................................... (.01) -- -- Cumulative effect of the change in accounting principle, net.. -- (2.43) -- -------- --------- -------- Net income (loss)... $ .66 $ (8.23) $ .51 ======== ========= ======== Pro forma amounts assuming the change in accounting principle is applied retroactively: Income (loss) before extraordinary item................... $ 6,078 $ (93,003) $ 9,002 Basic earnings (loss) per share......................... $ .38 $ (5.80) $ .54 Diluted earnings (loss) per share....................... $ .37 $ (5.80) $ .51 Net income (loss)... $ 5,878 $(131,996) $ 9,002 Basic earnings (loss) per share......................... $ .36 $ (8.23) $ .54 Diluted earnings (loss) per share....................... $ .36 $ (8.23) $ .51

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

CARRIAGE SERVICES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31, ---------------------- --------- 1999 2000 2001 -------- --------- -------- Net income (loss).. $10,687 $(131,996) $ 9,002 Other comprehensive loss: Cumulative effect on prior years of the change in accounting principle, net of income tax benefit of $1... -- -- 1 Unrealized losses on interest rate swaps arising during period.. -- -- (1,059) Related income tax benefit................................ -- -- 212 ----- -- --------- ------- Total other comprehensive loss............................. -- -- (846) ------- --------- ------- Comprehensive income (loss)............................... $10,687 $(131,996) $ 8,156 ======= ========= =======

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

CARRIAGE SERVICES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(IN THOUSANDS)

RETAINED COMMON CONTRIBUTED EARNINGS COMPREHENSIVE SHARES STOCK CAPITAL (DEFICIT) INCOME (LOSS) TOTAL ------- - -------- ----------- --------- ---- --------- -------- BALANCE--DECEMBER 31, 1998............ 15,807 $158 $194,911 $ 5,325 -- $200,394 Net income--1999...................... -- -- -- 10,687 -- 10,687 Issuance of common stock............. 85 1 193 - - -- 194 Conversion of redeemable preferred stock to common stock............... 35 -- 500 -- -- 500 Exercise of stock options............ 15 -- 780 -- -- 780 Preferred stock dividends............ -- -- -- (93) -- (93) Other................................ -- -- (453) -- -- (453) ------ ---- - ------- --------- ----- -------- BALANCE--DECEMBER 31, 1999........... 15,942 159 195,931 15,919 -- 212,009 Net loss- -2000....................... -- -- - - (131,996) -- (131,996) Issuance of common stock............. 250 2 669 -- -- 671 Purchase and retirement of treasury stock.............................. (46) -- (69) -- -- (69) Payment of contingent stock price

guarantees..........................
-- -- (3,297) -- -- (3,297) Preferred
stock dividends............. -- -- --
(81) -- (81) ------ ---- -------- ---
------ ----- -------- BALANCE--
DECEMBER 31, 2000............ 16,146
161 193,234 (116,158) -- 77,237 Net
income--2001..................... --
-- -- 9,002 -- 9,002 Issuance of
common stock............. 563 6 690
-- -- 696 Exercise of stock
options............ 102 1 460 -- --
461 Payment of contingent stock price
guarantees..........................
-- -- (4,935) -- -- (4,935)
Unrealized loss on interest rate
swaps, net of tax benefit...........
-- -- -- -- $(846) (846) Preferred
stock dividends............. -- -- --
(37) -- (37) ------ ---- -------- ---
------ ----- -------- BALANCE--
DECEMBER 31, 2001............ 16,811
$168 $189,449 $(107,193) $(846) $
81,578 ====== ==== ======== =========
===== ========

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

CARRIAGE SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31, -----------------------
------- 1999 2000 2001 -------- --------- -------- Cash
flows from operating activities: Net income
(loss)....................................... $ 10,687
$(131,996) $ 9,002 Adjustments to reconcile net income
(loss) to net cash provided by operating activities:
Cumulative effect of the change in accounting principle,
net of tax benefit.................................... -
- 38,993 -- Depreciation and
amortization.......................... 16,992 21,407
16,968 Loss on early extinguishment of debt, net of
income
taxes...
200 -- -- Loss on interest rate
swap............................ -- -- 180 Loss(gain)on
sale of business assets................... -- 5,676
(187) Impairment of
assets.................................. -- 86,095 --
Provision for losses on accounts receivable............
3,977 5,737 4,030 Deferred income taxes
(benefit)........................ 7,068 (6,289) 3,787
Settlement of litigation...............................
(2,000) -- -- Changes in assets and liabilities, net of
effects from acquisitions: Increase in accounts
receivable........................ (11,484) (8,960)
(1,992) (Increase) decrease in inventories and other
current
assets...
(4,422) 2,978 1,991 (Increase) decrease in deferred
charges and other....... (1,243) 2 (261) Increase in
Preneed funeral and cemetery costs.......... (7,570)
(10,218) (3,918) Increase in preneed cemetery trust
funds................ -- (15,827) (4,530) Increase
(decrease) in accounts payable and accrued
liabilities..
9,661 3,440 (4,933) Income tax (payments) refunds,
net...................... (8,006) 4,724 4,541 Increase
(decrease) in deferred revenue and preneed
liabilities..
(4,475) 21,164 3,071 -------- --------- -------- Net cash
provided by operating activities............ 9,385
16,926 27,749 Cash flows from investing activities:
Purchase of note
receivable............................. -- (566) --
Acquisitions, net of cash
acquired....................... (41,715) (1,983) (212)
Proceeds from sale of business
assets.................... -- 4,846 11,878 Sale of
minority interest in subsidiary.................. -- --
200 Capital
expenditures.....................................
(17,426) (10,547) (5,046) -------- --------- -------- Net
cash provided by (used in) investing activities...
(59,141) (8,250) 6,820 Cash flows from financing
activities: Net payments under bank lines of
credit.................. (142,250) (1,125) (17,000)

Proceeds from other long-term debt........................ 142,058 38,199 -- Payments on long-term debt and obligations under capital leases.. (39,073) (39,587) (13,760) Proceeds from sale of interest rate swap................. -- 650 -- Payment of contingent stock price guarantees............. -- (3,297) (4,935) Proceeds from issuance of common stock................... 194 671 236 Payment of debt modification fees........................ (2,089) (3,275) -- Proceeds from issuance of company-obligated mandatorily redeemable convertible preferred securities............ 89,854 -- -- Payment of preferred stock dividends..................... (93) (81) (37) Exercise of stock options................................ 780 -- 461 Purchase and retirement of treasury stock................ -- (69) -- Other.. -- (69) -- -------- --------- -------- Net cash provided by (used in) financing activities... 49,381 (7,983) (35,035) Net increase (decrease) in cash and cash equivalents........ (375) 693 (466) Cash and cash equivalents at beginning of year............. 2,892 2,517 3,210 -------- --------- -------- Cash and cash equivalents at end of year................... $ 2,517 $ 3,210 $ 2,744 ======== ========= ======== Supplemental disclosure of cash flow information: Cash paid for interest.................................. $ 15,996 $ 20,331 $ 18,388 ======== ========= ======== Cash paid for income taxes.............................. $ 8,002 $ 678 $ 473 ======== ========= ======== Non-cash consideration for acquisitions.................. $ 2,774 $ 2,650 $ -- ======== ========= ======== Stock issued to officers for their bonuses................ $ -- $ -- $ 438 ======== ========= ========

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

Carriage Services, Inc. ("Carriage" or the "Company") was founded in 1991 and incorporated 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. Preneed funerals and preneed cemetery property are marketed in the geographic markets served by Carriage'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. Certain prior year amounts in the consolidated financial statements have been reclassified to conform to current year presentation.

The accounting policies and procedures reflected herein have been consistently followed during the periods presented, except for the change in accounting principle discussed in Note 2. The discussion included in the summary of significant accounting policies reflects the Company's current policies and principles for year 2000 and 2001 as a result of the Company's application of the Securities and Exchange Commission Staff Accounting Bulletin No. 101--"Revenue Recognition in Financial Statements" (SAB 101), which was adopted effective January 1, 2000. Prior periods presented are not required to be restated for such change in accounting principle. See Note 2 for a discussion of the accounting principle change and its cumulative effect as of January 1, 2000, and our discussion of the nature of the accounting principle change compared to principles applied in years prior to 2000.

