
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: 1-11961

CARRIAGE SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

76-0423828
(I.R.S. Employer
Identification No.)

3040 Post Oak Boulevard, Suite 300,
Houston, TX
(Address of principal executive offices)

77056
(Zip Code)

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-Accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's Common Stock, \$.01 par value per share, outstanding as of August 3, 2012 was 18,038,578.

CARRIAGE SERVICES, INC.

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PART I—FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	December 31, 2011	June 30, 2012 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,137	\$ 1,012
Accounts receivable, net of allowance for bad debts of \$918 in 2011 and \$1,161 in 2012	16,497	16,199
Assets held for sale	1,229	—
Inventories and other current assets	13,439	12,342
Total current assets	32,302	29,553
Preneed cemetery trust investments	65,682	70,515
Preneed funeral trust investments	75,812	79,966
Preneed receivables, net of allowance for bad debts of \$1,728 in 2011 and \$2,002 in 2012	22,614	23,250
Receivables from preneed funeral trusts	22,487	22,366
Property, plant and equipment, net of accumulated depreciation of \$78,081 in 2011 and \$81,412 in 2012	136,467	143,597
Cemetery property	71,515	75,139
Goodwill	193,962	200,852
Deferred charges and other non-current assets	10,451	8,471
Cemetery perpetual care trust investments	41,485	44,486
Total assets	\$ 672,777	\$ 698,195
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of senior long-term debt and capital lease obligations	\$ 628	\$ 668
Accounts payable and other liabilities	13,862	14,905
Accrued liabilities	17,873	14,619
Liabilities associated with assets held for sale	1,868	—
Total current liabilities	34,231	30,192
Long-term debt, net of current portion	131,900	131,858
Line of credit	3,100	17,300
Convertible junior subordinated debentures due in 2029 to an affiliate	89,770	89,770
Obligations under capital leases, net of current portion	4,155	4,083
Deferred preneed cemetery revenue	58,809	59,506
Deferred preneed funeral revenue	40,961	40,683
Deferred preneed cemetery receipts held in trust	65,682	70,515
Deferred preneed funeral receipts held in trust	75,812	79,966
Care trusts' corpus	41,379	44,281
Total liabilities	545,799	568,154
Commitments and contingencies		
Redeemable preferred stock	200	200
Stockholders' equity:		
Common stock, \$.01 par value; 80,000,000 shares authorized; 21,663,000 and 21,976,000 shares issued at December 31, 2011 and June 30, 2012, respectively	217	220
Additional paid-in capital	201,284	201,760
Accumulated deficit	(63,987)	(56,872)
Treasury stock, at cost; 3,236,000 and 3,922,000 shares at December 31, 2011 and June 30, 2012, respectively	(10,736)	(15,267)
Total stockholders' equity	126,778	129,841
Total liabilities and stockholders' equity	\$ 672,777	\$ 698,195

The accompanying condensed notes are an integral part of these Consolidated Financial Statements.

CARRIAGE SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited and in thousands, except per share data)

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2012	2011	2012
Revenues:				
Funeral	\$35,565	\$37,401	\$74,673	\$ 78,400
Cemetery	12,090	12,665	23,651	23,953
	<u>47,655</u>	<u>50,066</u>	<u>98,324</u>	<u>102,353</u>
Field costs and expenses:				
Funeral	22,366	23,690	46,832	47,359
Cemetery	7,475	7,644	14,404	14,826
Depreciation and amortization	2,280	2,368	4,424	4,543
Regional and unallocated funeral and cemetery costs	2,022	2,080	4,102	4,413
	<u>34,143</u>	<u>35,782</u>	<u>69,762</u>	<u>71,141</u>
Gross profit	13,512	14,284	28,562	31,212
Corporate costs and expenses:				
General and administrative costs and expenses	4,781	4,851	9,530	10,093
Home office depreciation and amortization	242	254	496	507
	<u>5,023</u>	<u>5,105</u>	<u>10,026</u>	<u>10,600</u>
Operating income	8,489	9,179	18,536	20,612
Interest expense	(4,510)	(4,538)	(9,064)	(9,111)
Other income	358	17	387	34
Total interest and other, net	<u>(4,152)</u>	<u>(4,521)</u>	<u>(8,677)</u>	<u>(9,077)</u>
Income from continuing operations before income taxes	4,337	4,658	9,859	11,535
Provision for income taxes	(1,756)	(1,995)	(3,994)	(4,663)
Net income from continuing operations	2,581	2,663	5,865	6,872
Income from discontinued operations, net of tax	20	—	21	250
Net income	2,601	2,663	5,886	7,122
Preferred stock dividend	(3)	(3)	(7)	(7)
Net income available to common stockholders	<u>\$ 2,598</u>	<u>\$ 2,660</u>	<u>\$ 5,879</u>	<u>\$ 7,115</u>
Basic earnings per common share:				
Continuing operations	\$ 0.14	\$ 0.15	\$ 0.32	\$ 0.38
Discontinued operations	—	—	—	0.01
Basic earnings per common share	<u>\$ 0.14</u>	<u>\$ 0.15</u>	<u>\$ 0.32</u>	<u>\$ 0.39</u>
Diluted earnings per common share:				
Continuing operations	\$ 0.14	\$ 0.15	\$ 0.32	\$ 0.38
Discontinued operations	—	—	—	0.01
Diluted earnings per common share	<u>\$ 0.14</u>	<u>\$ 0.15</u>	<u>\$ 0.32</u>	<u>\$ 0.39</u>
Dividends declared per share	<u>\$ 0.025</u>	<u>\$ 0.025</u>	<u>\$ 0.025</u>	<u>\$ 0.05</u>
Weighted average number of common and common equivalent shares outstanding:				
Basic	18,367	18,077	18,301	18,171
Diluted	<u>18,407</u>	<u>18,153</u>	<u>18,340</u>	<u>18,237</u>

The accompanying condensed notes are an integral part of these Consolidated Financial Statements.

CARRIAGE SERVICES, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

	For the six months ended June 30,	
	2011	2012
Cash flows from operating activities:		
Net income	\$ 5,886	\$ 7,122
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Income from discontinued operations	(21)	(250)
Depreciation and amortization	4,920	5,050
Amortization of deferred financing costs	362	348
Gain on repurchase of convertible junior subordinated debentures	(366)	—
Provision for losses on accounts receivable	2,024	1,102
Stock-based compensation expense	1,095	1,183
Deferred income taxes	(2,257)	2,096
Other	(26)	(10)
Changes in operating assets and liabilities that provided (required) cash:		
Accounts and preneed receivables	(60)	(1,413)
Inventories and other current assets	54	740
Deferred charges and other	(35)	(38)
Preneed funeral and cemetery trust investments	3,397	(146)
Accounts payable and accrued liabilities	3,891	(2,402)
Deferred preneed funeral and cemetery revenue	(44)	(176)
Deferred preneed funeral and cemetery receipts held in trust	(3,237)	168
Net cash provided by continuing operating activities	15,583	13,374
Net cash provided by discontinued operating activities	178	—
Net cash provided by operating activities	15,761	13,374
Cash flows from investing activities:		
Acquisitions	(5,100)	(16,399)
Capital expenditures	(4,608)	(5,981)
Net cash used in investing activities	(9,708)	(22,380)
Cash flows from financing activities:		
Net borrowings from (payments against) the bank credit facility	(600)	14,200
Payments on senior long-term debt and obligations under capital leases	(315)	(342)
Proceeds from the exercise of stock options and employee stock purchase plan	199	440
Stock option benefit	7	24
Dividends on common stock	(460)	(903)
Dividend on redeemable preferred stock	(7)	(7)
Repurchase of convertible junior subordinated debentures	(972)	—
Purchase of treasury stock	—	(4,531)
Net cash (used in) provided by financing activities	(2,148)	8,881
Net increase (decrease) in cash and cash equivalents	3,905	(125)
Cash and cash equivalents at beginning of period	1,279	1,137
Cash and cash equivalents at end of period	<u>\$ 5,184</u>	<u>\$ 1,012</u>

The accompanying condensed notes are an integral part of these Consolidated Financial Statements.

CARRIAGE SERVICES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Carriage Services, Inc. (“Carriage”, the “Company”, “we”, “us” or “our”) is a leading provider of deathcare services and merchandise in the United States. As of June 30, 2012, we owned and operated 164 funeral homes in 26 states and 33 cemeteries in 11 states.

Principles of Consolidation

The accompanying Consolidated Financial Statements include us and our subsidiaries. All significant intercompany balances and transactions have been eliminated.

Interim Condensed Disclosures

The information for the three and six month periods ended June 30, 2011 and June 30, 2012 is unaudited, but in the opinion of management, reflects all adjustments which are normal, recurring and necessary for a fair presentation of financial position and results of operations as of and for the interim periods presented. Certain information and footnote disclosures, normally included in annual financial statements, have been condensed or omitted. The accompanying Consolidated Financial Statements have been prepared consistent with the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2011 and should be read in conjunction therewith.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of the Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, realization of accounts receivable, goodwill, intangible assets, property and equipment and deferred tax assets. We base our estimates on historical experience, third party data and assumptions that we believe to be reasonable under the circumstances. The results of these considerations form the basis for making judgments about the amount and timing of revenues and expenses, the carrying value of assets and the recorded amounts of liabilities. Actual results may differ from these estimates and such estimates may change if the underlying conditions or assumptions change. Historical performance should not be viewed as indicative of future performance, as there can be no assurance the margins, operating income and net earnings as a percentage of revenues will be consistent from year to year.

Discontinued Operations

In accordance with our Strategic Acquisition Model, non-strategic businesses are reviewed to determine whether such businesses should be sold and the proceeds redeployed elsewhere. A marketing plan is then developed for those locations which are identified as held for sale. When we receive a letter of intent and financing commitment from a buyer and the sale is expected to occur within one year, the location is no longer reported within our continuing operations. The assets and liabilities associated with the location are reclassified as held for sale on the balance sheet and the operating results, as well as impairments, if any, are presented on a comparative basis in the discontinued operations section of the consolidated statements of operations, along with the income tax effect. There were no discontinued operations during 2011. We ended a management contract with a cemetery in Ohio in January 2012. See Note 5 to the Consolidated Financial Statements herein for more information.

Business Combinations

Tangible and intangible assets acquired and liabilities assumed are recorded at fair value and goodwill is recognized for any difference between the price of the acquisition and fair value. We customarily estimate related transaction costs known at closing. To the extent that information not available to us at the closing date of an acquisition subsequently becomes available during the allocation period, we may adjust goodwill, assets, or liabilities associated with such acquisition. Acquisition related costs are recognized separately from acquisitions and are expensed as incurred.

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During the second quarter of 2011, we completed two funeral home acquisitions. During the second quarter of 2012, we completed one acquisition comprised of two funeral homes and one cemetery. See Note 3 to the Consolidated Financial Statements herein for additional information on these acquisitions.

Stock Plans and Stock-Based Compensation

We have stock-based employee and director compensation plans in the form of restricted stock, stock options and employee stock purchase plans, which are described in more detail in Note 17 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011. We recognize compensation expense in an amount equal to the fair value of the share-based awards issued over the period of vesting. Fair value is determined on the date of the grant. The fair value of options or awards containing options is determined using the Black-Scholes valuation model. See Note 14 to the Consolidated Financial Statements herein for additional information on our stock-based compensation plans.

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.

Share-based awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are recognized as participating securities and included in the computation of both basic and diluted earnings per share. Our grants of restricted stock awards to our employees and directors are considered participating securities and we have prepared our earnings per share calculations to include outstanding unvested restricted stock awards in both the basic and diluted weighted average shares outstanding calculation. See Exhibit 11.1 to this Quarterly Report on Form 10-Q (this "Form 10-Q") for the computations of per share earnings for the three and six month periods ended June 30, 2011 and 2012.

Preneed Funeral and Cemetery Trust Funds

Our preneed and perpetual care trust funds are reported in accordance with the principles of consolidating Variable Interest Entities ("VIEs"). In the case of preneed trusts, the customers are the legal beneficiaries. In the case of perpetual care trusts, we do not have a right to access the corpus in the perpetual care trusts. For these reasons, we have recognized financial interests of third parties in the trust funds in our financial statements as *Deferred preneed funeral and cemetery receipts held in trust* and *Care trusts' corpus*. The investments of such trust funds are classified as available-for-sale and are reported at fair market value; therefore, the unrealized gains and losses, as well as accumulated and undistributed income and realized gains and losses are recorded to *Deferred preneed funeral and cemetery receipts held in trust* and *Care trusts' corpus* in our Consolidated Balance Sheets. Our future obligations to deliver merchandise and services are reported at estimated settlement amounts. Preneed funeral and cemetery trust investments are reduced by the trust investment earnings that we have been allowed to withdraw in certain states prior to maturity. These earnings, along with preneed contract collections not required to be placed in trust, are recorded in *Deferred preneed funeral revenue* and *Deferred preneed cemetery revenue* until the service is performed or the merchandise is delivered.

