

Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name CARRIAGE SERVICES, INC.		2 Issuer's employer identification number (EIN) 76-0423828	
3 Name of contact for additional information ADEOLA OLANIYAN	4 Telephone No. of contact 713-332-8586	5 Email address of contact ADEOLA.OLANIYAN@CARRIAGESERVICES.COM	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact 3040 POST OAK BLVD., SUITE 300		7 City, town, or post office, state, and Zip code of contact HOUSTON, TX 77056	
8 Date of action FEBRUARY 9, 2018		9 Classification and description 2.750% CONVERTIBLE SENIOR NOTES DUE 2021	
10 CUSIP number 143905AM9	11 Serial number(s) ISIN US143905AM99	12 Ticker symbol CSV	13 Account number(s) BLOOMBERG ID EK 1260331

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ ON OCTOBER 25, 2017, THE BOARD OF DIRECTORS FOR CARRIAGE SERVICES, INC. APPROVED AN INCREASE IN THE QUARTERLY CASH DIVIDEND ON COMMON STOCK FROM \$0.05 TO \$0.075 PER SHARE. THE INCREASE WAS EFFECTIVE WITH RESPECT TO THE DIVIDEND PAYABLE ON MARCH 1, 2018 TO HOLDERS OF RECORD ON FEBRUARY 12, 2018 (EX-DIVIDEND DATE OF FEBRUARY 9, 2018). THE CASH DIVIDEND PAID ON COMMON STOCK RESULTED IN A CONVERSION RATE CHANGE ON CARRIAGE'S 2.750% CONVERTIBLE SENIOR NOTES DUE 2021.

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ THE TAXABLE AMOUNT OF THE DEEMED DISTRIBUTION THAT RESULTED FROM THE CONVERSION RATE CHANGE INCREASED THE BASIS OF THE NOTES IN THE HANDS OF THE NOTEHOLDERS BY \$2.2377 PER \$1,000 PRINCIPAL AMOUNT OF THE NOTES HELD ON FEBRUARY 12, 2018. (SEE ATTACHED)


16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ THE AMOUNT OF THE DEEMED DISTRIBUTION WAS BASED ON THE FAIR MARKET VALUE OF THE INCREASE IN THE CONVERSION RATE. THE CONVERSION RATE INCREASED FROM 44.6266 COMMON SHARES PER \$1,000 PRINCIPAL AMOUNT OF THE NOTES, TO 44.7115 COMMON SHARES PER \$1,000 PRINCIPAL AMOUNT OF THE NOTES. CARRIAGE SERVICES' SHARES ARE PUBLICALLY TRADED UNDER TICKER SYMBOL "CSV". PER SHARE FAIR MARKET VALUE OF \$26.35 IS THE AVERAGE STOCK PRICE ON THE LAST TEN DAYS PRIOR TO FEBRUARY 12, 2018.

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ IRC SEC. 305(c) AND REGULATIONS THEREUNDER, SPECIFICALLY, REG. SEC. 1.305(d) AND PROP. REG. SEC. 1.307-7(c); IRC SEC. 301

18 Can any resulting loss be recognized? ▶ NA

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ THE REPORTABLE TAX YEAR IS CALENDAR YEAR 2018. FOR FISCAL YEAR END TAXPAYERS, THE REPORTABLE YEAR IS GENERALLY THE TAX YEAR BEGINNING ON OR AFTER FEBRUARY 12, 2018. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS FOR MAKING ANY DETERMINATION FOR APPLICATION OF THE INFORMATION INCLUDED HEREIN BASED ON THEIR SPECIFIC FACTS AND SITUATION.

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.				
	Signature ▶ 	Date ▶ <u>FEB 25, 2018</u>			
Paid Preparer Use Only	Print your name ▶ <u>ADEOLA OLANIYAN</u>	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶			Firm's EIN ▶	
	Firm's address ▶			Phone no.	

Adjusted conversion rate calculation for increase in dividend payment

(d) *Adjustment for Cash Distributions.* If the Ex-Dividend Date occurs for any cash dividend or distribution by the Company to all or substantially all holders of the outstanding Common Stock, other than regular quarterly cash dividends that do not exceed \$0.025 per share (such threshold, the "Initial Dividend Threshold"), the Conversion Rate shall be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{SP_0 - T}{SP_0 - C}$$

where:

CR₀ = the Conversion Rate in effect immediately prior to the Open of Business on the Ex-Dividend Date for such dividend or distribution;

CR₁ = the Conversion Rate in effect immediately after the Open of Business on the Ex-Dividend Date for such dividend or distribution;

SP₀ = the average of the Last Reported Sale Prices of the Common Stock over the ten consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such dividend or distribution;

T = the Initial Dividend Threshold; *provided*, that if the dividend or distribution is not a regular quarterly dividend, the Initial Dividend Threshold will be deemed to be zero; and

C = the amount in cash per share that the Company pays or distributes to holders of the Common Stock.

The Initial Dividend Threshold is subject to adjustment in a manner inversely proportional to adjustments to the Conversion Rate, other than any adjustment provided for in this Section 10.05(d).

If "SP₀" (as defined above) minus "C" (as defined above) is less than \$1.00, in lieu of the foregoing adjustment, each Holder shall receive, for each \$1,000 principal amount of Notes held, at the same time and upon the same terms as holders of the Common Stock, the amount of cash such Holder would have received if such Holder had owned a number of shares of the Common Stock equal to the Conversion Rate in effect on the record date for such distribution.

Any adjustment made under this Section 10.05(d) shall become effective immediately after the Open of Business on the Ex-Dividend Date for such distribution. If such distribution is not so paid or made, the Conversion Rate shall be immediately readjusted, as of the date the Board of Directors determines not to make or pay such distribution, to be the Conversion Rate that would then be in effect had the related Ex-Dividend Date not occurred.

(c)

\$26.352 Avg. stock price last 10 days prior to 2/9/18 (ex-dividend date)

(b)

$$44.6266 \times \frac{\$26.352 - 0.025}{\$26.352 - 0.075} = \frac{26.327}{26.277} = 1.001902805$$

(a)

44.7115

$$\frac{44.7115}{1000} = 0.044711544 \times \$143,750,000 = \$6,427,284.41$$

$$\begin{aligned} \$143,750,000 &= \$22.3656 \\ \$6,427,284 & \end{aligned}$$

Deemed dividend = (a) - (b) x (c)			
44.7115	-	44.62663	=
(a)		(b)	
0.0849	x	\$26.352	\$2.2377
		(c)	