FUNERAL AND CEMETERY OPERATIONS

The Company records the sales of funeral merchandise and services upon performance of the funeral service. Sales of cemetery interment rights are recorded as revenue in accordance with the retail land sales provisions of Statement of Financial Accounting Standards (SFAS) No 66, "Accounting for Sales of Real Estate." This method provides for the recognition of revenue in the period in which the customer's cumulative payments exceed 10% of the contract price related to the real estate. Costs related to the sales of interment rights, which include property and other costs related to cemetery development activities, are charged to operations using the specific identification method in the period in which the sale of the interment right is recognized as revenue. Revenue from the sales of cemetery merchandise and services are recognized in the period in which the merchandise is delivered or the service is performed. Allowances for customer cancellations, refunds and bad debts are provided at the date of sale based on the historical experience of Carriage. In addition, the

Company monitors changes in delinquency rates and provides additional bad debt and cancellation reserves when warranted. When preneed funeral services and merchandise are funded through third-party insurance policies, the Company earns a commission on the sale of the policies. Insurance commissions are recognized as revenues at the point at which the commission is no longer subject to refund. Accounts receivable-Trade, net consists of approximately $12.9 million and $8.6 million of funeral receivables and approximately $5.1 million and $7.0 million of current cemetery receivables at December 31, 2000 and 2001, respectively. Non-current cemetery receivables, those payable after one year, are included in Deferred charges and other non-current assets on the consolidated balance sheets. The non-current cemetery accounts receivable balances, net of amounts in assets held for sale, were approximately $20.4 million and $16.6 million at December 31, 2000 and 2001, respectively (see Note 4).

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PRENEED FUNERAL CONTRACTS

Preneed funeral sales are affected by deposits to a trust or purchase of a third-party insurance product. Pursuant to SAB 101 implementation, unperformed guaranteed preneed funeral contracts are included in the consolidated balance sheets as Preneed funeral contracts. The balance in this asset account represents amounts due from customer receivables and third-party insurance companies, and the amounts deposited with the trustee and the accumulated earnings on these deposits. A corresponding credit is recorded to Deferred preneed funeral contracts revenue. The funeral revenue is not recorded until the service is performed. 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 insurance products totaled approximately $150.9 million and $146.0 million and the preneed funeral trust assets were approximately $91.4 million and $89.9 million at December 31, 2000 and 2001, respectively, which in the opinion of management, exceeds the estimated future cost to perform services and provide products under such arrangements. The types of instruments in which the trusts may invest are regulated by state agencies.

The components of preneed funeral contracts in the consolidated balance sheet at December 31 are as follows (in thousands):

	2000	2001
Receivables from customers	$ 27,649	$ 24,576
Due from insurance companies	150,959	146,074
Preneed funeral trust funds	91,350	89,902
Less: allowance for cancellation	(15,000)	(26,670)
Less: amounts included in Assets held for sale, net	(23,084)	(13,907)
	$231,874	$219,975

The following summary reflects the composition of the assets held in trust to satisfy Carriage's future obligations under preneed funeral arrangements. The cost basis includes interest and dividends

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

that have been earned on the trust assets. Fair value includes unrealized gains and losses on trust assets.

	HISTORICAL COST BASIS	FAIR VALUE
	(IN THOUSANDS)	
As of December 31, 2000:		
Cash and cash equivalents	$37,819	$37,819
Fixed income investment contracts	21,088	21,088
Mutual funds and stocks	15,081	15,256
Annuities	17,362	17,362
Total	$91,350	$91,525
As of December 31, 2001:		
Cash and cash equivalents	$19,235	$19,235
Fixed income investment contracts	33,032	33,032
Mutual funds and stocks	17,403	16,873
Annuities	20,232	20,232
Total	$89,902	$89,372

DEFERRED PRENEED FUNERAL CONTRACTS REVENUE

Deferred preneed funeral contracts revenue represents the original contract price, trust earnings and increasing insurance benefits on unperformed guaranteed preneed funeral contracts. The amount of unperformed preneed funeral contracts to be funded by trust or third-party insurance companies are included in Deferred preneed funeral contracts revenue in the consolidated balance sheets.

PRENEED CEMETERY MERCHANDISE AND SERVICE TRUST FUNDS

Carriage 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 us upon maturity (generally, the death of the purchaser) or cancellation of the contracts. Trust fund investment income is recorded to deferred revenue as trust earnings accrue in the trusts, and recognized in current revenues

in the period the service is performed or merchandise delivered. Merchandise and service trust fund balances were comprised of the following at December 31, 2000 and 2001, respectively:

	HISTORICAL COST BASIS	FAIR VALUE
	(IN THOUSANDS)	
As of December 31, 2000:		
Cash and cash equivalents	$ 3,931	$ 3,931
Fixed income investment contracts	21,571	21,571
Mutual funds and stocks	11,641	11,979
Subtotal	37,143	37,481
Less: amounts included in assets held for sale, net	(6,979)	(6,713)
Total	$30,164	$30,768
As of December 31, 2001:		
Cash and cash equivalents	$ 4,927	$ 4,927
Fixed income investment contracts	20,141	20,141
Mutual funds and stocks	17,815	17,465
Subtotal	42,883	42,533
Less: amounts included in assets held for sale, net	(4,775)	(4,556)
Total	$38,108	$37,977

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 Carriage and recognized as revenue when realized by the trust. The perpetual and memorial care trust assets were approximately $29.4 million and $29.9 million at December 31, 2000 and 2001, respectively, which, in the opinion of management, will cover future obligations to provide care and maintenance for our 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 direct related costs of originating preneed sales contracts. These costs are deferred and amortized in funeral and cemetery costs and expenses over the expected timing of the performance of the services or delivery of the merchandise covered by the preneed contracts (see Note 4). Effective October 1, 2001, the Company changed the period over which the costs are recognized to more closely track actuarial statistics, provided by a third party administrator, based on the actual contracts held by Carriage. The effect of this change was to reduce expense in the fourth quarter of 2001 by approximately $0.5 million from that which would have been recorded using the prior methodology.

CASH AND CASH EQUIVALENTS

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

DERIVATIVE FINANCIAL SECURITIES

Carriage enters into interest rate swap agreements to reduce the impact of changes in interest rates on our floating rate debt. The swap agreements are agreements to exchange floating rates for fixed interest payments periodically over the life of the agreements without the exchange of the underlying notional amounts. The differential paid or received is recognized as an adjustment to interest expense. The Company does not hold or issue financial instruments for trading purposes. Prior to 2001 and the effective date of SFAS No. 133, the values of the interest rate swaps were not recorded in the consolidated balance sheets.

The Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting For Derivative Instruments and Hedging Activities", for which the effective date was deferred to years beginning after June 15, 2000 by SFAS No. 137, and amended by SFAS No. 138 to establish accounting and financial reporting standards for certain derivative instruments and certain hedging activities. The key provisions of SFAS No. 133, as amended, are that every derivative will be recognized as an asset or liability at its fair value and that later changes in fair value are generally reported in earnings or other comprehensive income. The Company is currently engaged in interest rate swaps which have a notional amount of $30 million to hedge against rising interest rates on its variable rate long-term debt. The swaps have a fair value of approximately $2,000 and approximately $(1.2) million at December 31, 2000 and December 31, 2001, respectively. The swaps, which were carried off-balance sheet prior to 2001, were recorded as an asset when the Company implemented SFAS 133 January 1, 2001. As interest rates change, the value of the interest rate swaps change. The recorded value of the interest rate swaps is adjusted on the balance sheet through other comprehensive income for swaps that are designated as hedges and through current earnings for swaps that are not designated as hedges.

GOODWILL AND OTHER INTANGIBLE ASSETS

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 goodwill. Such amounts are amortized over 40 years using the straight-line method. Many of the 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. Carriage reviews the carrying value of goodwill at least quarterly on a location-by-location basis to determine, if facts and circumstances exist which would suggest that this intangible asset might be impaired or that the amortization period needs to be modified. If indicators are present which indicate potential impairment Carriage has prepared a projection of the undiscounted cash flows of the location to determine if the intangible assets, as well as the investment in other long-lived assets, are recoverable based on these undiscounted cash flows. If impairment was indicated, then an adjustment was made to reduce the carrying amount of goodwill and other long-lived assets to their fair value. During the year ended December 31, 2000, approximately $61.6 million of impairments were recorded against Goodwill (see Note 7). No impairments were recorded during the year ended December 31, 2001.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition, requires the use of the purchase method of accounting and requires the recognition of acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. The provisions also apply to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later.