In accordance with respective state laws, we are required to deposit a specified amount into perpetual and memorial care trust funds for each interment/entombment right and certain memorials sold. Income from the trust funds is distributed to us and used to provide care and maintenance for the cemeteries and mausoleums. Such trust fund income is recognized as revenue when realized by the trust and distributable to us. We are restricted from withdrawing any of the principal balances of these funds.

An enterprise is required to perform an analysis to determine whether the enterprise's variable interest(s) give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both the power to direct the activities of a VIE that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity that could potentially be significant to the VIE, or the right to receive benefits from the entity that could potentially be significant to the VIE. Our analysis continues to support its position as the primary beneficiary in certain of our funeral and cemetery trust funds.

Fair Value Measurements

We define fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We disclose the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date. Additional required disclosures are provided herein in Note 11 to the Consolidated Financial Statements. The fair value disclosures to disclose transfers in and out of Levels 1 and 2 and the gross presentation of purchases, sales, issuances and settlements in the Level 3 reconciliation of the three-tier fair value hierarchy are also presented herein in Note 11 to the Consolidated Financial Statements. We currently do not have any assets that have fair values determined by Level 3 inputs and no liabilities measured at fair value. We have not elected to measure any additional financial instruments and certain other items at fair value that are not currently required to be measured at fair value.

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To determine the fair value of assets and liabilities in an environment where the volume and level of activity for the asset or liability have significantly decreased, the exit price is used as the fair value measurement. For the three and six month periods ended June 30, 2012, we did not incur significant decreases in the volume or level of activity of any asset or liability. We consider an impairment of debt and equity securities other-than-temporary unless (a) the investor has the ability and intent to hold an investment and (b) evidence indicating the cost of the investment is recoverable before we are more likely than not required to sell the investment. If impairment is indicated, then an adjustment is made to reduce the carrying amount to fair value. As of June 30, 2012, no impairments have been identified.

In the ordinary course of business, we are typically exposed to a variety of market risks. Currently, these are primarily related to changes in fair market values related to outstanding debts and changes in the values of securities associated with the preneed and perpetual care trusts. Management is actively involved in monitoring exposure to market risk and developing and utilizing appropriate risk management techniques when appropriate and when available for a reasonable price. Our 7^{7/8}% senior notes due 2015 (the "Senior Notes") were issued to the public at par in January 2005 and are carried at a cost of \$130.0 million. At June 30, 2012, these securities were typically trading at a price of approximately \$101.25 per share, indicating an aggregate fair market value of approximately \$131.6 million. Our convertible junior subordinated debentures, payable to Carriage Services Capital Trust (the "Trust"), pay interest at the fixed rate of 7% and are carried on our Consolidated Balance Sheets at a cost of approximately \$89.8 million. The fair value of these securities is estimated to be approximately \$76.3 million at June 30, 2012, based on available broker quotes of the corresponding preferred securities issued by the Trust.

Income Taxes

We and our subsidiaries file a consolidated U.S. Federal income tax return, separate income tax returns in 15 states and combined or unitary income tax returns in 11 states in which we operate. We record deferred taxes for temporary differences between the tax basis and financial reporting basis of assets and liabilities. We record 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.

We analyze tax benefits for uncertain tax positions and how they are to be recognized, measured, and derecognized in financial statements; provide certain disclosures of uncertain tax matters; and specify how reserves for uncertain tax positions should be classified on our Consolidated Balance Sheets. We have reviewed our income tax positions and identified certain tax deductions, primarily related to business acquisitions that are not certain. Our policy with respect to potential penalties and interest is to record them as "Other" expense and "Interest" expense, respectively. The entire balance of unrecognized tax benefits, if recognized, would affect our effective tax rate. We do not anticipate a significant increase or decrease in our unrecognized tax benefits during the next twelve months.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Fair Value Measurements

In May 2011, additional guidance was issued regarding how fair value measurements and disclosures should be applied where already required or permitted under International Financial Reporting Standards or U.S. Generally Accepted Accounting Principles. This new guidance clarifies and aligns the existing application of fair value measurement guidance and revises certain language. This guidance is effective for the first interim or annual period beginning after December 15, 2011, thus effective for us for the period beginning January 1, 2012. The adoption of this accounting standard update did not have a material impact on our Consolidated Financial Statements.

3. ACQUISITIONS

Our growth strategy includes the execution of our Strategic Acquisition Model. The goal of this model is to build concentrated groups of businesses in ten to fifteen strategic markets. We assess acquisition candidates using six strategic ranking criteria and to differentiate the price we are willing to pay. Those criteria are:

- Size of business;
- Size of market;
- Competitive standing;
- Demographics;
- Strength of brand; and
- Barriers to entry.

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During the second quarter of 2012, we completed one acquisition of two funeral homes and one cemetery. We paid \$4.8 million in cash as consideration for this acquisition. We acquired substantially all of the assets and assumed certain operating liabilities, including obligations associated with existing preneed contracts. The assets and liabilities were recorded at fair value and included goodwill of \$0.5 million. The pro forma impact of the acquisition on the prior periods is not presented as the impact is not material to reported results. Thus, the results of the acquired businesses are included in our results from the date of acquisition.

The effect of the acquisition on our Consolidated Balance Sheets at June 30, 2012 is as follows (in thousands):

Current assets	\$ 97
Preneed funeral trust investments	986
Property, plant & equipment	4,567
Goodwill	552
Cemetery perpetual care trust investments	478
Accrued liabilities	(67)
Deferred preneed cemetery revenue	(339)
Deferred preneed funeral receipts held in trust	(986)
Care trusts' corpus	(478)
Total consideration	<u>\$4,810</u>

4. GOODWILL

Many of the former owners and staff of acquired funeral homes have provided high quality service to families for generations. The resulting loyalty often represents a substantial portion of the value of a funeral business. The excess of the purchase price over the fair value of net identifiable assets acquired, as determined by management in business acquisition transactions accounted for as purchases, is recorded as goodwill.

The following table presents the changes in goodwill in our Consolidated Balance Sheets (in thousands):

	<u>June 30, 2012</u>
Goodwill as of December 31, 2011	\$ 193,962
Acquisitions	6,890
Goodwill at end of period	<u>\$ 200,852</u>

Changes in previous estimates are related to adjustments for inventory values.

5. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

We continually review locations to optimize the sustainable earning power and return on our invested capital. Our strategy, the Strategic Portfolio Optimization Model, also uses strategic ranking criteria to assess potential disposition candidates. The execution of this strategy entails selling generally non-strategic businesses.

There were no discontinued operations during 2011. During the first quarter of 2012, we ended a management agreement with a cemetery in Ohio. No businesses were held for sale at June 30, 2012.

The operating results of the discontinued cemetery business during the periods presented, as well as the gain on the disposal, are presented in the discontinued operations section of the Consolidated Statements of Operations, along with the income tax effect as follows (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2011	2012	2011	2012
Revenues	\$ 252	\$ —	\$ 440	\$ 13
Operating income (loss)	\$ 34	\$ —	\$ 35	\$ (9)
Loss on disposition	—	(1)	—	426
Benefit for income taxes	(14)	1	(14)	(167)
Income from discontinued operations	<u>\$ 20</u>	<u>\$ —</u>	<u>\$ 21</u>	<u>\$ 250</u>

6. PRENEED TRUST INVESTMENTS

Preneed Cemetery Trust Investments

Preneed cemetery trust investments represent trust fund assets that we are generally permitted to withdraw when the merchandise or services are provided. The components of *Preneed cemetery trust investments* in our Consolidated Balance Sheets at December 31, 2011 and June 30, 2012 are as follows (in thousands):

	<u>December 31, 2011</u>	<u>June 30, 2012</u>
Preneed cemetery trust investments	\$ 67,713	\$ 72,708
Less: allowance for contract cancellation	(2,031)	(2,193)
	<u>\$ 65,682</u>	<u>\$ 70,515</u>

Upon cancellation of a preneed cemetery contract, a customer is generally entitled to receive a refund of the corpus and some or all of the earnings held in trust. In certain jurisdictions, we are obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust, including some or all investment income. As a result, when realized or unrealized losses of a trust result in the trust being under-funded, we assess whether we are responsible for replenishing the corpus of the trust, in which case a loss provision is recorded.

We determine whether or not the assets in the preneed cemetery trusts have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria, including the length of time a security has been in a loss position, changes in market conditions, and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair market value. Any reduction in the cost basis due to an other-than-temporary impairment is recorded in *Deferred preneed cemetery receipts held in trust*. There is no impact on earnings unless and until such time that the asset is withdrawn from the trust in accordance with state regulations at an amount that is less than its original basis.

The cost and fair market values associated with preneed cemetery trust investments at June 30, 2012 are detailed below (in thousands).

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Market Value</u>
Cash and money market accounts	\$ 3,533	\$ —	\$ —	\$ 3,533
Fixed income securities:				
Corporate debt	34,945	1,220	(562)	35,603
Preferred stock	21,219	327	(360)	21,186
Mortgage Backed Securities	1	—	—	1
Common stock	9,534	9	(2,327)	7,216
Mutual funds:				
Equity	3,873	317	(30)	4,160
Trust securities	<u>\$73,105</u>	<u>\$ 1,873</u>	<u>\$ (3,279)</u>	<u>\$ 71,699</u>
Accrued investment income	<u>\$ 1,009</u>			<u>\$ 1,009</u>
Preneed cemetery trust investments				<u>\$ 72,708</u>
Fair market value as a percentage of cost				<u>98.1%</u>

The estimated maturities of the fixed income securities included above are as follows (in thousands):

Due in one year or less	\$ —
Due in one to five years	3,927
Due in five to ten years	20,875
Thereafter	31,988
Total	<u>\$56,790</u>

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Preneed cemetery trust investment security transactions recorded in *Interest income and other, net* in the Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2011 and 2012 are as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2012	2011	2012
Investment income	\$ 966	\$ 1,290	\$ 1,865	\$ 2,052
Realized gains	6,936	2,681	10,092	5,054
Realized losses	(475)	(2,195)	(546)	(2,309)
Expenses and taxes	(671)	(1,894)	(853)	(2,025)
(Increase) decrease in deferred preneed cemetery receipts held in trust	(6,756)	118	(10,558)	(2,772)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Purchases and sales of investments in the preneed cemetery trusts were as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2012	2011	2012
Purchases	\$(32,375)	\$(33,060)	\$(45,065)	\$(57,099)
Sales	32,869	33,404	45,676	57,492

Preneed Funeral Trust Investments

Preneed funeral trust investments represent trust fund assets that we are permitted to withdraw as services and merchandise are provided to customers. Preneed funeral contracts are secured by funds paid by the customer to us. Preneed funeral trust investments are reduced by the trust earnings we have been allowed to withdraw prior to our performance and amounts received from customers that are not required to be deposited into trust, pursuant to various state laws. The components of *Preneed funeral trust investments* in our Consolidated Balance Sheets at December 31, 2011 and June 30, 2012 are as follows (in thousands):

	December 31, 2011	June 30, 2012
Preneed funeral trust investments	\$ 78,227	\$ 82,351
Less: allowance for contract cancellation	(2,415)	(2,385)
	<u>\$ 75,812</u>	<u>\$ 79,966</u>

Upon cancellation of a preneed funeral contract, a customer is generally entitled to receive a refund of the corpus and some or all of the earnings held in trust. In certain jurisdictions, we are obligated to fund any shortfall if the amounts deposited by the customer exceed the funds in trust, including some or all investment income. As a result, when realized or unrealized losses of a trust result in the trust being under-funded, we assess whether we are responsible for replenishing the corpus of the trust, in which case a loss provision is recorded.

We determine whether or not the assets in the preneed funeral trusts have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions, and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair market value. Any reduction in the cost basis due to an other-than-temporary impairment is recorded as a reduction to *Deferred preneed funeral receipts held in trust*. There is no impact on earnings unless and until such time that this asset is withdrawn from the trust in accordance with state regulations at an amount that is less than its original basis.

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The cost and fair market values associated with preneed funeral trust investments at June 30, 2012 are detailed below (in thousands).