The provisions of SFAS No. 142 are required to be applied starting with fiscal years beginning after December 15, 2001. Goodwill and intangible assets acquired after June 30, 2001, were subject immediately to the amortization provisions of this Statement. Carriage adopted SFAS No. 142 on January 1, 2002.

The effect of SFAS No. 142 on the Company includes the elimination of the amortization of goodwill which is currently being amortized over 40 years, the testing for impairments of goodwill on an annual basis and the identification of reporting units for the purpose of assessing potential future impairments of goodwill. While the Company has not yet completed the review of goodwill, the Company has no reason to believe that any impairment will be required, primarily because of the extensive review and related impairment charges recorded in 2000 as part of Fresh Start.

IMPAIRMENT OF LONG-LIVED ASSETS

In August 2001 the Financial Accounting Standards Board issued SFAS

No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting of long-lived assets, other than goodwill, that are to be disposed by sale or otherwise, and is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company believes that the implementation of SFAS No. 144 will not have a material effect on the Company's financial position or results of operations.

INVENTORY

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

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 approximately $770,000 and $298,000 in 2000 and 2001, respectively. Depreciation of

property, plant and equipment is computed based on the straight-line method over the following estimated useful lives of the assets:

Property, plant and equipment was comprised of the following at December 31, 2000 and 2001:

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

	2000	2001
	(IN THOUSANDS)	
Property, plant and equipment, at cost:		
Land	$ 32,849	$ 28,494
Buildings and improvements	102,900	91,444
Furniture and equipment	30,200	31,426
	165,949	151,364
Less: accumulated depreciation before assets held for sale adjustment	(22,937)	(25,837)
	143,012	125,527
Less: amounts included in assets held for sale, net	(23,760)	(11,310)
	$119,252	$114,217

During 1999, 2000 and 2001, the Company recorded $6,111,000, $7,142,000 and $6,335,000, respectively, in depreciation expense in the accompanying consolidated statements of operations.

INCOME TAXES

Carriage Services, Inc. and its subsidiaries file a consolidated U.S. federal income tax return. Carriage records deferred taxes for temporary differences between the tax basis and financial reporting basis of assets and liabilities, in accordance with SFAS 109, "Accounting for Income Taxes", (see note 9).

COMPUTATION OF EARNINGS PER COMMON SHARE

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options and convertible preferred stock (see Note 13).

FAIR VALUE OF FINANCIAL INSTRUMENTS

Carriage believes that the carrying value approximates fair value for cash and cash equivalents. Additionally, our floating rate credit facility approximates its fair value. Management also believes that the carrying value of our fixed rate debt approximates fair value. Management estimates that the fair

value of the company-obligated mandatorily redeemable convertible preferred securities of Carriage Services Capital Trust at December 31, 2000 and 2001 is approximately $38 million and $54 million, respectively, based on available broker quotes.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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. 2000 ACCOUNTING PRINCIPLE CHANGE

PRENEED REVENUES AND COSTS

In December 1999, the Securities and Exchange Commission issued SAB 101. This SAB deals with various revenue recognition issues; certain ones of which are pertinent to the death care industry. As a result, Carriage has changed our method of recognizing preneed revenues and certain related costs of originating preneed cemetery contracts. SAB 101 was effective as of the beginning of 2000, but because of extensions to allow for implementation, the Company implemented the changes beginning with the fourth quarter of 2000 and restated quarters 1 through 3 in Note 15, QUARTERLY FINANCIAL DATA. Fiscal years prior to 2000 were not required to be restated.

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

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

The Company recorded a non-cash charge of approximately $39.0 million, after reduction for income taxes of approximately $20.8 million, or $2.43 per share, to reflect the cumulative effect of the change in accounting principle as of the beginning of the year. The effect of this change on the year ended December 31, 2000, before the cumulative effect of the accounting change was to decrease net income $4.7 million, or $.29 per diluted share. If the new accounting principle had been in effect in 1999 and 1998, net income would have been $5.9 million, or $.36 per diluted share, and $6.7 million, $.44 per diluted share, respectively. The revenue not recognized is included in the consolidated balance sheet in the caption "deferred cemetery revenue and preneed liabilities".

2. 2000 ACCOUNTING PRINCIPLE CHANGE (CONTINUED)

The amount of the preneed funeral contracts receivable, the amount of the funds deposited in trust and the amount of life insurance contracts are recognized on the balance sheet as preneed funeral contracts and deferred preneed funeral contracts revenue. Prior to the implementation of the SAB, these preneed funeral accounts were maintained off-balance sheet. Previously, cemetery trust funds were netted against preneed liabilities on the balance sheet. The amount of these trusts, beginning January 1, 2000 are included in the non-current asset section of the consolidated balance sheet.

3. ASSETS HELD FOR SALE

During the latter half of 2000, management identified certain businesses and other assets to be sold as part of the Company's Fresh Start initiative (a multi-element restructuring program which was intended to improve financial and operating performance). The carrying value of the net assets of those businesses and other assets has been reduced to management's estimate of fair value less estimated costs to sell by providing a charge for impairment in the amount of $29.3 million. In estimating fair value, management considered, among other things, the range of preliminary prices being discussed with potential buyers. At December 31, 2000, assets held for sale, net represented the net assets of 26 funeral homes, 13 cemeteries and 14 parcels of real estate. During 2001 the Company sold or closed 16 funeral homes, eight cemeteries and four parcels of real estate for $11.9 million. At December 31, 2001, assets held for sale, net represents 10 funeral homes, five cemeteries and 10 parcels of real estate. A summary of the net assets included in the category is as follows:

	2000	2001
	(IN THOUSANDS)	
Accounts receivable, net................................	$ 3,630	$ 918
Inventories and other current assets....................	682	243
Property, plant and equipment, net......................	23,760	11,310
Cemetery property......................................	4,470	

		2,731
Goodwill, net	15,275	6,614
Preneed cemetery and funeral trust funds and other assets	35,280	23,061
Total assets	83,097	44,877
Current liabilities	8,087	1,424
Deferred cemetery and funeral revenue	33,412	23,446
Long-term debt and capital leases	2,303	950
Total liabilities	43,802	25,820
Net assets held for sale	39,295	19,057
Allowance for impairment	(29,277)	(16,770)
Assets held for sale, net	$ 10,018	$ 2,287

The operating results of the businesses held for sale included in the consolidated statement of operations for each of the three years in the period ended December 31, 2001 were as follows:

	1999	2000	2001
	(IN THOUSANDS)		
Funeral revenues, net	$10,168	$9,029	$7,225
Cemetery revenues, net	$ 6,019	$3,598	$3,659
Net income before income taxes	$ 2,424	$ 702	$2,327

4. DEFERRED CHARGES AND OTHER NON-CURRENT ASSETS

Deferred charges and other non-current assets, net of amounts included in assets held for sales at December 31, 2000 and 2001 were as follows:

	2000	2001
	(IN THOUSANDS)	
Agreements not to compete, net of accumulated amortization of $2,532 and $2,716, respectively	$ 2,325	$ 1,916
Non-current cemetery accounts receivable	20,383	16,561
Deferred obtaining costs, net of accumulated amortization of $3,324 and $6,736, respectively	26,312	25,749
Other	9,486	4,933
	$58,506	$49,159

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 ten years. Deferred debt expense (included in "other" above) is being amortized over the term of the related debt. Non-current cemetery receivables result from the multi-year payment terms in the underlying contracts.

5. LONG-TERM DEBT AND RELATED DERIVATIVES

LONG-TERM DEBT

Carriage's long-term debt consisted of the following at December 31:

	2000	2001
	(IN THOUSANDS)	
Credit Facility, unsecured floating rate $100 million line, interest is due on a quarterly basis for prime borrowings and on the maturity dates of the LIBOR borrowings at the LIBOR rate plus 1.0% to 2.0% (weighted average interest rate including the effect of the interest rate swaps was 8.192% and 7.365% at December 31, 2000 and 2001, respectively), matures in September, 2004	$ 49,000	$ 32,000
Senior Notes	110,000	101,993
Acquisition debt	15,921	12,602
Other	6,112	4,888
Less: current portion	(2,583)	(2,524)
	178,450	148,959
Less: assets held for sale, non-current portion (see Note 3)	(1,788)	(451)
	$176,662	$148,508

On November 6, 2000, modifications to the credit facility and senior notes, which included a reduction in our bank revolving credit facility from $260 million to $100 million, were finalized. The Company decided to reduce its revolving credit capacity because management no longer intended to use our excess credit to make large acquisitions and did not want to continue to pay a commitment fee for availability that was not going to be used. The credit facility contains customary restrictive covenants, including a restriction on the payments of dividends on common stock and requires Carriage to maintain certain financial ratios. The availability under the credit facility totaled $67.8 million at December 31, 2001.

5. LONG-TERM DEBT AND RELATED DERIVATIVES (CONTINUED)

During 1999, Carriage issued $110 million in senior debt notes ("the Senior Notes") and used the proceeds to reduce the amount outstanding under our revolving line of credit. The unsecured notes mature in traunches of $23 million in 2004, $56 million in 2006 and $23 million in 2008 and bear interest at the fixed rates of 7.73%, 7.96% and 8.06%, respectively. The Senior Notes contain restrictive covenants similar to the credit facility (described above) and additionally require that a significant portion of any proceeds from the sales of assets be offered to the note holders as prepayment of the amounts outstanding. During 2001 prepayments were made in the amount of $8.0 million related to proceeds from the sale of assets.

The Company was in compliance with the covenants contained in the credit facility and the Senior Notes as of or during the years ended December 31, 2000 and 2001.

Acquisition debt consists of deferred purchase prices payable to sellers. The deferred purchase price notes bear interest at 0%, discounted at imputed interest rates ranging from 6% to 8%, with maturities from three to 15 years.

The aggregate maturities of long-term debt as of December 31, 2001 and for the next five years are approximately $2,524,000, $2,340,000, $57,569,000, $2,152,000 and $57,756,000, respectively and $29,142,000 thereafter.

In connection with the repayment and refinancing of the credit facility in June 1999, we recognized an extraordinary loss of approximately $200,000, net of income tax benefit of approximately $151,000, for the write-off of the deferred loan costs associated with the early retirement of the debt.

DERIVATIVE FINANCIAL INSTRUMENTS

Carriage entered into interest rate swap agreements during 1998 with financial institutions to manage interest costs. Interest on our debt is primarily floating. To manage the risk that interest rates will rise, the Company agreed to exchange the floating rate payments for fixed rate payments, at 90-day intervals, calculated by reference to agreed-upon notional principal amounts. The following presents information for the interest rate swaps, which are recorded as liabilities in the December 31, 2001 balance sheet (in thousands):

Notional amount	$30,000
Weighted average fixed rate	5.55%
Maturity	2003
Fair value (liability)	$(1,238)

6. COMPANY OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF CARRIAGE SERVICES CAPITAL TRUST

During June 1999, Carriage, through its wholly-owned subsidiary, Carriage Services Capital Trust, completed the sale of 1,875,000 units of 7% convertible preferred securities, resulting in approximately $90 million in net proceeds to the Company. The convertible preferred securities have a liquidation amount of $50 per unit, and are convertible into Carriage's Class A Common Stock at the equivalent conversion price of $20.4375 per share of Class A Common Stock. The securities mature in 2029 and are guaranteed on a subordinated basis by the Company. Distributions are payable quarterly, but may be deferred at our option for up to twenty consecutive quarters.

7. SPECIAL AND OTHER CHARGES

In connection with the Company's Fresh Start initiative in the second half of 2000, decisions were made to sell certain businesses and assets, to evaluate the carrying value of underperforming businesses, and to implement certain organizational changes to downsize or eliminate certain corporate functions, including the termination of 40 employees in corporate development, preneed sales and marketing, and administration. Long-term cash flow forecasts were prepared to determine whether the Company would recover its investment through operations for the underperforming businesses. In those instances in which the investment in a business exceeded the estimated undiscounted future cash flows, the investment was written down, through an impairment charge, to the present value of those future cash flows. Impairment charges totaled $51 million for the underperforming businesses that the Company will continue to operate. An estimate of the fair value less costs to sell was determined for those businesses targeted for sale to determine whether the investment in the business would be recovered through its sale. Where the investment exceeded the net realizable value, impairment charges were recorded totaling approximately $29.3 million (see Note 3). Charges related to this initiative include impairments totaling approximately $61.6 million related to Goodwill, are included in the statement of operations in the caption titled "Special and other charges" and are as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2000
	(IN THOUSANDS)
Impairment charges on businesses held for use	$ 51,000
Impairment charges on businesses and other assets held for sale	29,277
Loss on sale of businesses and other assets held for sale and other asset impairments as a result of Fresh Start	11,614
Employee termination severance costs, office closings and other accruals as a result of Fresh Start	10,359
Total	$102,250

Special and other charges totaling $7.5 million and $4.4 million are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets at December 31, 2000 and 2001, respectively.

8. COMMITMENTS AND CONTINGENCIES

LEASES

Carriage leases certain office facilities, vehicles and equipment under operating leases for terms ranging from one to 15 years. Certain of these leases provide for an annual adjustment. Rent expense was approximately $3,359,000, $4,819,000 and $4,547,000 for 1999, 2000 and 2001, respectively.

Assets acquired under capital leases are included in property, plant and equipment in the accompanying consolidated balance sheets in the amount of $6,445,000 in 1999, $1,075,000 in 2000 and $2,782,000 in 2001, net of accumulated depreciation. Related obligations are included in current and long-term debt.

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

At December 31, 2001, future minimum lease payments under noncancellable lease agreements were as follows:

	FUTURE MINIMUM LEASE PAYMENTS	
	OPERATING LEASES	CAPITAL LEASES
	(IN THOUSANDS)	
Years ended December 31,		
2002	$ 2,072	$ 464
2003	2,077	465
2004	2,089	470
2005	1,802	463
2006	1,310	468
Thereafter	1,646	10,823
Total future minimum lease payments	$10,996	$13,153
Less: amount representing interest		(7,514)
Less: current portion of obligations under capital leases		(47)
Less: amounts included in assets held for sale, net of current portion		(499)
Long-term obligations under capital leases		$ 5,093

AGREEMENTS AND EMPLOYEE BENEFITS

Carriage has entered into various agreements not to compete with former owners of businesses acquired. Payments for such agreements are generally not made in advance. These agreements are generally for one to 10 years and provide for future payments annually, quarterly or monthly. The aggregate payments due under these agreements for the next five years are approximately $1,713,000, $1,515,000, $1,252,000, $944,000 and $610,000, respectively and $586,000 thereafter.

Carriage sponsors a defined contribution plan (401k) and an employee stock purchase plan for the benefit of its employees. The expense for these plans has not been significant for the periods presented. In addition, the Company does not offer any other post-retirement or post-employment benefits.

LITIGATION

Certain of the funeral homes located in California that were acquired by Carriage in early 1997, along with other death care providers, have been defendants in litigation in the state of California alleging that a flight service contracted to dispose of cremains failed to properly carry out its duties. The Company, with the advice of legal counsel, has been of the opinion that there have been adequate insurance coverages, indemnities and reserves such that the results of this litigation would not have a material effect on the consolidated financial position or results of operations. Subsequent to December 31, 1999, the litigation was settled. The amount paid in the settlement was fully covered by the Company's insurance. As a result of the settlement, the Company reversed the estimated liability previously recorded for the matter in the amount of $2 million, effective December 31, 1999.