	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	\$13,725	\$ —	\$ —	\$13,725
Fixed income securities:				
U.S. Treasury debt	4,048	89	—	4,137
U.S. agency obligations	337	5	—	342
Corporate debt	22,096	1,165	(162)	23,099
Preferred stock	13,864	1,865	(155)	15,574
Other	44	—	(16)	28
Common stock	7,592	241	(917)	6,916
Mutual funds:				
Equity	11,234	194	(388)	11,040
Fixed income	4,438	178	—	4,616
Other investments	2,124	—	—	2,124
Trust securities	<u>\$79,502</u>	<u>\$ 3,737</u>	<u>\$ (1,638)</u>	<u>\$81,601</u>
Accrued investment income	<u>\$ 750</u>			<u>\$ 750</u>
Preneed funeral trust investments				<u>\$82,351</u>
Fair market value as a percentage of cost				<u>102.6%</u>

The estimated maturities of the fixed income securities included above are as follows (in thousands):

Due in one year or less	\$ 452
Due in one to five years	4,857
Due in five to ten years	13,016
Thereafter	24,855
Total	<u>\$43,180</u>

Preneed funeral trust investment security transactions recorded in *Interest income and other, net* in the Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2011 and 2012 are as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2012	2011	2012
Investment income	\$ 771	\$ 1,089	\$ 1,552	\$ 1,951
Realized gains	5,046	603	8,370	1,338
Realized losses	(375)	(1,727)	(488)	(2,177)
Expenses and taxes	(474)	(793)	(728)	(1,003)
(Increase) decrease in deferred preneed funeral receipts held in trust	<u>(4,968)</u>	<u>828</u>	<u>(8,706)</u>	<u>(109)</u>
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Purchases and sales of investments in the preneed funeral trusts are as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2012	2011	2012
Purchases	\$(27,452)	\$(13,721)	\$(44,703)	\$(31,594)
Sales	25,226	13,619	42,537	31,793

7. PRENEED CEMETERY RECEIVABLES

Preneed sales of cemetery interment rights and related products and services are usually financed through interest-bearing installment sales contracts, generally with terms of up to five years with such interest income reflected as *Preneed cemetery finance charges*. In substantially all cases, we receive an initial down payment at the time the contract is signed. Occasionally, we have offered zero percent interest financing to promote sales as limited-time offers. At June 30, 2012, the balances of preneed receivables for cemetery interment rights and for merchandise and services were \$20.9 million and \$8.1 million, respectively, of which \$9.9 million is presented in *Accounts receivable* and \$19.1 million is presented in *Preneed receivables*.

We determine an allowance for customer cancellations and refunds on contracts in which revenue has been recognized on sales of cemetery interment rights. We reserve 100% of the receivables on contracts in which the revenue has been recognized and payments are 120 days past due or more, which was approximately 5.9% of the total receivables on recognized sales at June 30, 2012. An allowance is recorded at the date that the contract is executed and periodically adjusted thereafter based upon actual collection experience at the business level. For the six months ended June 30, 2012, changes in the allowance for contract cancellations were as follows (in thousands):

	<u>June 30, 2012</u>
Beginning balance	\$ 1,487
Write-offs and cancellations	(98)
Provision	397
Ending balance	<u>\$ 1,786</u>

We have a collections policy where past due notifications are sent to the customer beginning at 15 days past due and periodically thereafter until 90 days past due. Any items on contracts that are past due 120 days are sent to a third-party collector.

The aging of past due financing receivables as of June 30, 2012 is as follows (in thousands):

	<u>31-60 Past Due</u>	<u>61-90 Past Due</u>	<u>91-120 Past Due</u>	<u>>120 Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Financing Receivables</u>
Recognized revenue	\$ 636	\$ 423	\$ 312	\$ 1,197	\$ 2,568	\$17,721	\$ 20,289
Deferred revenue	286	178	134	530	1,128	7,639	8,767
Total contracts	<u>\$ 922</u>	<u>\$ 601</u>	<u>\$ 446</u>	<u>\$ 1,727</u>	<u>\$ 3,696</u>	<u>\$25,360</u>	<u>\$ 29,056</u>

8. RECEIVABLES FROM PRENEED FUNERAL TRUSTS

The receivables from preneed funeral trusts represent assets in trusts which are controlled and operated by third parties in which we do not have a controlling financial interest (less than 50%) in the trust assets. We account for these investments at cost. As of June 30, 2012, receivables from preneed funeral trusts are as follows (in thousands):

	<u>December 31, 2011</u>	<u>June 30, 2012</u>
Preneed funeral trust funds	\$ 23,182	\$ 23,059
Less: allowance for contract cancellation	(695)	(693)
	<u>\$ 22,487</u>	<u>\$ 22,366</u>

9. CONTRACTS SECURED BY INSURANCE

Certain preneed funeral contracts are secured by life insurance contracts. Generally, the proceeds of the life insurance policies have been assigned to us and will be paid upon the death of the insured. The proceeds will be used to satisfy the beneficiary's obligations under the preneed contract for services and merchandise. Preneed funeral contracts secured by insurance totaled \$216.0 million and \$216.3 million at December 31, 2011 and June 30, 2012, respectively, and are not included in our Consolidated Balance Sheets.

10. CEMETERY PERPETUAL CARE TRUST INVESTMENTS

Care trusts' corpus on our Consolidated Balance Sheets represent the corpus of those trusts plus undistributed income. The components of Care trusts' corpus as of December 31, 2011 and June 30, 2012 are as follows (in thousands):

	December 31, 2011	June 30, 2012
Trust assets, at fair value	\$ 41,485	\$ 44,486
Obligations due from (to) trust	(106)	(205)
Care trusts' corpus	<u>\$ 41,379</u>	<u>\$ 44,281</u>

We are required by various state laws to deposit a portion of the proceeds from the sale of cemetery property interment rights into perpetual care trust funds. We determine whether or not the assets in the perpetual care trusts have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria, including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair market value. Any reduction in the cost basis due to an other-than-temporary impairment is recorded as a reduction to Care trusts' corpus.

The following table reflects the cost and fair market values associated with the trust investments held in perpetual care trust funds at June 30, 2012 (in thousands).

	Cost	Unrealized Gains	Unrealized Losses	Fair Market Value
Cash and money market accounts	\$ 1,748	\$ —	\$ —	\$ 1,748
Fixed income securities:				
Corporate debt	23,143	799	(378)	23,564
Preferred stock	13,907	173	(237)	13,843
Mortgage Backed Securities	1	—	—	1
Common stock	6,198	3	(1,535)	4,666
Trust securities	<u>\$44,997</u>	<u>\$ 975</u>	<u>\$ (2,150)</u>	<u>\$43,822</u>
Accrued investment income	<u>\$ 664</u>			<u>\$ 664</u>
Cemetery perpetual care trust investments				<u>\$44,486</u>
Fair market value as a percentage of cost				<u>97.4%</u>

The estimated maturities of the fixed income securities included above are as follows (in thousands):

Due in one year or less	\$ —
Due in one to five years	2,606
Due in five to ten years	13,820
Thereafter	20,982
	<u>\$37,408</u>

Perpetual care trust investment security transactions recorded in *Interest income and other, net* in the Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2011 and 2012 are as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2012	2011	2012
Undistributable realized gains	\$ 3,432	\$ 1,269	\$ 5,681	\$ 2,400
Undistributable realized losses	(218)	(1,027)	(315)	(1,079)
Increase in Care trusts' corpus	<u>(3,214)</u>	<u>(242)</u>	<u>(5,366)</u>	<u>(1,321)</u>
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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Perpetual care trust investment security transactions recorded in *Cemetery revenue* for the three and six months ended June 30, 2011 and 2012 are as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2012	2011	2012
Investment income	\$ 1,178	\$ 1,152	\$ 1,757	\$ 2,303
Realized gains	1,121	300	1,942	300
Total	<u>\$ 2,299</u>	<u>\$ 1,452</u>	<u>\$ 3,699</u>	<u>\$ 2,603</u>

Purchases and sales of investments in the perpetual care trusts were as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2012	2011	2012
Purchases	<u>\$(14,823)</u>	<u>\$(21,520)</u>	<u>\$(23,930)</u>	<u>\$(37,737)</u>
Sales	14,697	21,644	22,658	38,265

11. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date applicable for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. We disclose the extent to which fair value is used to measure financial assets and liabilities, the inputs utilized in calculating valuation measurements, and the effect of the measurement of significant unobservable inputs on earnings, or changes in net assets, as of the measurement date.

We evaluated our assets and liabilities for those financial assets and liabilities that met the criteria of the disclosure requirements and fair value framework. We identified investments in fixed income securities, common stock and mutual funds presented within the preneed and perpetual trust investments categories on our Consolidated Balance Sheets as having met such criteria. The following three-level valuation hierarchy based upon the transparency of inputs is utilized in the measurement and valuation of financial assets or liabilities as of the measurement date:

- Level 1—Fair value of securities based on unadjusted quoted prices for identical assets or liabilities in active markets. Our investments classified as Level 1 securities include common stock, certain fixed income securities, and equity mutual funds.
- Level 2—Fair value of securities estimated based on quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable or that can be corroborated by observable market data by correlation. These inputs include interest rates, yield curves, credit risk, prepayment speeds, rating, and tax-exempt status. Our investments classified as Level 2 securities include certain fixed income securities and fixed income mutual funds.
- Level 3—Unobservable inputs based upon the reporting entity's internally developed assumptions which market participants would use in pricing the asset or liability. As of June 30, 2012, we did not have any assets that had fair values determined by Level 3 inputs and no liabilities measured at fair value.

We account for our investments as available-for-sale and measure them at fair value under standards of financial accounting and reporting for investments in equity instruments that have readily determinable fair values and for all investments in debt securities.

Certain fixed income and other securities are reported at fair value using Level 2 inputs. For these securities, we use pricing services and dealer quotes. As of June 30, 2012, we did not have any liabilities measured at fair value.

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The following table summarizes the fair value hierarchy of the valuation techniques utilized by us to determine the fair values as of June 30, 2012 (in thousands).

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	June 30, 2012
Assets:				
Fixed income securities:				
U.S. Treasury debt	\$ 4,137	\$ —	\$ —	\$ 4,137
U.S. agency obligations	342	—	—	342
Preferred stock	—	50,603	—	50,603
Mortgage Backed Securities	—	2	—	2
Corporate debt	—	82,266	—	82,266
Other	—	28	—	28
Common stock	18,798	—	—	18,798
Mutual funds:				
Equity				
U.S. Large Cap	5,996	—	—	5,996
U.S. Mid Cap	960	—	—	960
U.S. Small Cap	1,040	—	—	1,040
International	2,239	—	—	2,239
U.S. REIT	806	—	—	806
Other	4,159	—	—	4,159
Fixed income				
U.S. Investment Grade	—	2,238	—	2,238
U.S. High Yield	—	2,378	—	2,378
Other				
Insurance	—	2,124	—	2,124
Total Assets	\$ 38,477	\$ 139,639	\$ —	\$ 178,116

There were no significant transfers between Levels 1 and 2 for the three and six months ended June 30, 2012.

12. LONG-TERM DEBT

We have outstanding a principal amount of \$130.0 million of the Senior Notes with interest payable semi-annually. Effective August 11, 2011, we entered into a new secured revolving credit facility (the "Credit Facility") with Wells Fargo Bank, N.A. which contains commitments for an aggregate of \$60.0 million with an accordion provision for up to an additional \$15.0 million. The Credit Facility matures in October 2014 and, under certain conditions, may be extended to October 2016. The Credit Facility is collateralized by the accounts receivable and all of our personal property. Borrowings under the Credit Facility bear interest at either the prime rate or LIBOR options. At June 30, 2012, the outstanding debt under this facility was \$17.3 million, the prime rate option was equivalent to 4.125% and the LIBOR margin was 1.875%. No letters of credit were issued and outstanding under the Credit Facility as of June 30, 2012. Interest is payable quarterly.

We have no material assets or operations independent of our subsidiaries. All assets and operations are held and conducted by subsidiaries, each of which (except for Carriage Services Capital Trust, which is a single purpose entity that holds our 7% debentures issued in connection with the issuance of the Trust's term income deferrable equity securities (TIDES) 7% convertible preferred securities) have fully and unconditionally guaranteed our obligations under the Senior Notes. Additionally, we do not currently have any significant restrictions on our ability to receive dividends or loans from any subsidiary guarantor under the Senior Notes.

We were in compliance with the covenants contained in the Credit Facility and the Senior Notes as of June 30, 2011 and 2012. Key ratios that we must comply with include a leverage ratio that as of the last day of each quarter must not be greater than 4.25 to 1.00 and a fixed charge coverage ratio that must not be less than 1.25 to 1.00. As of June 30, 2012, the leverage ratio was 3.32 to 1.00 and the fixed charge coverage ratio was 1.97 to 1.00.

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

13. COMMITMENTS AND CONTINGENCIES*Litigation*

We are a party to various litigation matters and proceedings. For each of our outstanding legal matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies, and the likelihood of an unfavorable outcome. We intend to defend ourselves in the lawsuits described herein. If we determine that an unfavorable outcome is probable and can be reasonably estimated, we establish the necessary accruals. We hold certain insurance policies that may reduce cash outflows with respect to an adverse outcome of certain of these litigation matters.