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

9. INCOME TAXES

The provision (benefit) for income taxes for 1999, 2000 and 2001 consisted of:

	1999	2000	2001
	(IN THOUSANDS)		
Current:			
U. S. Federal	$ 818	$(2,009)	$(2,212)
State	588	266	242
Total current provision (benefit)	1,406	(1,743)	(1,970)
Deferred:			
U. S. Federal	6,061	(5,846)	3,871
State	1,007	(443)	350
Total deferred provision (benefit)	7,068	(6,289)	4,221
Total income tax provision (benefit)	$8,474	$(8,032)	$ 2,251

A reconciliation of taxes to the U.S. federal statutory rate to those reflected in the consolidated statements of operations for 1999, 2000 and 2001 is as follows:

	1999	2000	2001
Federal statutory rate	35.0%	(35.0)%	35.0%
Effect of state income taxes, net of federal benefit	4.8	0.2	1.7
Effect of non-deductible expenses and other, net	3.5	10.4	6.6
Effect of valuation allowance	0.5	16.5	(23.3)
	43.8%	(7.9)%	20.0%

9. INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant deferred tax assets and liabilities at December 31, 2000 and 2001 were as follows:

	2000	2001
	(IN THOUSANDS)	
Deferred tax assets:		
Net operating loss carryforwards	$ 1,270	$ 1,175
Accrued liabilities and other	3,707	3,404
Amortization of non-compete agreements	2,296	2,343
Amortization and depreciation	5,640	2,836
Preneed liabilities, net	9,010	4,932
	21,923	14,690
Valuation allowance	(17,165)	(14,153)
Total deferred tax assets	$ 4,758	

		$ 537
Net deferred tax asset	$ 4,758	$ 537

The non-current net deferred tax asset is included in Deferred charges and other non-current assets at December 31, 2000 and 2001.

Carriage has recorded a valuation allowance to reflect the estimated amount of deferred tax assets for which realization is uncertain. Management reviews the valuation allowance at the end of each quarter and makes adjustments if it is determined that it is more likely than not that the tax benefits will be realized. During 2001, the Company recognized a reduction in the valuation allowance as an income tax benefit in the amount of $3.0 million for tax deductions taken in 2001 for which the expense was recorded in 2000 for accounting purposes. At December 31, 2001, Carriage had approximately $25 million of state net operating loss carryforwards that will expire between the years 2001 and 2021, if not utilized.

10. STOCKHOLDERS' EQUITY

COMMON STOCK VOTING CLASSES

The Company currently has two classes of Common Stock (Class A and Class B). The two classes have virtually the same rights and preferences, except that 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, whereas the holders of Class B Common Stock are entitled to ten votes for each share. Effective December 31, 2001, all Class B Common Stock automatically converted into Class A Common Stock on a one-for-one basis.

STOCK OPTION PLANS

Carriage has four 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"), the 1996 Directors' Stock Option Plan (the "Directors' Plan") and the 1998 Stock Option Plan for Consultants (the "Consultants' Plan"). Substantially all of the options granted under the four stock option plans have ten-year terms. The options generally vest over a period of two to four years.

10. STOCKHOLDERS' EQUITY (CONTINUED)

Options under each of the plans and those outstanding at December 31, 2001 are as follows:

	RESERVED	OUTSTANDING
	(IN THOUSANDS)	
1995 Plan	1,450	689
1996 Plan	1,300	797
Directors' Plan	350	215
Consultants' Plan	100	8
Total	3,200	1,709

The Company accounts for stock options issued to employees 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, "Accounting for Stock Based Compensation", net income and income per share would have been the following pro forma amounts:

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net income (loss) available to common stockholders:			
As reported	$10,594	$(132,077)	$8,965
Pro forma	9,906	(133,522)	8,201
Net income (loss) per share available to common stockholders:			
Basic			
As reported	.67	(8.23)	.54
Pro forma	.62	(8.32)	.49
Diluted			
As reported	.66	(8.23)	.51
Pro forma	.61	(8.32)	.47

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, 2001 only non-qualified options and incentive stock options have been issued. The options are granted with an exercise price equal to or greater than the then fair market value of Carriage's Common Stock as determined by the Board of Directors.

10. STOCKHOLDERS' EQUITY (CONTINUED)

A summary of the status of the plans at December 31, 2000 and 2001 and changes during the year ended is presented in the table and narrative below:

YEAR ENDED DECEMBER 31,	2000		2001	
	SHARES (000)	WTD. AVG. EX PRICE	SHARES (000)	WTD. AVG. EX PRICE
Outstanding at beginning of period	414	$15.30	1,928	$3.73
Granted	1,619	2.00	74	3.86
Exercised	--	--	(102)	2.87
Canceled	(105)	13.47	(191)	8.91
Outstanding at end of year	1,928	3.73	1,709	3.34
Exercisable at end of year	944	$ 3.82	1,008	$3.34
Weighted average fair value of options granted	$0.92		$2.17	

All of the options outstanding at December 31, 2001 have exercise prices between $1.19 and $27.50, with a weighted average exercise price of $3.34 and a weighted average remaining contractual life of 8.6 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 2000 and 2001, respectively: risk-free interest rates of 4.74% and 4.77%; expected dividend yield of 0% for each year; expected lives of five years; expected volatility of 56% and 61%.

EMPLOYEE STOCK PURCHASE PLAN

Beginning in 1998, Carriage provided all employees the opportunity to purchase Class A Common Stock through payroll deductions. Purchases are made quarterly; the price being 85% of the lower of the price on the grant date or the purchase date. During 2000, employees purchased a total of 214,581 shares at a weighted average price of $2.34 per share. In 2001, employees purchased a total of 260,634 shares at a weighted average price of $1.32 per share.

STOCK PRICE GUARANTEES

As part of the purchase price consideration in the acquisition of certain funeral homes and cemeteries, the Company issued shares of Class A Common Stock and guaranteed the stock would trade at certain agreed-upon levels during defined future periods ranging from one to three years. Should the stock not trade at these levels, then the Company would makeup the difference by issuing additional shares or paying the seller additional cash during the years 2000 through 2002. The present value of these price guarantees has been recorded as part of the purchase price of these acquisitions. During 2000 and 2001, the Company paid $3,297,000 and $4,935,000, respectively in satisfaction of the guarantee obligations that matured in those years. The final remaining obligations total $5,286,000 and are scheduled to be paid in the first quarter of 2002.

11. REDEEMABLE PREFERRED STOCK

Carriage had 20,000,000 authorized shares of Series D Preferred Stock with a par value of $.01 per share, of which 1,182,500 shares were issued and outstanding at December 31, 2000. During 2001,

11. REDEEMABLE PREFERRED STOCK (CONTINUED)

Carriage redeemed 1,000,000 shares at $1.00 per share in an exchange and divestiture of business assets with the holder of those shares. The holders of Series D Preferred Stock received preferential dividends at an annual rate ranging from $0.06 to $0.07 per share, payable quarterly, during the period that the stock was outstanding. Effective December 31, 2001, Carriage redeemed the remaining 182,250 shares then outstanding at a redemption price of $1.00 per share, together with all accrued and unpaid dividends.

12. RELATED PARTY TRANSACTIONS

Two of the Company's directors are prior owners of previously unrelated businesses that Carriage acquired in 1997. As an incentive, the Company entered into arrangements with the directors to pay them 10% of the amount by which the annual field level cash flow exceeds predetermined targets on certain businesses in their respective geographic region through 2008, then a multiple of six times the average of the last three years payments. The business purpose of the arrangements was to incentivise the directors to provide Carriage with high quality acquisition targets and to participate in the management of those businesses so that cash flows grow over time. The terms were determined by reference to similar arrangements within the death care industry. The incentives earned by the two directors totaled $92,000, $117,000 and $136,000 for the years 1999, 2000 and 2001, respectively.

In connection with the 1997 acquisition of two funeral homes from a group of individuals, one of which is one of the directors referred to in the preceding paragraph, a portion of the purchase price of each of those funeral homes was to be payable based on a formula related to the annual field level cash flows subsequent to the year of acquisition. The business purpose was to determine the final purchase prices of the acquisitions since both were expected to show strong growth in cash flow. The terms were negotiated by the sellers, one of which later was appointed to director of Carriage. The contingent purchase price payments paid to the director totaled $524,107 and $47,673 during the years 2000 and 2001, respectively. The final contingent purchase price payment totals $1,040,442, of which $572,243 is payable to the director in March 2002.

The Company rents office space, at an annual rate of $19,000 per year through 2005, from an entity in which one of the Company's directors has a financial interest. The terms were determined by reference to rentals of similar office space in the area.

13. EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of the basic and diluted earnings per share for 1999, 2000 and 2001:

(IN THOUSANDS, EXCEPT PER SHARE DATA)	1999	2000	2001
Numerator:			
Net income (loss) before extraordinary item and cumulative effect on prior years of the change in accounting principle	$10,887	$ (93,003)	$9,002
Extraordinary item	(200)	--	--
Cumulative effect on prior years of the change in accounting principle	--	(38,993)	--
Net income (loss)	10,687	(131,996)	9,002
Preferred stock dividends	(93)	(81)	(37)
Numerator for basic earnings (loss) per share--net income (loss) available to common stockholders	$10,594	$(132,077)	$8,965
Effect of dilutive securities: Preferred stock dividends	93	--	37
Numerator for diluted earnings (loss) per share--net income (loss) available to common stockholders after assumed conversions	$10,687	$(132,077)	$9,002
Denominator:			
Denominator for basic earnings (loss) per share--weighted average shares	15,875	16,056	16,696
Effect of dilutive securities: Series D convertible preferred stock	235	--	38
Stock options	26	--	758
Denominator for diluted earnings (loss) per share--adjusted weighted average shares and assumed conversions	16,136	16,056	17,492
Basic earnings (loss) per share:			
Net income (loss) before extraordinary item and cumulative effect on prior years of the change in accounting principle	$ .68	$ (5.80)	$ .54
Extraordinary item	(.01)	--	--
Cumulative effect on prior years of the change in accounting principle	--	(2.43)	--
Net income (loss)	$ .67	$ (8.23)	$ .54
Diluted earnings (loss) per share:			
Net income (loss) before extraordinary item and cumulative effect on prior years of the change in accounting principle	$ .67	$ (5.80)	$ .51
Extraordinary item	(.01)	--	--
Cumulative effect on prior years of the change in accounting principle	--	(2.43)	--
Net income (loss)	$ .66	$ (8.23)	$ .51

Common stock equivalents are excluded in the calculation of weighted average shares outstanding when a company reports a net loss for a period. The number of potentially antidilutive shares excluded from the calculation of fully diluted earnings per share was .8 million for the year ended December 31, 2000, because of the net loss for the year.

14. MAJOR SEGMENTS OF BUSINESS

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

(IN THOUSANDS, EXCEPT NUMBER OF OPERATING LOCATIONS)	FUNERAL	CEMETERY	CORPORATE	CONSOLIDATED
External revenues:				
2001	$124,284	$ 38,209	$ --	$162,493
2000	127,261	35,345	--	162,606
1999	125,264	43,203	--	168,467
Profit (loss) before extraordinary item and cumulative effect of the change in accounting principle:				
2001	$ 16,748	$ 5,271	$(13,017)	$ 9,002
2000	14,984	3,140	(17,152)	972
Less-special and other charges, net of tax(a)				(93,975)
				$(93,003)
1999	19,586	7,412	(16,111)	10,887
Total assets:				
2001	$515,919	$152,667	$ 3,526	$672,112
2000	550,044	152,047	6,960	709,051
1999	397,835	130,650	11,105	539,590
Depreciation and amortization:				
2001	$ 10,897	$ 4,443	$ 1,628	$ 16,968
2000	13,673	3,890	3,844	21,407
1999	12,525	3,562	905	16,992
Capital expenditures:				
2001	$ 3,038	$ 2,839	$ (831)	$ 5,046
2000	6,633	2,191	1,723	10,547
1999	10,438	3,791	3,197	17,426
Number of operating locations at year end:				
2001	148	30	--	178
2000	172	38	--	210
1999	182	41	--	223
Interest expense:				
2001	$ 1,542	$ 179	$ 18,623	$ 20,344
2000	1,488	283	18,934	20,705
1999	1,751	115	15,492	17,358
Income tax expense (benefit):				
2001	$ 11,749	$ 3,075	$(12,573)	$ 2,251
2000	10,419	1,862	(12,038)	243
Less-tax benefits on special charges (a)				(8,275)
				$ (8,032)
1999	14,769	4,829	(11,124)	8,474

- ------------------------

(a) A substantial portion of the special and other charges relates to the funeral segment of the business.

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

The tables below set forth consolidated operating results by fiscal quarter for the years ended December 31, 2000 and 2001, in thousands, except earnings per share. The first, second and third quarters of the fiscal year 2000 have been restated for the accounting change discussed in Note 2, which was implemented at the beginning of the fourth quarter of 2000, but retroactive to January 1, 2000.

Second Quarter FIRST QUARTER 2000(a) 2000(a) ------------ ---------- -------------------- AS AS ORIGINALLY ORIGINALLY REPORTED RESTATED REPORTED RESTATED ----------

--------- ---------- -------- Revenues,
net..
$48,373 $45,211 $41,132 $38,280 Gross
profit...
13,131 11,368 8,070 6,630 Net income (loss) before
cumulative effect of the change in accounting
principle.................................... 2,906
1,760 166 (770) Cumulative effect of the change in
accounting principle,
net...
-- (38,993) -- -- Preferred stock dividend
requirements...................... 21 21 20 20 Net
income (loss) available to common shareholders..........
2,885 (37,254) 146 (790) Basic earnings (loss) per common
share: Continuing
operations................................... $ .18 $
.11 $ .01 $ (.05) Cumulative effect of the change in
accounting principle,
net..
-- (2.44) -- -- ------- ------- ------- ------- Net
income (loss)....................................... $
.18 $ (2.33) $ .01 $ (.05) ------- ------- ------- ------
- Diluted earnings (loss) per common share: Continuing
operations................................... $ .18 $
.11 $ .01 $ (.05) Cumulative effect of the change in
accounting principle,
net..
-- (2.44) -- -- ------- ------- ------- ------- Net
income (loss)....................................... $
.18 $ (2.33) $ .01 $ (.05) ------- ------- ------- ------
-

THIRD QUARTER Fourth Quarter 2000(a) 2000(a) ------------
--------- ---------------------------- AS ORIGINALLY
REPORTED RESTATED ---------- -------- Revenues,
net... $
40,024 $38,103 $ 41,012 Gross
profit...
6,626 5,711 8,467 Net income (loss) before cumulative
effect of the change in accounting
principle.................................... (11,051)
(12,290) (81,703) Cumulative effect of the change in
accounting principle,
net...
-- -- -- Preferred stock dividend
requirements...................... 20 20 20 Net income
(loss) available to common shareholders..........
(11,071) (12,310) (81,723) Basic earnings (loss) per
common share: Continuing
operations................................... $ (.69) $
(.77) $ (5.07) Cumulative effect of the change in
accounting principle,
net..
-- -- -- -------- -------- -------- Net income
(loss)....................................... $ (.69) $
(.77) $ (5.07) -------- -------- -------- Diluted
earnings (loss) per common share: Continuing
operations................................... $ (.69) $
(.77) $ (5.07) Cumulative effect of the change in
accounting principle,
net..
-- -- -- -------- -------- -------- Net income
(loss)....................................... $ (.69) $
(.77) $ (5.07) -------- -------- --------

15. QUARTERLY FINANCIAL DATA (UNAUDITED) (CONTINUED)

FIRST QUARTER 2001(a) Second Quarter 2001(a) ---
------------------ ---------------------
Revenues,
net...
$43,880 $41,021 Gross
profit..
12,116 9,762 Preferred stock dividend
requirements.................. 20 12 Net income
available to common stockholders............
3,778 2,113 Basic earnings per common
share....................... $ .23 $ .13
Diluted earnings per common
share..................... $ .22 $ .12

THIRD QUARTER 2001(a) Fourth Quarter 2001(a) --
------------------- ---------------------
Revenues,
net..
$37,669 $39,923 Gross
profit...

8,240 10,177 Preferred stock dividend requirements................. 3 2 Net income available to common stockholders........... 540 2,534 Basic earnings per common share....................... $ .03 $ .15 Diluted earnings per common share..................... $ .03 $ .14

- ------------------------

(a) 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 March 10, 2002. Our audit was 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 audit 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
March 10, 2002.