Leathermon, et al. v. Grandview Memorial Gardens, Inc., et al., United States District Court, Southern District of Indiana, Case No. 4:07-cv-137. On August 17, 2007, five plaintiffs filed a putative class action against the current and past owners of Grandview Cemetery in Madison, Indiana, including our subsidiaries that owned the cemetery from January 1997 until February 2001, on behalf of all individuals who purchased cemetery and burial goods and services at Grandview Cemetery. Plaintiffs are seeking monetary damages and claim that the cemetery owners performed burials negligently, breached Plaintiffs' contracts, and made misrepresentations regarding the cemetery. The Plaintiffs also allege that the claims occurred prior, during and after we owned the cemetery. On October 15, 2007, the case was removed from Jefferson County Circuit Court, Indiana to the Southern District of Indiana. On April 24, 2009, shortly before Defendants had been scheduled to file their briefs, in opposition to Plaintiffs' motion for class certification, Plaintiffs moved to amend their complaint to add new class representatives and claims, while also seeking to abandon other claims. We, as well as several other Defendants, opposed Plaintiffs' motion to amend their complaint and add parties. In April 2009, two Defendants moved to disqualify Plaintiffs' counsel from further representing Plaintiffs in this action. On June 30, 2010, the Court granted the Defendants' motion to disqualify Plaintiffs' counsel. In that order, the Court gave Plaintiffs 60 days within which to retain new counsel. On May 6, 2010, Plaintiffs filed a petition for writ of mandamus with the Seventh Circuit Court of Appeals seeking relief from the trial court's order of disqualification of counsel. On May 19, 2010, the Defendants responded to the petition of mandamus. On July 8, 2010, the Seventh Circuit denied Plaintiffs' petition for writ of mandamus. Thus, pursuant to the trial court's order, Plaintiffs were given 60 days from July 8, 2010 in which to retain new counsel to prosecute this action on their behalf. Plaintiffs retained new counsel and the trial court granted the newly retained Plaintiffs' counsel 90 days to review the case and advise the Court whether or not Plaintiffs would seek leave to amend their complaint to add and/or change the allegations as are currently stated therein and whether or not they would seek leave to amend the proposed class representatives for class certification. Plaintiffs moved for leave to amend both the class representatives and the allegations stated within the complaint. Defendants filed oppositions to such amendments. The Court issued an order permitting the Plaintiffs to proceed with amending the class representatives and a portion of their claims; however, certain of Plaintiffs' claims have been dismissed. Discovery in this matter will now proceed. We intend to defend this action vigorously. Because the lawsuit is in its preliminary stages, we are unable to evaluate the likelihood of an unfavorable outcome to us or to estimate the amount or range of any potential loss, if any, at this time.

14. STOCK-BASED COMPENSATION*Stock Options and Employee Stock Purchase Plan*

No stock options were awarded during the second quarter of 2012. As of June 30, 2012, there were 372,028 stock options outstanding and 227,793 stock options which remain unvested.

During the second quarter of 2012, employees purchased a total of 23,809 shares of common stock through the employee stock purchase plan ("ESPP") at a weighted average price of \$4.80 per share. We recorded pre-tax stock-based compensation expense for the ESPP and for stock options totaling \$95,000 and \$101,000 for the three months ended June 30, 2011 and 2012, respectively and \$172,000 and \$198,000 for the six months ended June 30, 2011 and 2012, respectively.

The fair value of the right (option) to purchase shares under the ESPP is estimated on the date of grant (January 1, 2012) associated with the four quarterly purchase dates using the following assumptions:

	2011	2012
Dividend yield	0%	1.7%
Expected volatility	29%	32%
Risk-free interest rate	0.15%, 0.19%, 0.24%, 0.29%	0.02%, 0.06%, 0.09%, 0.12%
Expected life (years)	0.25, 0.50, 0.75, 1.00	0.25, 0.50, 0.75, 1.00

Expected volatilities are based on the historical volatility during the previous twelve months of the underlying common stock. The risk-free rate for the quarterly purchase periods is based on the U.S. Treasury yields in effect at the time of grant (January 1). The expected life of the ESPP grants represents the calendar quarters from the grant date (January 1) to the purchase date (end of each quarter).

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Common Stock Grants to Officers and Key Employees

We, from time to time, issue shares of restricted common stock to certain officers and key employees from our stock benefit plans. The restricted stock shares issued to officers and key employees vest in either 25% or 33 1/3% increments over four or three year periods, respectively. Related to the vesting of restricted stock awards previously awarded to our officers and employees, we recorded \$379,000 and \$363,000 in pre-tax compensation expense, included in general, administrative and other expenses, for the three months ended June 30, 2011 and 2012, respectively, and \$761,000 and \$604,000 in pre-tax compensation expense for the six months ended June 30, 2011 and 2012, respectively. During the second quarter of 2012, we awarded a grant of 14,000 shares of restricted common stock to two new employees, which will vest over a three year period and have an aggregate grant date market value of \$0.1 million.

Director Compensation Policy

On March 5, 2012, our Board of Directors (our "Board") approved a new Director Compensation Policy, which provides for the following: (a) the chairman of our Audit Committee receives an annual cash retainer of \$17,500, the chairman of our Compensation and our Corporate Governance Committees receives an annual cash retainer of \$15,000; and the Lead Director of our Board receives an annual cash retainer of \$115,000, payable in quarterly installments; (b) each independent director of our Board receives an annual cash retainer of \$40,000 paid on a quarterly basis and an annual equity retainer of \$75,000 in shares of our common stock issued at our annual meeting of stockholders. Additionally, each independent director receives \$2,000 for each regular or special meeting of the full Board of Directors, our Audit Committee and our Executive Committee attended in person or by phone. Members of the other committees and their chairmen receive \$1,600 for each committee meeting held in person or by phone that such director attends. Under our Director Compensation Policy, the annual cash retainers for each committee chairman and the annual equity retainer are paid on the date of our annual meeting of stockholders, which for this year was held on May 23, 2012. Prior to the approval of the new Director Compensation Policy, there were two meetings for which directors were paid under the previous policy.

We recorded \$354,000 and \$455,000 in pre-tax compensation expense, included in general, administrative and other expenses, for the three months ended June 30, 2011 and 2012, respectively, and \$407,000 and \$616,000 in pretax compensation expense for the six months ended June 30, 2011 and 2012, respectively, related to the director fees, annual retainers and deferred compensation amortization.

As of June 30, 2012, we had \$3.3 million of unrecognized compensation costs related to unvested restricted stock awards, which are expected to be recognized over a weighted average period of approximately 2.0 years.

Cash Dividends

The Board declared a quarterly dividend of \$0.025 per share, totaling \$449,000, which was paid on June 1, 2012 to record holders of our common stock as of May 15, 2012. For the six months ending June 30, 2012, we had paid approximately \$903,000 in dividends. We have a dividend reinvestment program so that stockholders may elect to reinvest their dividends into additional shares of our common stock.

15. SHARE REPURCHASE PROGRAM

During May 2012, our Board approved an increase to the share repurchase program authorizing us to purchase an additional \$3 million of our common stock up to a total of \$8 million. The repurchases are executed in the open market and through privately negotiated transactions subject to market conditions, normal trading restrictions and other relevant factors. For the six months ending June 30, 2012, we repurchased 686,208 shares of common stock at an aggregate cost of \$4.5 million and an average cost per share of \$6.60. The repurchased shares are held as treasury stock.

16. RELATED PARTY TRANSACTIONS

Mr. Richard W. Scott, a member of our Board, is the Chief Investment Officer of an otherwise unrelated company that holds for investment purposes \$7.3 million of our Senior Notes. As of June 30, 2012, we had \$130.0 million of Senior Notes outstanding.

17. MAJOR SEGMENTS OF BUSINESS

We conduct funeral and cemetery operations only in the United States. The following table presents revenue, pre-tax income and total assets by segment (in thousands):

	<u>Funeral</u>	<u>Cemetery</u>	<u>Corporate</u>	<u>Consolidated</u>
Revenues from continuing operations:				
Six months ended June 30, 2012	\$ 78,400	\$ 23,953	\$ —	\$ 102,353
Six months ended June 30, 2011	\$ 74,673	\$ 23,651	\$ —	\$ 98,324
Income (loss) from continuing operations before income taxes:				
Six months ended June 30, 2012	\$ 24,638	\$ 5,961	\$ (19,064)	\$ 11,535
Six months ended June 30, 2011	\$ 22,067	\$ 6,292	\$ (18,500)	\$ 9,859
Total assets:				
June 30, 2012	\$451,189	\$230,055	\$ 16,951	\$ 698,195
December 31, 2011	\$423,714	\$226,177	\$ 22,886	\$ 672,777

18. SUPPLEMENTAL DISCLOSURE OF STATEMENT OF OPERATIONS INFORMATION

The following information is supplemental disclosure for the Consolidated Statements of Operations (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2012	2011	2012
Revenues				
Goods				
Funeral	\$13,986	\$14,945	\$29,590	\$ 31,122
Cemetery	8,069	7,947	15,131	14,951
Total goods	\$22,055	\$22,892	\$44,721	\$ 46,073
Services				
Funeral	\$19,309	\$20,624	\$40,867	\$ 43,276
Cemetery	2,469	2,445	4,963	4,845
Total services	\$21,778	\$23,069	\$45,830	\$ 48,121
Financial revenue				
Preneed funeral commission income	\$ 414	\$ 450	\$ 887	\$ 901
Preneed funeral trust earnings	1,856	1,382	3,329	3,101
Cemetery trust earnings	1,221	1,795	2,878	3,311
Cemetery finance charges	331	478	679	846
Total financial revenue	\$ 3,822	\$ 4,105	\$ 7,773	\$ 8,159
Total revenues	\$47,655	\$50,066	\$98,324	\$102,353
Cost of revenues				
Goods				
Funeral	\$11,685	\$12,570	\$24,553	\$ 25,150
Cemetery	5,910	6,017	11,258	11,536
Total goods	\$17,595	\$18,587	\$35,811	\$ 36,686
Services				
Funeral	\$10,290	\$10,771	\$21,545	\$ 21,509
Cemetery	1,565	1,627	3,146	3,290
Total services	\$11,855	\$12,398	\$24,691	\$ 24,799
Financial expenses				
Preneed funeral commissions	\$ 391	\$ 349	\$ 734	\$ 700
Total financial expenses	\$ 391	\$ 349	\$ 734	\$ 700
Total cost of revenues	\$29,841	\$31,334	\$61,236	\$ 62,185

The costs of revenues, for purposes of this supplemental disclosure, include only field costs and expenses that are directly allocable between the goods, services and financial categories in the funeral and cemetery segments. Depreciation and amortization and regional and unallocated funeral and cemetery costs are not included in this disclosure.

19. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following information is supplemental disclosure for the Consolidated Statements of Cash Flows (in thousands):

	For the six months ended June 30,	
	2011	2012
Cash paid for interest and financing costs	\$ 8,810	\$8,968
Cash paid for income taxes	670	818
Fair value of stock and stock options issued to directors, officers and certain employees	1,991	2,650
Restricted common stock withheld for payroll taxes	301	303
Net (deposits)/withdrawals into/from preneed funeral trusts	2,290	(285)
Net (deposits)/withdrawals into/from preneed cemetery trusts	581	(856)
Net withdrawals from perpetual care trusts	310	874
Net decrease in preneed funeral receivables	375	218
Net (increase)/decrease in preneed cemetery receivables	210	(668)
Net (deposits)/withdrawals of receivables from preneed funeral trusts	(369)	121
Net change in preneed funeral receivables increasing/(decreasing) deferred revenue	105	(278)
Net change in preneed cemetery receivables increasing/(decreasing) deferred revenue	(149)	102
Net deposits/(withdrawals) from preneed funeral trust accounts increasing/(decreasing) deferred preneed funeral receipts	(2,290)	285
Net deposits/(withdrawals) in cemetery trust accounts increasing/(decreasing) deferred cemetery receipts	(581)	856
Net withdrawals in perpetual care trust accounts decreasing perpetual care trusts' corpus	(366)	(973)

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-Q contains certain statements and information that may constitute forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include any projections of earnings, revenues, asset sales, cash flow, debt levels or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing and are based on our current expectations and beliefs concerning future developments and their potential effect on us. The words “may”, “will”, “estimate”, “intend”, “believe”, “expect”, “project”, “forecast”, “foresee”, “should”, “would”, “could”, “plan”, “anticipate” and other similar words or expressions are intended to identify forward-looking statements, which are generally not historical in nature. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- the execution of our Standards Operating Model;
- changes in the number of deaths in our markets;
- changes in consumer preferences;
- ability to find and retain skilled personnel;
- the effects of competition;
- the investment performance of our funeral and cemetery trust funds;
- fluctuations in interest rates;
- our ability to obtain debt or equity financing on satisfactory terms to fund additional acquisitions, expansion projects, working capital requirements and the repayment or refinancing of indebtedness;
- death benefits related to preneed funeral contracts funded through life insurance contracts;
- our ability to generate preneed sales;
- the financial condition of third-party insurance companies that fund our preneed funeral contracts;
- increased or unanticipated costs, such as insurance or taxes;
- effects of the application of applicable laws and regulations, including changes in such regulations or the interpretation thereof; and
- other factors and uncertainties inherent in the deathcare industry.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see (i) Part II, Item 1A “Risk Factors” in this Form 10-Q and (ii) Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

General

We operate two types of businesses: funeral homes, which account for approximately 75% of our revenues, and cemeteries, which account for approximately 25% of our revenues. Funeral homes are principally service businesses that provide funeral services (traditional burial and cremation) and sell related merchandise, such as caskets and urns. Cemeteries are primarily a sales business that sells interment rights (grave sites and mausoleum spaces) and related merchandise, such as markers and outer burial containers. As of June 30, 2012, we operated 164 funeral homes in 26 states and 33 cemeteries in 11 states within the United States. Substantially all administrative activities are conducted in our home office in Houston, Texas.