CARRIAGE SERVICES, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

(IN THOUSANDS)

CHARGED TO BALANCE BEGINNING ACQUISITION COSTS AND END DESCRIPTION OF YEAR RESERVES EXPENSES DIVESTITURES DEDUCTION OF YEAR - ----------- --------- ----------- ---------- ----------- --------- -------- YEAR ENDED DECEMBER 31, 1999: Allowance for bad debts and contract cancellations........................ $3,435 $4,647 $3,977 $6,001 $6,058 Litigation reserves.................... $2,430 $2,250 $ 180 Environmental remediation reserves..... $ 450 $ 85 $ 535 YEAR ENDED DECEMBER 31, 2000: Allowance for bad debts and contract cancellations........................ $6,058 $1,543 $4,665 $237 $7,457 $4,572 Litigation reserves.................... $ 180 $ 180 Environmental remediation reserves..... $ 535 $ 10 $ 525 Employee Severance accruals............ $5,371 $1,577 $3,794 Office closing and other Fresh Start accruals............................. $4,988 $1,315 $3,673 YEAR ENDED DECEMBER 31, 2001: Allowance for bad debts and contract cancellations........................ $4,572 $4,030 $100 $4,987 $3,515 Litigation reserves.................... $ 180 $ 154 $ 26 Environmental remediation reserves..... $ 525 $ 2 $ 523 Employee severance accruals............ $3,794 $1,430 $2,364 Office closing and other Fresh Start accruals............................. $3,673 $1,686 $1,987

Exhibit 3.7

CERTIFICATE OF ELIMINATION

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 at a meeting duly held on February 19, 2002, 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 D Preferred Stock ("Series D Preferred Stock"), originally consisting of up to 20,000,000 shares, pursuant to the Amended and Restated Certificate of Designation, Preferences, Rights and Limitations 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 amended on October 10, 1996 and May 9, 1997 (as so amended and restated, the "Series D Certificate of Designation"); and
>
> WHEREAS, no such shares of Series D Preferred Stock are currently issued or outstanding, and none will be issued;
>
> > NOW, THEREFORE, BE IT RESOLVED, that no shares of Series D 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 D Certificate of Designation is hereby withdrawn and eliminated.

IN WITNESS WHEREOF, CARRIAGE SERVICES, INC. has caused this Certificate of Elimination to be signed by Melvin C. Payne, its Chairman of the Board and Chief Executive Officer, as of the 19th day of February, 2002.

CARRIAGE SERVICES, INC.

BY:

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

EXHIBIT 10.29

EMPLOYMENT AGREEMENT

THIS AGREEMENT, made effective as of the 1st day of January, 2001, is between CARRIAGE SERVICES, INC., a Delaware corporation (the "Company"), and JAMES J. BENARD, a resident of Sugar Land, Texas (the "Employee").

1. EMPLOYMENT TERM. The Company hereby continues the employment of the Employee for a term commencing effective on the date first above written and, subject to earlier termination as provided in Section 7 hereof, continuing until December 31, 2003 (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 Sr. Vice President-Cemetery Operations of the Company or any other executive officer designated by him. The Employee shall perform the management and administrative duties of Vice President of Cemetery Operations of the Company. It is anticipated that the Employee shall be responsible for the Company's cemetery operations. The Employee shall also serve as Vice President of Cemetery Operations of any subsidiary of the Company as requested by the Company, and the Employee shall perform such other duties as are from time to time assigned to him by the Sr. Vice President and/or Chief Executive Officer 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 $16,666.67 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) Consideration for an annual performance-based bonus within the sole discretion of the Company, as may be recommended by the Sr. Vice President and, if applicable, approved by the Compensation Committee of the Company's Board of Directors.

(b) Eligibility for consideration of incentive stock options under the terms of one or more of the Company's stock option plans.

(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 and for the two-year period specified in Section 8:

(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 Agreement 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 Company, (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 or uniformly applied provisions of the Company's employee handbook.

(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 for a period of 12 months following the date of discharge. 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 COVENANTS. 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 officer, director, shareholder, partner, member, trustee, employee, consultant, advisor, agent or any other capacity of any corporation, partnership, joint venture, trust, or other business organization or entity, encourage, support, finance, be engaged in, interested in, or concerned with (x) any of the companies and entities described on Schedule I hereto, except to the extent that any activities in connection therewith are confined exclusively outside the Continental United States, or (y) any other business having an office or being conducted within a radius of fifty (50) miles of any funeral home, cemetery or other death care business owned or operated by the Company or any of its subsidiaries at the time of such termination;

(ii) induce or assist anyone in inducing in any way any employee of the Company or any of its subsidiaries to resign or sever his or her employment or to breach an employment contract with the Company or any such subsidiary; 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 (x) as part of any of the companies or entities listed on Schedule I, or (ii) otherwise within a radius of fifty (50) miles of any funeral home, cemetery or other death care business owned or operated by the Company or any of its subsidiaries at the time of such termination.

Notwithstanding the foregoing, the above covenants shall not prohibit the passive ownership of not more than one percent (1%) of the outstanding voting securities of any entity. The foregoing covenants shall not be held invalid or unenforceable 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 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. James J. Benard 4 Camden Court Sugar Land, Texas 77479
If to the Company:	Carriage Services, Inc. 1900 St. James Place, 4th Floor 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. A substantial portion of the Employee's duties under this Agreement shall be performed at the Company's corporate headquarters in Houston, Texas, and this Agreement has been substantially negotiated and is being executed and delivered in the State of Texas. 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

JAMES J. BENARD

SCHEDULE I
TO
EMPLOYMENT AGREEMENT
(JAMES J. BENARD)

1. The following entities, together with all Affiliates thereof:

   Service Corporation International
   The Loewen Group Inc.
   Stewart Enterprises, Inc.
   Keystone Group Holdings, Inc.
   Meridian Mortuary Group, Inc.
   Cornerstone Family Services, Inc.
   Prime Succession, Inc.
   Hamilton Group, Inc.
   Century Group
   Saber Group
   Thomas Pierce & Co.

   For purposes of the foregoing, an "Affiliate" of an entity is a person that directly or indirectly controls, is under the control of or is under common control with such entity.

2. Any new entity which may hereafter be established which acquires any combination of ten or more funeral homes and/or cemeteries from any of the entities described in 1. above.

3. Any funeral home, cemetery or other death care enterprise which is managed by any entity described in 1. or 2. above.

EXHIBIT 10.30

EMPLOYMENT AGREEMENT

THIS AGREEMENT, made effective as of the 21st day of September, 1999, is between CARRIAGE SERVICES, INC., a Delaware corporation (the "Company"), and MARK GROENEMAN, a resident of Harris County, Texas (the "Employee").

1. EMPLOYMENT TERM. The Company hereby employs the Employee for a term commencing effective January 1, 2000 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, such executive officers of the Company as may be from time to time designated by its Chief Executive Officer. Initially, that designated officer will be Frank Sessions, President of the Company's Sessions Training Group. The Employee shall perform the management and administrative duties of head of human resources for the Company. The Employee shall also serve as Vice President of Human Resources of any subsidiary of the Company as requested by the Company, and the Employee shall perform such other duties as are from time to time assigned to him by 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 $10,833.33 per full calendar month of service completed, appropriately prorated for partial months at the commencement and end of the term of this Agreement. The Employee's base salary shall be reviewed at least annually, but any increase shall be in the Company's sole discretion. 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) An annual discretionary bonus in an amount of up to 25% of the Employee's base salary set forth in Section 4, based upon the Employee's satisfaction of such performance criteria in each year during the term hereof as may be determined by the Company in its sole discretion and communicated in writing by the Chief Executive Officer. Such bonus shall be payable as soon as reasonably practicable following the expiration of each fiscal year of the Company, in cash, in options under the Plan referred to in paragraph (b) below on a formula to be determined, or in a combination thereof, as the parties may mutually agree.

(b) Upon commencement of employment, the Company will award the Employee incentive stock options under the Company's 1995 Stock Incentive Plan (the "Plan") covering 15,000 shares of the Company's Class A Common Stock, having an exercise price equal to the closing price as of the trading day most recently ended prior to commencement of employment and being subject to a four-year vesting period (25% per year on the first through fourth anniversaries of the commencement date) conditioned on continued employment. Thereafter, the Employee shall remain eligible for consideration of additional discretionary stock options under the terms of the Plan.

(c) The Employee may attend continuing education seminars as shall be reasonably necessary for the Employee to remain informed of developments in the human resources area, and the Company shall pay for the out-of-pocket fees and expenses for the Employee attending such seminars, subject to the Company's policies respecting such matters.

(d) Paid vacation in a manner consistent with other executive-level employees of the Company similarly situated; and

(e) Participation in the Company's group insurance program, and such other employee benefits as are available generally to executive-level employees of the Company similarly situated.

(f) The Employee shall be reimbursed for all reasonable and necessary business expenses incurred by him in connection with his employment hereunder, subject to the Company's policies respecting such matters.

6. CERTAIN ADDITIONAL MATTERS. The Employee agrees that at all times during the term of this Agreement and for the two-year period specified in Section 8:

(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 Agreement 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. The foregoing shall not affect death benefits payable, or continuation health insurance coverage available to the employee's dependents, under the Company's employee benefit plans.

(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 Company, and the continuance of such failure after reasonable notice from the Company, (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 or uniformly applied provisions of the Company's employee handbook.

(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 other than to pay to the Employee or his estate in the event of his subsequent death the Employee's base salary under Section 4, and to continue to include the Employee in any group health and hospitalization insurance program on the same terms as other employees of the Company, through the date of termination and thereafter for a period ending on the later to occur of (i) the first anniversary of the date of discharge or (ii) the second anniversary of the date of this Agreement (but in no event past the expiration of the term specified in Section 1). 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 so discharged.

8. RESTRICTIVE COVENANTS. 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 or any such subsidiary;

(ii) induce or assist anyone in inducing in any way any employee of the Company or any of its subsidiaries to resign or sever his or her employment or to breach an employment contract with the Company or any such subsidiary; 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 unenforceable 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 will 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. Mark Groeneman
15007 Waybridge Drive
Houston, Texas 77062

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.

18 PRIOR EMPLOYMENT AGREEMENTS. The Employee represents that by the time of his commencement of employment hereunder, he will have fulfilled the terms of all preexisting employment, noncompetition and confidentiality agreements, and that his execution, delivery and performance of this Agreement does not and will not interfere or conflict with any such preexisting agreement.

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, CEO

MARK GROENEMAN

EXHIBIT 11.1

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

Earnings per share for 1999, 2000 and 2001 is calculated based on the weighted average number of common and common equivalent shares outstanding during each year as proscribed by SFAS 128. The following table sets forth the computation of the basic and diluted earnings per share for 1999, 2000 and 2001:

	1999	2000	2001
Net income (loss), before extraordinary item and cumulative effect of the change in accounting principle	$ 10,887	$ (93,003)	$ 9,002
Extraordinary item	(200)	--	--
Cumulative effect of the change in accounting principle, net	--	(38,993)	--
Net income (loss)	10,687	(131,996)	9,002
Preferred stock dividends	(93)	(81)	(37)
Net income (loss) available to common stockholders for basic EPS computation	10,594	(132,077)	8,965
Effect of dilutive securities - preferred stock dividends	93	--	37
Net income (loss) available to common stockholders for diluted EPS computation	$ 10,687	$(132,077)	$ 9,002
Weighted average number of common shares outstanding for basic EPS computation	15,875	16,056	16,696
Effect of dilutive securities:			
Series D convertible preferred stock	235	--	38
Stock options	26	--	758
Weighted average number of common and common equivalent shares outstanding for diluted EPS computation	16,136	16,056	17,492
Basic earnings per share:			
Net income (loss), before extraordinary item and cumulative effect of the change in accounting principle	$ .68	$ (5.80)	$ .54
Extraordinary item	(.01)	--	--
Cumulative effect of the change in accounting principle, net	--	(2.43)	--
Net income (loss)	$ .67	$ (8.23)	$ .54
Diluted earnings per share:			
Net income (loss), before extraordinary item and cumulative effect of the change in accounting principle	$ .67	$ (5.80)	$ .51
Extraordinary item	(.01)	--	--
Cumulative effect of the change in accounting principle, net	--	(2.43)	--
Net income (loss)	$ .66	$ (8.23)	$ .51

Common stock equivalents are excluded in the calculation of weighted average shares outstanding when a company reports a net loss for a period. The number of potentially antidilutive shares excluded from the calculation of fully diluted earnings per share were .8 million for the year ended December 31, 2000, because of the net loss for the year.

EXHIBIT 12

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

	1997	1998	1999	2000*	2001
Fixed charges:					
Interest expense	$ 5,689	$ 9,570	$ 17,116	$ 19,679	$ 19,585
Amortization of capitalized expenses related to debt	200	150	242	1,026	759
Rental expense	629	720	876	1,606	1,516
Total fixed charges before capitalized interest and preferred stock dividends	6,518	10,440	18,234	22,311	21,860
Capitalized interest	450	600	686	770	298
Total fixed charges	6,968	11,040	18,920	23,081	22,158
Preferred stock dividends	1,627	1,082	167	88	46
Total fixed charges plus preferred dividends	$ 8,595	$ 12,122	$ 19,087	$ 23,169	$ 22,204
Earnings (loss) available for fixed charges:					
Earnings (loss) before income taxes, extraordinary item and cumulative effect of change in accounting principle	$ 8,217	$ 17,023	$ 19,361	$(101,035)	$ 11,253
Add fixed charges before capitalized interest and preferred stock dividends	6,518	10,440	18,234	22,311	21,860
Total earnings (loss) available for fixed charges	$ 14,735	$ 27,463	$ 37,595	$ (78,724)	$ 33,113
Ratio of earnings (loss) to fixed charges (1)	2.11	2.49	1.99	(3.41)	1.49
Ratio of earnings (loss) to fixed charges plus dividends (1)	1.71	2.27	1.97	(3.40)	1.49

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

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

EXHIBIT 21.1

CARRIAGE SERVICES, INC.

SUBSIDIARIES AS OF MARCH 1, 2002

NAME	JURISDICTION OF INCORPORATION
Carriage Funeral Holdings, Inc.	Delaware
CFS Funeral Services, Inc.	Delaware
Carriage Holding Company, Inc.	Delaware
Carriage Funeral Services of Michigan, Inc.	Michigan
Carriage Funeral Services of Kentucky, Inc.	Kentucky
Carriage Funeral Services of California, Inc.	California
Carriage Cemetery Services of Idaho, Inc.	Idaho
Wilson & Kratzer Mortuaries	California
Rolling Hills Memorial Park	California
Carriage Services of Connecticut, Inc.	Connecticut
CHC Insurance Agency of Ohio, Inc.	Ohio
Barnett, Demrow & Ernst, Inc.	Kentucky
Carriage Services of New Mexico, Inc.	New Mexico
Carriage Cemetery Services, Inc.	Texas
Carriage Services of Oklahoma, L.L.C.	Oklahoma
Carriage Services of Nevada, Inc.	Nevada
Hubbard Funeral Home, Inc.	Maryland
Carriage Services Capital Trust	Delaware
Carriage Team California (Cemetery), LLC	Delaware
Carriage Team California (Funeral), LLC	Delaware
Carriage Team Florida (Cemetery), LLC	Delaware
Carriage Team Florida (Funeral), LLC	Delaware
Carriage Services of Ohio, LLC	Delaware
Carriage Team Kansas, LLC	Delaware
Carriage Municipal Cemetery Services of Nevada, Inc.	Nevada
Carriage Cemetery Services of California, Inc.	California
Carriage Insurance Agency of Massachusetts, Inc.	Massachusetts
Carriage Internet Strategies, Inc.	Delaware
Carriage Investments, Inc.	Delaware
Carriage Management, L.P.	Texas
Cochrane's Chapel of the Roses, Inc.	California
Horizon Cremation Society, Inc.	California
Carriage Life Events, Inc.	Delaware
Wallis-Wilbanks Funeral Home, LLC	Georgia
Carriage Merger I, Inc.	Delaware
Carriage Merger II, Inc.	Delaware
Carriage Merger III, Inc.	Delaware
Carriage Merger IV, Inc.	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated March 10, 2002 included in this Form 10-K, into Carriage Services, Inc.'s previously filed Registration Statement File Nos. 333-85961 and 333-71902.

ARTHUR ANDERSEN LLP

Houston, Texas
March 28, 2002

Exhibit 99

United States Securities and Exchange Commission
450 Fifth Street, N.W.
Judiciary Plaza
Washington, D.C. 20549

Ladies and Gentlemen:

Arthur Andersen LLP has represented to Carriage Services, Inc. that the audit conducted in connection with our Annual Report on Form 10-K for the fiscal year ended December 31, 2001 was subject to Andersen's quality control system for the U.S. accounting and auditing practice to provide reasonable assurance that the engagement was conducted in compliance with professional standards and that there was appropriate continuity of Andersen personnel working on the audit and availability of national office consultation. Availability of personnel at foreign affiliates of Arthur Andersen was not relevant to the audit.

Very truly yours,

CARRIAGE SERVICES, INC.