We have implemented long-term initiatives in our operations designed to improve operating and financial results by growing market share and increasing profitability. We have a decentralized, entrepreneurial, and local operating model that includes operating and financial standards developed from our best operations, along with incentive compensation plans to reward business managers for successfully meeting or exceeding the standards. The model essentially eliminates the use of line-item financial budgets in favor of the standards. The operating model and standards, to which we refer as the "Standards Operating Model," focus on the key drivers of a successful operation, organized around three primary areas – market share, people and operating and financial metrics. The model and standards are the measures by which we judge the success of each business. To date, the Standards Operating Model has driven significant changes in our organization, leadership, and operating practices. Most importantly, the Standards Operating Model allows us to measure the sustainable revenue growth and earning power of our portfolio of deathcare businesses, which then led to the development of our Strategic Acquisition Model, described below under "Acquisitions," that guides our acquisition and disposition strategy. We expect both models to drive long-term, sustainable increases in market share, revenue, earnings and cash flow. The standards are not designed to produce maximum short-term earnings because we do not believe such performance is sustainable without ultimately stressing the business, which often leads to declining market share, revenues and earnings. Important elements of the Standards Operating Model include:

- *Balanced Operating Model* – We believe a decentralized structure works best in the deathcare industry. Successful execution of the Standards Operating Model is highly dependent on strong local leadership, intelligent risk taking, entrepreneurial drive, and corporate support aligned with what we believe are the key drivers of a successful operation, organized around three primary areas – market share, people and operating and financial metrics.
- *Incentives Aligned with Standards* – Empowering Managing Partners to do the right things in their operations and local communities and providing appropriate support with operating and financial practices, will enable long-term growth and sustainable profitability. Each Managing Partner participates in variable bonus plans whereby he or she earns a percentage of his or her business' earnings based upon the actual standards achieved as long as its performance exceeds our minimum standards.
- *The Right Local Leadership* – Successful execution of our operating model is highly dependent on strong local leadership (as defined by our 4E Leadership Model), intelligent risk taking, and entrepreneurial empowerment. Over time, a Managing Partner's performance is judged according to his or her achievement of the Standards for that business.

Funeral and Cemetery Operations

Factors affecting our funeral operating results include: demographic trends in terms of population growth and average age, which impact death rates and number of deaths; establishing and maintaining leading market share positions supported by strong local heritage and relationships; effectively responding to increasing cremation trends by packaging complementary services and merchandise; controlling salary and variable costs; and exercising pricing leverage related to our at-need business by increasing average revenues per funeral. In simple terms, volume and price are the two variables that affect funeral revenues. The average revenue per contract is influenced by the mix of traditional burial and cremation services because our average cremation service revenue is approximately one-third of the average revenue earned from a traditional burial service. Funeral homes have a relatively fixed cost structure. Thus, small changes in revenues, up or down, normally cause significant changes to our profitability.

Our funeral volumes have increased gradually from 23,366 in 2007 to 27,663 in 2011 (compounded annual increase of 4.3%). Our funeral operating revenue has increased from \$119.2 million in 2007 to \$137.0 million in 2011 (compounded annual increase of 3.5%). The increases are primarily because of businesses we acquired in 2007 through 2011 and our ability to increase the average revenue per funeral through expanded service offerings and packages. We experienced an increase of 2.7% in volumes and 5.6% in funeral operating revenues in the first six months of 2012 compared to the first six months of 2011, primarily as a result of the acquisitions completed during the trailing twelve months.

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The percentage of funeral services involving cremations has increased from 35.8% for the year ended 2007 to 46.4% for the year ended 2011, and was 46.6% for the first six months of 2012. A significant portion of that trend is the result of acquiring businesses in high cremation areas. On a same store basis, the cremation rate has risen to 45.0% for the first six months of 2012, up from 42.1% for the year ended December 31, 2011, and 44.1% for the comparable six month period in 2011.

Cemetery operating results are affected by the size and success of our sales organization. Approximately 50% of our cemetery revenues for the year ended December 31, 2011 related to preneed sales of interment rights and the delivery of related merchandise and services. For the six months ended June 30, 2012, those preneed sales were approximately 48% of cemetery revenues. We believe that changes in the level of consumer confidence (a measure of whether consumers will spend for discretionary items) also affect the amount of cemetery revenues. Currently, approximately 17% of our cemetery revenues are attributable to investment earnings on trust funds and finance charges on preneed installment contracts. Changes in the capital markets and interest rates affect this component of our cemetery revenues.

Our cemetery financial performance from 2007 through 2011 was characterized by fluctuating operating revenues and field level profit margins. Cemetery operating revenue increased from \$37.4 million in 2007 to \$38.1 million in 2011. Our goal is to build stronger teams of sales leaders and counselors in our larger and more strategically located cemeteries in order to focus on growth of our preneed property sales. Additionally, a portion of our capital expenditures in 2012 is designated to expand our cemetery product offerings.

Financial Revenue

We 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. Preneed contracts permit families to eliminate issues of making deathcare decisions at the time of need and allow input from other family members before the death occurs. We guarantee the price and performance of the preneed contracts to the customer.

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 an element of growth (earnings) designed to offset future inflationary cost increases. Revenue from preneed funeral contracts, along with accumulated earnings, is not recognized until the time the funeral service is performed. The accumulated earnings from the trust investments and insurance policies is intended to offset the inflation in funeral prices. Additionally, we generally earn a commission from the insurance company from the sale of insurance-funded policies reflected as *Preneed Insurance Commission*. The commission income is recognized as revenue when the period of refund expires (generally one year), which helps us defray the costs we incur to originate the preneed contract (primarily commissions we pay to our sales counselors).

Preneed sales of cemetery interment rights are usually financed through interest-bearing installment sales contracts, generally with terms of up to five years, with such interest income reflected as *Preneed Cemetery Finance Charges*. In substantially all cases, we receive an initial down payment at the time the contract is signed. Occasionally, we have offered zero percent or low interest financing to promote sales as limited-time offers, and in those cases we impute interest at market rates and discount the sales value.

We have established a variety of trusts in connection with funeral home and cemetery operations as required under applicable state laws. Such trusts include (i) preneed funeral trusts; (ii) preneed cemetery merchandise and service trusts; and (iii) perpetual care trusts. These trusts are typically administered by independent financial institutions selected by the Company. Independent financial advisors are also used for investment management and advisory services.

Preneed funeral trust fund income earned and the receipt and recognition of any insurance benefits are deferred until the service is performed. Applicable state laws generally require us to deposit a specified amount (which varies from state to state, generally 50% to 100% of the selling price) into a merchandise and service trust fund for preneed cemetery merchandise and service sales. The related trust fund income earned is recognized when the related merchandise and services are delivered. In most states, regulations require a portion (generally 10%) of the sale amount of cemetery property and memorials to be placed in a perpetual care trust. The income from perpetual care trusts provides a portion of the funds necessary to maintain the cemetery property and memorials in perpetuity. Perpetual care trust fund income is recognized as earned, in *Cemetery revenues*.

Acquisitions

Our growth strategy includes the execution of our Strategic Acquisition Model. The goal of this model is to ensure value addition to the company through acquisitions by assessing the sustainable earning power of an acquisition candidate and investing in that business at an appropriate price. The prequalification of an acquisition candidate is determined by a ranking which includes territory demographics, customer preferences, market size, market share, barriers to entry, and volume and price trends (which reflects the business mix). The candidate is also assessed using our Standards Operating Model. The valuation of

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the acquisition candidate is then determined through a discounted cash flow model. During 2011, we acquired six funeral home businesses and no cemetery businesses. The consideration paid for the 2011 acquisitions was \$18.6 million. During the first six months of 2012, we acquired four funeral homes and one cemetery for \$16.4 million.

Financial Highlights

Net income for the three months ended June 30, 2012 totaled \$2.7 million, equal to \$0.15 per diluted share, compared to net income for the three months ended June 30, 2011, which totaled \$2.6 million, equal to \$0.14 per diluted share. Net income for the six months ended June 30, 2012 totaled \$7.1 million, equal to \$0.39 per diluted share, compared to \$5.9 million for the six months ended June 30, 2011, or \$0.32 per diluted share. Total revenue for the three and six months ended June 30, 2012 was \$50.1 million and \$102.4 million, respectively, an increase of 5.1% and 4.1%, respectively, compared to \$47.7 million and \$98.3 million, respectively, for the comparable periods in 2011. Our funeral segment experienced increases in revenue and gross profit primarily as a result of our acquisitions. The cemetery segment experienced increases in revenue during the three and six month periods due to higher trust fund earnings. Cemetery gross profit was higher for the three months ended June 30, 2012, yet slightly lower for the six months ended June 30, 2012. We experienced increases in general and administrative expenses in the three months ended June 30, 2012 due to increases in severance, legal and acquisition expenses.

In certain states, we are allowed to withdraw realized trust earnings prior to delivery from cemetery merchandise and services trusts, which management describes as "Withdrawable trust income." The Withdrawable trust income totaled \$2.2 million and \$3.6 million, respectively, for the three and six month periods ended June 30, 2011, and \$0.1 million and \$0.8 million, respectively, for the three and six month periods ended June 30, 2012; the year over year decline was attributable to substantial gains realized in the trust funds during the second quarter of 2011. While the Withdrawable trust income is not recognized as revenue in our consolidated statements of operations, it increases cash flow from operations.

We are providing below a reconciliation of Non-GAAP net income (a non-GAAP measure) to net income from continuing operations (a GAAP measure). Non-GAAP net income is defined as net income from continuing operations, then adjusting for special items, including Withdrawable trust income and acquisition expenses. Non-GAAP net income is used as a supplemental financial measurement by management and investors to compare our current financial performance with our previous results and with the performance of other deathcare companies. The adjustment of special items in Non-GAAP income allows management to focus on the evaluation of operating performance as it primarily relates to our operating expenses. We do not intend for this information to be considered in isolation or as a substitute for other measures of performance prepared in accordance with GAAP.

(In millions, except diluted EPS)

	Three Months Ended June 30,			
	2011		2012	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income from continuing operations, as reported	\$ 2.6	\$ 0.14	\$ 2.7	\$ 0.15
After-tax special items:				
Withdrawable trust income	1.3	0.07	—	—
Acquisition expenses	0.1	0.01	0.1	0.01
Gain on repurchase of subordinated debentures	(0.2)	(0.01)	—	—
Other expenses	0.2	0.01	0.1	—
Non-GAAP net income	<u>\$ 4.0</u>	<u>\$ 0.22</u>	<u>\$ 2.9</u>	<u>\$ 0.16</u>
Diluted weighted average shares outstanding (in thousands)		18,407		18,153

(In millions, except diluted EPS)

	Six Months Ended June 30,			
	2011		2012	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income from continuing operations, as reported	\$ 5.9	\$ 0.32	\$ 6.9	\$ 0.38
After-tax special items:				
Withdrawable trust income	2.1	0.12	0.5	0.02
Securities transaction expenses	0.3	0.01	—	—
Acquisition expenses	0.1	0.01	0.4	0.02
Severance costs	0.1	—	0.3	0.02
Gain on repurchase of subordinated debentures	(0.2)	(0.01)	—	—
Non-GAAP net income	<u>\$ 8.3</u>	<u>\$ 0.45</u>	<u>\$ 8.1</u>	<u>\$ 0.44</u>
Diluted weighted average shares outstanding (in thousands)		18,340		18,237

OVERVIEW OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate estimates and judgments, including those related to revenue recognition, realization of accounts receivable, inventories, goodwill, other intangible assets, property and equipment, and deferred tax assets. We base our estimates on historical experience, third party data, and assumptions that we believe to be reasonable under the circumstances. The results of these considerations form the basis for making judgments about the amount and timing of revenues and expenses, the carrying value of assets, and the recorded amounts of liabilities. Actual results may differ from these estimates and such estimates may change if the underlying conditions or assumptions change. Historical performance should not be viewed as indicative of future performance, because there can be no assurance the margins, operating income, and net earnings as a percentage of revenues will be consistent from year to year.

Management's discussion and analysis of financial condition and results of operations ("MD&A") is based upon our Consolidated Financial Statements presented herewith, which have been prepared in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are more fully described in Note 1 to our Consolidated Financial Statements included in this Form 10-Q. Our critical accounting policies are those that are both important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective, and complex judgment. These critical accounting policies are discussed in MD&A in our Annual Report on Form 10-K for the year ended December 31, 2011. There have been no significant changes to our critical accounting policies since the filing of our Annual Report on Form 10-K for the year ended December 31, 2011.

RESULTS OF OPERATIONS

The following is a discussion of our results of continuing operations for the three and six month periods ended June 30, 2011 and 2012. The term “same store” or “existing operations” refers to funeral homes and cemeteries acquired prior to January 1, 2008 and owned and operated for the entirety of each period being presented. Funeral homes and cemeteries purchased after December 31, 2007 are referred to as “acquired.” This classification of acquisitions has been important to management and investors in monitoring the results of these businesses and to gauge the leveraging performance contribution that a selective acquisition program can have on the total company performance. Depreciation and amortization and regional and unallocated funeral and cemetery costs are not included in operating profit.

Funeral Home Segment. The following tables set forth certain information regarding the revenues and operating profit from the funeral home operations for the three months ended June 30, 2011 compared to the three months ended June 30, 2012 and the six months ended June 30, 2011 compared to the six months ended June 30, 2012.

Three months ended June 30, 2011 compared to three months ended June 30, 2012 (dollars in thousands):

	Three Months Ended June 30,		Change	
	2011	2012	Amount	%
Revenues:				
Same store operating revenue	\$30,122	\$29,621	\$ (501)	(1.7)%
Acquired operating revenue	3,173	5,948	2,775	87.5%
Preneed funeral insurance commissions	414	450	36	8.7%
Preneed funeral trust earnings	1,856	1,382	(474)	(25.5%)
Total	\$35,565	\$37,401	\$ 1,836	5.2%
Operating profit:				
Same store operating profit	\$10,616	\$10,437	\$ (179)	(1.7)%
Acquired operating profit	704	1,791	1,087	154.4%
Preneed funeral insurance commissions	23	101	78	339.1%
Preneed funeral trust earnings	1,856	1,382	(474)	(25.5%)
Total	\$13,199	\$13,711	\$ 512	3.9%

Funeral home same store operating revenues for the three months ended June 30, 2012 decreased \$0.5 million, or 1.7%, when compared to the three months ended June 30, 2011, as we experienced a 4.7% decrease in the number of contracts, and the average revenue per contract increased 1.7%, or \$91 per contract, to \$5,489 for those existing operations. The average revenue per contract includes the impact of the funeral trust fund earnings recognized at the time that we provide the services pursuant to the preneed contract. Excluding funeral trust earnings, the average revenue per contract increased 3.2% to \$5,258. The number of traditional burial contracts declined 6.6% while the average revenue per burial contract increased 2.1% to \$8,311. The cremation rate for the same store businesses declined slightly from 44.6% to 44.3%. The average revenue per same store cremation contract increased 4.6% to \$3,049 while the number of cremation contracts decreased 5.4%. Cremations with services declined from 36.7% of total cremation contracts in the second quarter of 2011 to 34.3% in the second quarter of 2012. The average revenue for “other” contracts, which make up approximately 7.9% of the total number of contracts, increased 8.0% from \$1,967 to \$2,124. Other contracts consist of charges for merchandise or services for which we do not perform a funeral service for the deceased during the period.

Same store operating profit for the three months ended June 30, 2012 decreased \$0.2 million, or 1.7%, from the comparable three months of 2011, and as a percentage of funeral same store operating revenue, remained consistent at 35.2%. The decline in profit is primarily the result of the decline in revenue offset by lower health care costs in the current quarter.

Funeral home acquired revenues for the three months ended June 30, 2012 increased \$2.8 million, or 87.5%, when compared to the three months ended June 30, 2011, as we experienced a 58.7% increase in the number of contracts, and an increase of 17.6%, to \$4,499, in the average revenue per contract for those acquired operations. Excluding funeral trust earnings, the average revenue per contract increased 18.1% to \$4,435. The cremation rate for the acquired businesses was 52.5% for the second quarter of 2012, down from 61.2% in the prior year period. The average revenue per cremation contract increased 5.1% to \$2,842 for the second quarter of 2012 and the number of cremation contracts increased 36.2% compared to the same period of 2011. The reason for the large increase in the average revenue per contract and the significant decline in the cremation rate is because the businesses acquired during the fourth quarter of 2011 and in the first six months of 2012 serve primarily traditional burial families.

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Acquired operating profit for the three months ended June 30, 2012 increased \$1.1 million from the comparable three months of 2011 and, as a percentage of revenue from acquired businesses, was 22.2% for the second quarter of 2011 compared to 30.1% for the second quarter of 2012. The improvement in operating profit margin is largely attributable to the businesses acquired in the fourth quarter of 2011 and the first six months of 2012.

The two categories of financial revenue (insurance commissions and trust earnings on matured preneed contracts) on a combined basis decreased 19.3% in revenue and 21.1% in operating profit, compared to the three months ended June 30, 2011 as a result of lower earnings on insurance contracts.

Six months ended June 30, 2011 compared to six months ended June 30, 2012 (dollars in thousands):

	Six Months Ended June 30,		Change	
	2011	2012	Amount	%
Revenues:				
Same store operating revenue	\$64,208	\$62,046	\$(2,162)	(3.4)%
Acquired operating revenue	6,249	12,352	6,103	97.7%
Preneed funeral insurance commissions	887	901	14	1.6%
Preneed funeral trust earnings	3,329	3,101	(228)	(6.8)%
Total	\$74,673	\$78,400	\$ 3,727	5.0%
Operating profit:				
Same store operating profit	\$22,843	\$23,457	\$ 614	2.7%
Acquired operating profit	1,516	4,282	2,766	182.4%
Preneed funeral insurance commissions	153	201	48	31.4%
Preneed funeral trust earnings	3,329	3,101	(228)	(6.8)%
Total	\$27,841	\$31,041	\$ 3,200	11.5%

Funeral home same store operating revenues for the six months ended June 30, 2012 decreased \$2.2 million, or 3.4%, when compared to the six months ended June 30, 2011, as we experienced a 5.5% decrease in the number of contracts, and the average revenue per contract increased 1.9%, or \$105 per contract, to \$5,495 for those existing operations. The average revenue per contract includes the impact of the funeral trust fund earnings recognized at the time that we provide the services pursuant to the preneed contract. Excluding funeral trust earnings, the average revenue per contract increased 2.2% to \$5,248. The number of traditional burial contracts declined 8.4% while the average revenue per burial contract increased 3.4% to \$8,349. The cremation rate for the same store businesses rose from 44.1% to 45.0%. The average revenue per same store cremation contract increased 4.1% to \$3,052 and the number of cremation contracts decreased 3.6%. Cremations with services declined from 37.2% of total cremation contracts in the six months ended June 30, 2011 to 34.9% in the second quarter of 2012. The average revenue for "other" contracts, which make up approximately 7.5% of the total number of contracts, decreased 1.7% from \$2,107 to \$2,071.

Same store operating profit for the six months ended June 30, 2012 increased \$0.6 million, or 2.7%, from the comparable six months of 2011, and as a percentage of funeral same store operating revenue, increased from 35.6% to 37.8%. Substantially all of the expense categories were lower compared to the six months ended June 30, 2011, and the biggest areas of improvement included a \$0.9 million decline in discounts given on contracts, a \$1.3 million decline in health care costs and a \$1.1 million decline in salaries and wages.

Funeral home acquired revenues for the six months ended June 30, 2012 increased \$6.1 million, or 97.7%, when compared to the six months ended June 30, 2011, as we experienced a 62.9% increase in the number of contracts, and an increase of 21.0%, to \$4,526, in the average revenue per contract for those acquired operations. Excluding funeral trust earnings, the average revenue per contract increased 21.3% to \$4,461. The cremation rate for the acquired businesses was 53.2% for the six months ended June 30, 2012, down from 62.2% in the prior year period. The average revenue per cremation contract increased 8.4% to \$2,952 for the six months ended June 30, 2012 and the number of cremation contracts increased 39.3%.

Acquired operating profit for the six months ended June 30, 2012 increased \$2.8 million from the comparable six months of 2011 and, as a percentage of revenue from acquired businesses, was 24.3% for the six months ended June 30, 2011 compared to 34.7% for six months ended June 30, 2012. The improvement in operating profit margin is largely attributable to higher margins in those acquired businesses that have been in our Company for less than one year.

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The two categories of financial revenue, insurance commissions and trust earnings on matured preneed contracts, on a combined basis, decreased 5.1% in revenue and 5.2% in operating profit, compared to the six months ended June 30, 2011.

Cemetery Segment. The following tables set forth certain information regarding our revenues and operating profit from the cemetery operations for the three months ended June 30, 2011 compared to the three months ended June 30, 2012 and for the six months ended June 30, 2011 compared to the six months ended June 30, 2012.

Three months ended June 30, 2011 compared to three months ended June 30, 2012 (dollars in thousands):

	Three Months Ended June 30,		Change	
	2011	2012	Amount	%
Revenues:				
Same store operating revenue	\$10,538	\$10,392	\$ (146)	(1.4)%
Cemetery trust earnings	1,221	1,795	574	47.0%
Preneed cemetery finance charges	331	478	147	44.4%
Total	\$12,090	\$12,665	\$ 575	4.8%
Operating profit:				
Same store operating profit	\$ 3,063	\$ 2,748	\$ (315)	(10.3)%
Cemetery trust earnings	1,221	1,795	574	47.0%
Preneed cemetery finance charges	331	478	147	44.4%
Total	\$ 4,615	\$ 5,021	\$ 406	8.8%

Cemetery same store operating revenues for the three months ended June 30, 2012 decreased \$0.1 million, or 1.4%, compared to the three months ended June 30, 2011. The decrease in operating revenue was primarily attributable to preneed property sales which decreased \$0.2 million, or 3.7%. We experienced a 6.7% decrease in the number of interment rights (property) sold, yet a 10.3% increase in the average price per interment compared to the second quarter of 2011. The percentage of those interment rights sold that we were able to recognize as revenue, because we received at least 10% of the sales price from the customer, decreased from 90.4% to 83.2%.

Cemetery same store operating profit for the three months ended June 30, 2012 decreased \$0.3 million, or 10.3%. As a percentage of revenues, cemetery same store operating profit decreased from 29.1% to 26.4%. The decrease in operating profit is primarily a result of the decline in revenue and an increase of \$0.3 million in promotional expenses.

We acquired one cemetery in late June 2012 and there was no business transacted in the second quarter of 2012.

The two categories of financial revenue consist of trust earnings and finance charges on preneed receivables. Total trust earnings increased 47.0%, when compared to the three months ended June 30, 2011. Earnings from perpetual care trust funds totaled \$1.5 million for the three months ended June 30, 2012 compared to \$0.9 million for the three months ended June 30, 2011, an increase of \$0.6 million, or 61.5%. Trust earnings recognized upon the delivery of merchandise and service contracts was flat compared to the same period in 2011. Finance charges on the preneed contracts increased 44.4% because of the increase in the total receivables outstanding and higher rates used.

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Six months ended June 30, 2011 compared to six months ended June 30, 2012 (dollars in thousands):

	Six Months Ended		Change	
	2011	2012	Amount	%
Revenues:				
Same store operating revenue	\$20,094	\$19,796	\$ (298)	(1.5)%
Cemetery trust earnings	2,878	3,311	433	15.0%
Preneed cemetery finance charges	679	846	167	24.6%
Total	\$23,651	\$23,953	\$ 302	1.3%
Operating profit:				
Same store operating profit	\$ 5,690	\$ 4,970	\$ (719)	(12.6)%
Cemetery trust earnings	2,878	3,311	433	15.0%
Preneed cemetery finance charges	679	846	167	24.6%
Total	\$ 9,247	\$ 9,127	\$ (119)	(1.3)%

Cemetery same store operating revenues for the six months ended June 30, 2012 decreased \$0.3 million, or 1.5%, compared to the six months ended June 30, 2011. Same store revenue from preneed property sales and deliveries of preneed merchandise and services deliveries increased \$0.1 million, or 0.9%, and at-need revenues decreased \$0.4 million, or 4.9%. We experienced a 3.3% increase in the number of interment rights (property) sold and a 2.6% increase in the average price per interment compared to the six months ended June 30, 2011. The percentage of those interment rights sold that we were able to recognize as revenue, because we received at least 10% of the sales price from the customer, decreased from 89.4% to 85.5%.

Cemetery same store operating profit for the six months ended June 30, 2012 decreased \$0.7 million, or 12.6%. As a percentage of revenues, cemetery same store operating profit decreased from 28.3% to 25.1%. The decrease in operating profit is primarily a result of the decline in revenue and higher promotional expenses and bad debts.

The two categories of financial revenue consist of trust earnings and finance charges on preneed receivables. Total trust earnings increased 15.0%, when compared to the six months ended June 30, 2011. Earnings from perpetual care trust funds totaled \$2.6 million for the six months ended June 30, 2012 compared to \$2.3 million for the six months ended June 30, 2011, an increase of \$0.3 million, or 13.3%. Trust earnings recognized upon the delivery of merchandise and service contracts increased \$0.1 million to \$0.7 million compared to the same period in 2011. Finance charges on the preneed contracts increased 24.7%.

Other. General and administrative expenses totaled \$10.1 million for the six months ended June 30, 2012, an increase of \$0.6 million, or 5.9%, compared to the six months ended June 30, 2011, primarily due to increases in costs of approximately \$0.5 million for incentive compensation and \$0.4 million of acquisition expenses related to the acquisition activity during 2012 offset by \$0.5 million in expenses in 2011 related to a proposed securities transaction that did not occur in the current year. General and administrative expenses totaled \$4.8 million for the three months ended June 30, 2012, an increase of \$0.1 million, or 1.5%, compared to the same comparable period in prior year primarily due to increases for incentive compensation.

Income Taxes. We recorded income taxes at the estimated effective rate of 42.5% for the year ended December 31, 2011 and 40.4% for the first six months of 2012. We became a federal cash taxpayer in the fourth quarter of 2011. The decrease in the tax rate is primarily due to the utilization of state net operating losses that had not previously been recognized. We have approximately \$44.3 million of state net operating loss carryforwards that will expire between 2013 and 2030, if not utilized. Based on management's assessment of the various state net operating losses, it has been determined that it is more likely than not that we will not be able to realize the tax benefits of certain portions of the state losses. Accordingly, a valuation allowance has been established and is reviewed every quarter related to the deferred tax asset for the state operating losses. At June 30, 2012, the valuation allowance totaled \$1.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary sources of liquidity and capital resources are (i) internally generated cash flows from operating activities and (ii) availability under our Credit Facility. We generate cash in our operations primarily from at-need sales and delivery of preneed sales. We also generate cash from earnings on our cemetery perpetual care trusts. We believe that existing cash balances, future cash flows from operations and borrowing under our Credit Facility will be sufficient to meet our anticipated working capital requirements, capital expenditures, scheduled debt payments, commitments and dividend payments. Based on our recent operating results, current cash position, anticipated future cash flows and sources of financing that we expect to have available, we do not anticipate any significant liquidity constraints in the foreseeable future. However, if our capital expenditures or acquisition plans for 2012 change, we may need to access the capital markets to obtain additional funding. Further, to the extent operating cash flow or access to and cost of financing sources are materially different than expected, future liquidity may be adversely affected. Please read Part I, Item IA “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011.

Cash Flows

We began 2012 with \$1.1 million in cash and other liquid investments and ended the second quarter with \$1.0 million in cash and \$17.3 million drawn on our Credit Facility.

The following table sets forth the elements of cash flow for the six months ended June 30, 2012 (in millions):

Cash and liquid investments at January 1, 2012	\$ 1.1
Cash flow from operating activities	13.4
Acquisitions	(16.4)
Borrowings on our Credit Facility	14.2
Maintenance capital expenditures	(2.3)
Dividends on common stock	(0.9)
Repurchase of common stock	(4.5)
Growth capital expenditures—funeral homes	(2.2)
Growth capital expenditures—cemetaries	(1.5)
Other investing and financing activities	0.1
Cash at June 30, 2012	<u>\$ 1.0</u>

For the six months ended June 30, 2012 cash provided by operating activities was \$13.4 million as compared to \$15.8 million for the six months ended June 30, 2011. The decrease was due primarily to larger payments of income taxes and accrued liabilities as well as increases in cemetery preneed receivables.

Our investing activities resulted in a net cash outflow of \$22.4 million for the six months ended June 30, 2012, compared to a net cash outflow of \$9.7 million for the six months ended June 30, 2011. The increase in cash outflows from investing activities was primarily due to increased acquisition activity in 2012 which totaled \$16.4 million compared to \$5.1 million for the six months ended June 30, 2011. The cash outflows from investing activities during the six months ended June 30, 2012 for capital expenditures exceeded the comparable quarter of 2011, which totaled \$6.0 million in the current year compared to \$4.6 million for the six months ended June 30, 2012. Capital expenditures during 2012 included \$3.7 million for cemetery inventory development projects and funeral home expansion projects.

Our financing activities resulted in net cash inflow of \$8.9 million for the six months ended June 30, 2012, compared to a net cash outflow of \$2.1 million for the six months ended June 30, 2011. The increase in cash flows from financing activities is due to increased borrowings under our Credit Facility during the first half of 2012 primarily to finance our acquisitions. The cash flows from financing activities during the first six months of 2012 was also effected by the purchase of \$4.5 million in treasury stock, which did not occur during the first six months of 2011, and dividend payments of \$0.9 million, compared to \$0.4 million during the same period in 2011.

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Dividends

Our Board declared a quarterly cash dividend of \$0.025 per share, totaling \$0.4 million, which was paid on June 1, 2012 to record holders of our common stock as of May 15, 2012. For the six months ended June 30, 2012, we have paid \$0.9 million in cash dividends.

Debt Obligations

The outstanding principal of long-term debt at June 30, 2012 totaled \$153.9 million and consisted of \$130.0 million in Senior Notes, \$17.3 million outstanding on the Credit Facility and \$6.6 million in acquisition indebtedness and capital lease obligations.

Effective August 11, 2011, we entered into the Credit Facility, a new secured revolving credit facility with Wells Fargo Bank, N.A., which contains commitments for an aggregate of \$60.0 million with an accordion provision for up to an additional \$15.0 million. The Credit Facility matures in October 2014 and under certain conditions may be extended to October 2016. The Credit Facility is collateralized by our accounts receivable and all of our personal property. Borrowings under the Credit Facility bear interest at either prime or LIBOR options. At June 30, 2012, the prime rate option was equivalent to 4.125% and the LIBOR margin was 1.875%. At June 30, 2012, the maximum drawdown allowed on the Credit Facility was \$42.7 million.

A total of \$89.8 million was outstanding at June 30, 2012 under the convertible junior subordinated debenture. Amounts outstanding under the debenture are payable to our affiliate Carriage Services Capital Trust, bears interest at 7.0% and matures in 2029. Substantially all the assets of the Trust consist of the convertible junior subordinated debentures. In 1999, the Trust issued 1.875 million shares of 7% convertible preferred securities, termed "TIDES". The rights under the debentures are functionally equivalent to those of the TIDES. During the six month period ending June 30, 2011, we repurchased 26,742 shares of these TIDES for approximately \$1.0 million and recorded a gain of \$0.4 million. No repurchases have been made in 2012.

The convertible junior subordinated debenture payable to the affiliated Trust, and the TIDES, each contain a provision for the deferral of interest payments and distributions for up to 20 consecutive quarters. During any period in which distribution payments are deferred, distributions will continue to accumulate at the 7% annual rate. Also, the deferred distributions themselves accumulate distributions at the annual rate of 7%. During any deferral period, we are prohibited from paying dividends on the common stock or repurchasing common stock, subject to limited exceptions. We currently expect to continue paying the distributions as due.

We were in compliance with the covenants contained in the previous and new credit facilities, as applicable, and the Senior Notes as of June 30, 2011 and 2012. Key ratios that we must comply with include a leverage ratio that as of the last day of each quarter must not be greater than 4.25 to 1.00 and a fixed charge coverage ratio that must not be less than 1.25 to 1.00. As of June 30, 2012, the leverage ratio was 3.32 to 1.00 and the fixed charge coverage ratio was 1.97 to 1.00.

SEASONALITY

Our business can be affected by seasonal fluctuations in the death rate. Generally, the death rate is higher during the winter months because the incidences of death from influenza and pneumonia are higher during this period than other periods of the year.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the ordinary course of business, we are typically exposed to a variety of market risks. Currently, these are primarily related to interest rate risk and changes in the values of securities associated with the preneed and perpetual care trusts. Management is actively involved in monitoring exposure to market risk and developing and utilizing appropriate risk management techniques when appropriate and when available for a reasonable price. We are not exposed to any other significant market risks including any commodity price risk or foreign exchange risk.

The following quantitative and qualitative information is provided about financial instruments to which we are a party at June 30, 2012, and from which we may incur future gains or losses from changes in market conditions. We do not enter into derivative or other financial instruments for speculative or trading purposes.

In connection with our preneed funeral operations and preneed cemetery merchandise and service sales, the related funeral and cemetery trust funds own investments in equity and debt securities and mutual funds, which are sensitive to current market prices. Cost and market values of such investments as of June 30, 2012 are presented in Notes 6, 8 and 10 to our Consolidated Financial Statements in this Form 10-Q. See also Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-Q. The sensitivity of the fixed income securities is such that a 0.25% change in interest rates causes an approximate 1.91% change in the value of the fixed income securities.

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We monitor current and forecasted interest rate risk in the ordinary course of business and seek to maintain optimal financial flexibility, quality and solvency. As of June 30, 2012, we had \$17.3 million outstanding under our Credit Facility. Any further borrowings against the Credit Facility or any change in the floating rate would cause a change in interest expense. The Credit Facility contains an interest rate at either the prime rate or LIBOR options which the prime rate was 4.125% and the LIBOR margin was 1.875% at June 30, 2012. Assuming the outstanding balance remains unchanged, a change of 100 basis points in the prime rate or LIBOR options would result in an increase in annual interest expense of less than \$0.2 million. We have not entered into interest rate hedging arrangements in the recent past, and currently have no plans to do so. Due to fluctuating balances in the amount outstanding under this agreement and current interest rates, we do not believe such arrangements to be cost effective.

We have previously issued both Senior Notes and convertible junior subordinated debentures. The Senior Notes were issued to the public at par and are carried at a cost of \$130 million. At June 30, 2012, the Senior Notes were typically trading at a price of approximately \$101.25, indicating a market value of approximately \$131.6 million. The convertible junior subordinated debentures, payable to the Trust, are carried on our Consolidated Balance Sheet at a cost of approximately \$90 million. The estimated fair value of these securities is estimated to be approximately \$76.3 million at June 30, 2012, based on available broker quotes of the corresponding preferred securities issued by the Trust. The Senior Notes and the convertible junior subordinated debentures have fixed interest rates of 7.875% and 7% respectively, and therefore we do not have economic interest rate exposure on the Senior Notes or debentures. However, the value of these debt instruments is exposed to interest rate risk. Generally, the fair market value of these debt instruments will increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of these debt instruments may be affected by changes in our stock price.

The remainder of our long-term debt and leases consist of non-interest bearing notes and fixed rate instruments that do not trade in a market, nor otherwise have a quoted market value. Any increase in market interest rates causes the fair value of those liabilities to decrease.

Item 4. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

Our management, including our principal executive and financial officers, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that such information is accumulated and communicated to management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that our disclosure controls and procedures were effective as of June 30, 2012 (the end of the period covered by this Form 10-Q).

Changes in Internal Control over Financial Reporting

During the six months ended June 30, 2012, there was no change in our system of internal control over financial reporting (defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

In addition to the matters in Note 13 to our Consolidated Financial Statements, we and our subsidiaries are parties to a number of legal proceedings that arise from time to time in the ordinary course of our 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 our financial statements. We self-insure against certain risks and carry insurance with coverage and coverage limits for risk in excess of the coverage amounts consistent with our assessment of risks in our business and of an acceptable level of financial exposure. Although there can be no assurance that self-insurance reserves and insurance will be sufficient to mitigate all damages, claims, or contingencies, we believe that the reserves and our insurance provides reasonable coverage for known asserted and unasserted claims. In the event we sustain a loss from a claim, and the insurance carrier disputes coverage or coverage limits, we may record a charge in a different period than the recovery, if any, from the insurance carrier.

Item 1A. Risk Factors

There has been no material changes in our risk factors as previously disclosed in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2011. Readers should carefully consider the factors discussed in Part 1, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2011 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 5. Other Information

On May 23, 2012, our stockholders approved the Carriage Services, Inc. Second Amended and Restated 2006 Long-Term Incentive Plan (as amended and restated, the “Restated LTIP”). The Restated LTIP was previously approved by our Board, subject to stockholder approval. The Restated LTIP was summarized under the caption “Proposal 2—Approval of the Carriage Services, Inc. Second Amended and Restated 2006 Long-Term Incentive Plan” in our Proxy Statement for our 2012 Annual Meeting of Stockholders held on May 23, 2012 filed with the SEC on April 16, 2012.

Item 6. Exhibits

- *4.1 First Supplemental Indenture dated as of August 2, 2007 among Cloverdale Park, Inc., the Subsidiary Guarantors named therein and Wells Fargo Bank, National Association, as trustee.
- *4.2 Second Supplemental Indenture dated as of December 13, 2007 among Cataudella Funeral Home, Inc., the Subsidiary Guarantors named therein and Wells Fargo Bank, National Association, as trustee.
- *4.3 Third Supplemental Indenture dated as of May 7, 2012 among Carriage Merger V, Inc., Carriage Merger VI, Inc., Carriage Merger VII, Inc., Carriage Merger VIII, Inc., Carriage Merger IX, Inc., and Carriage Merger X, Inc., the Subsidiary Guarantors named therein and Wells Fargo Bank, National Association, as trustee.
- *10.1 Carriage Services, Inc. Second Amended and Restated 2006 Long-Term Incentive Plan.
- 10.2 Form of Employee Performance-Based Stock Award Agreement. Incorporated by reference to Exhibit 10.1 to the Company’s current report on Form 8-K filed on August 7, 2012.
- *10.3 Form of Director Performance-Based Stock Award Agreement.
- *11.1 Computation of Per Share Earnings.
- *31.1 Certification of Periodic Financial Reports by Melvin C. Payne in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
- *31.2 Certification of Periodic Financial Reports by Terry E. Sanford in satisfaction of Section 302 of the Sarbanes-Oxley Act of 2002.
- *32 Certification of Periodic Financial Reports by Melvin C. Payne and Terry E. Sanford in satisfaction of Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. Section 1350.
- **101 Interactive Data Files.

* Filed herewith

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

CARRIAGE SERVICES, INC.

Date : August 7, 2012

/s/ Terry E. Sanford

Terry E. Sanford
Senior Vice President and
Chief Accounting Officer

CARRIAGE SERVICES, INC.

INDEX OF EXHIBITS

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SUPPLEMENTAL INDENTURE

THIS SUPPLEMENTAL INDENTURE (this "**Supplemental Indenture**"), is dated as of August 2, 2007, among Cloverdale Park, Inc., an Idaho corporation (the "**New Guarantor**"), and a subsidiary of Carriage Services, Inc., a Delaware corporation (the "**Company**"), the existing Guarantors (as defined in the Indenture referred to herein), and Wells Fargo Bank, National Association, as trustee under the Indenture referred to herein (the "**Trustee**"). The New Guarantor and the existing Guarantors are sometimes referred to collectively herein as the "**Guarantors**," or individually as a "**Guarantor**."

WITNESSETH

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (the "**Indenture**"), dated as of January 27, 2005, relating to the 7.875% Senior Notes due 2015 (the "**Securities**") of the Company;

WHEREAS, Section 4.9 of the Indenture provides that if the Company or any of its Restricted Subsidiaries acquires or creates another Restricted Subsidiary after the Issue Date, then the Company shall cause newly acquired or created Restricted Subsidiary to become a Guarantor by executing a supplemental indenture as provided in the Indenture; and

WHEREAS, pursuant to Section 9.1 of the Indenture, the Company and the Trustee are authorized to execute and deliver this Supplemental Indenture to amend or supplement the Indenture without the consent of any Holder.

NOW THEREFORE, to comply with the provisions of the Indenture and in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantor, the other Guarantors, the Company and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Securities as follows:

1. Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. Agreement to Guarantee. The New Guarantor hereby agrees, jointly and severally, with all other Guarantors, to unconditionally Guarantee to each Holder and to the Trustee the Obligations, to the extent set forth in the Indenture and subject to the provisions in the Indenture. The obligations of the Guarantors to the Holders of Securities and to the Trustee pursuant to the Subsidiary Guarantees and the Indenture are expressly set forth in Article X of the Indenture and reference is hereby made to the Indenture for the precise terms of the Subsidiary Guarantees.

3. Execution and Delivery. Each Guarantor agrees that the Subsidiary Guarantees shall remain in full force and effect notwithstanding any failure to endorse on each Security a notation of any such Subsidiary Guarantee of any Guarantor.

4. NEW YORK LAW TO GOVERN. THE LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE AND ENFORCE THIS SUPPLEMENTAL INDENTURE.

5. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. This Supplemental Indenture may be executed in multiple counterparts which, when taken together, shall constitute one instrument.

6. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. The Trustee. Except as otherwise expressly provided herein, no duties, responsibilities or liabilities are assumed, or shall be construed to be assumed, by the Trustee by reason of this Supplemental Indenture. This Supplemental Indenture is executed and accepted by the Trustee subject to all the terms and conditions set forth in the Indenture with the same force and effect as if those terms and conditions were repeated at length herein and made applicable to the Trustee with respect hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

NEW GUARANTOR:

CLOVERDALE PARK, INC.

By: /s/ Terry E. Sanford

Terry E. Sanford, Senior Vice President

EXISTING GUARANTORS

CARRIAGE FUNERAL HOLDINGS, INC.
CFS FUNERAL SERVICES, INC.
CARRIAGE HOLDING COMPANY, INC.
CARRIAGE FUNERAL SERVICES OF MICHIGAN, INC.
CARRIAGE FUNERAL SERVICES OF KENTUCKY, INC.
CARRIAGE FUNERAL SERVICES OF CALIFORNIA, INC.
CARRIAGE CEMETERY SERVICES OF IDAHO, INC.
WILSON & KRATZER MORTUARIES
ROLLING HILLS MEMORIAL PARK
CARRIAGE SERVICES OF CONNECTICUT, INC.
CSI FUNERAL SERVICES OF MASSACHUSETTS, INC.
CHC INSURANCE AGENCY OF OHIO, INC.
BARNETT, DEMROW & ERNST, INC.
CARRIAGE SERVICES OF NEW MEXICO, INC.
FORASTIERE FAMILY FUNERAL SERVICE, INC.
CARRIAGE CEMETERY SERVICES, INC.
CARRIAGE SERVICES OF OKLAHOMA, L.L.C.
CARRIAGE SERVICES OF NEVADA, INC.
HUBBARD FUNERAL HOME, INC.
CARRIAGE TEAM CALIFORNIA (CEMETERY), LLC
CARRIAGE TEAM CALIFORNIA (FUNERAL), LLC
CARRIAGE TEAM FLORIDA (CEMETERY), LLC
CARRIAGE TEAM FLORIDA (FUNERAL), LLC
CARRIAGE SERVICES OF OHIO, LLC
CARRIAGE TEAM KANSAS, LLC
CARRIAGE MUNICIPAL CEMETERY SERVICES OF NEVADA, INC.
CARRIAGE CEMETERY SERVICES OF CALIFORNIA, INC.
CARRIAGE INTERNET STRATEGIES, INC.
CARRIAGE INVESTMENTS, INC. (for itself and as General Partner
of Carriage Management, L.P.)
CARRIAGE MANAGEMENT, L.P.
HORIZON CREMATION SOCIETY, INC.
CARRIAGE LIFE EVENTS, INC.

*Signature Page
Supplemental Indenture*

CARRIAGE MERGER I, INC.
CARRIAGE MERGER II, INC.
CARRIAGE MERGER III, INC.
ARIA CREMATION SERVICES, LLC

By: /s/ Terry E. Sanford
Terry E. Sanford, Senior Vice President

CARRIAGE INSURANCE AGENCY OF MASSACHUSETTS, INC.

By: /s/ Joseph Saporito
Joseph Saporito, Executive Vice President

COCHRANE'S CHAPEL OF THE ROSES, INC.

By: /s/ Brian Dixon-Lennett
Brian Dixon-Lennett, Regional Managing Partner

THE COMPANY:

CARRIAGE SERVICES, INC.

By: /s/ Terry E. Sanford
Terry E. Sanford, Senior Vice President

THE TRUSTEE:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
AS TRUSTEE

By: /s/ Patrick T. Giordano
Authorized Signatory

*Signature Page
Supplemental Indenture*

SUPPLEMENTAL INDENTURE

THIS SUPPLEMENTAL INDENTURE (this "**Supplemental Indenture**"), is dated as of December 13, 2007, among Cataudella Funeral Home, Inc., a Massachusetts corporation (the "**New Guarantor**"), a subsidiary of Carriage Services, Inc., a Delaware corporation (the "**Company**"), the existing Guarantors (as defined in the Indenture referred to herein), and Wells Fargo Bank, National Association, as trustee under the Indenture referred to herein (the "**Trustee**"). The New Guarantor and the existing Guarantors are sometimes referred to collectively herein as the "**Guarantors**," or individually as a "**Guarantor**."

WITNESSETH

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (as supplemented and in effect, the "**Indenture**"), dated as of January 27, 2005, relating to the 7.875% Senior Notes due 2015 (the "**Securities**") of the Company;

WHEREAS, Section 4.9 of the Indenture provides that if the Company or any of its Restricted Subsidiaries acquires or creates another Restricted Subsidiary after the Issue Date, then the Company shall cause such newly acquired or created Restricted Subsidiary to become a Guarantor by executing a supplemental indenture as provided in the Indenture; and

WHEREAS, pursuant to Section 9.1 of the Indenture, the Company and the Trustee are authorized to execute and deliver this Supplemental Indenture to amend or supplement the Indenture without the consent of any Holder.

NOW, THEREFORE, to comply with the provisions of the Indenture and in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantor, the other Guarantors, the Company and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Securities as follows:

1. Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. Agreement to Guarantee. The New Guarantor hereby agrees, jointly and severally, with all other Guarantors, to unconditionally Guarantee to each Holder and to the Trustee the Obligations, to the extent set forth in the Indenture and subject to the provisions in the Indenture. The obligations of the Guarantors to the Holders of Securities and to the Trustee pursuant to the Subsidiary Guarantees and the Indenture are expressly set forth in Article X of the Indenture and reference is hereby made to the Indenture for the precise terms of the Subsidiary Guarantees.

3. Execution and Delivery. Each Guarantor agrees that the Subsidiary Guarantees shall remain in full force and effect notwithstanding any failure to endorse on each Security a notation of any such Subsidiary Guarantee of any Guarantor.

4. NEW YORK LAW TO GOVERN. THE LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE AND ENFORCE THIS SUPPLEMENTAL INDENTURE.

5. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. This Supplemental Indenture may be executed in multiple counterparts which, when taken together, shall constitute one instrument.

6. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. The Trustee. Except as otherwise expressly provided herein, no duties, responsibilities or liabilities are assumed, or shall be construed to be assumed, by the Trustee by reason of this Supplemental Indenture. This Supplemental Indenture is executed and accepted by the Trustee subject to all the terms and conditions set forth in the Indenture with the same force and effect as if those terms and conditions were repeated at length herein and made applicable to the Trustee with respect hereto.

*[Remainder of Page Intentionally Left Blank;
Signatures Commence in Next Page]*

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

NEW GUARANTOR

CATAUDELLA FUNERAL HOME, INC.

By: /s/ Joseph Saporito
Joseph Saporito, Executive Vice President and Chief
Financial Officer

COMPANY

CARRIAGE SERVICES, INC.

By: /s/ Joseph Saporito
Joseph Saporito, Executive Vice President and Chief
Financial Officer

TRUSTEE

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Patrick T. Giordano
Authorized Signatory

*Signature Page
Supplemental Indenture*

EXISTING GUARANTORS

CARRIAGE FUNERAL HOLDINGS, INC.
CFS FUNERAL SERVICES, INC.
CARRIAGE HOLDING COMPANY, INC.
CARRIAGE FUNERAL SERVICES OF MICHIGAN, INC.
CARRIAGE FUNERAL SERVICES OF KENTUCKY, INC.
CARRIAGE FUNERAL SERVICES OF CALIFORNIA, INC.
CARRIAGE CEMETERY SERVICES OF IDAHO, INC.
WILSON & KRATZER MORTUARIES
ROLLING HILLS MEMORIAL PARK
CARRIAGE SERVICES OF CONNECTICUT, INC.
CSI FUNERAL SERVICES OF MASSACHUSETTS, INC.
CHC INSURANCE AGENCY OF OHIO, INC.
BARNETT, DEMROW & ERNST, INC.
CARRIAGE SERVICES OF NEW MEXICO, INC.
FORASTIERE FAMILY FUNERAL SERVICE, INC.
CARRIAGE CEMETERY SERVICES, INC.
CARRIAGE SERVICES OF OKLAHOMA, L.L.C.
CARRIAGE SERVICES OF NEVADA, INC.
HUBBARD FUNERAL HOME, INC.
CARRIAGE TEAM CALIFORNIA (CEMETERY), LLC
CARRIAGE TEAM CALIFORNIA (FUNERAL), LLC
CARRIAGE TEAM FLORIDA (CEMETERY), LLC
CARRIAGE TEAM FLORIDA (FUNERAL), LLC
CARRIAGE SERVICES OF OHIO, LLC
CARRIAGE TEAM KANSAS, LLC
CARRIAGE MUNICIPAL CEMETERY SERVICES OF NEVADA,
INC.
CARRIAGE CEMETERY SERVICES OF CALIFORNIA, INC.
CARRIAGE INSURANCE AGENCY OF MASSACHUSETTS, INC.
CARRIAGE INTERNET STRATEGIES, INC.
CARRIAGE INVESTMENTS, INC. (for itself and as General
Partner of Carriage Management, L.P.)
CARRIAGE MANAGEMENT, L.P.
COCHRANE'S CHAPEL OF THE ROSES, INC.
HORIZON CREMATION SOCIETY, INC.
CARRIAGE LIFE EVENTS, INC.
CARRIAGE MERGER I, INC.
CARRIAGE MERGER II, INC.
CARRIAGE MERGER III, INC.
ARIA CREMATION SERVICES, LLC
CLOVERDALE PARK, INC.

By: /s/ Joseph Saporito
Joseph Saporito, Executive Vice President and Chief
Financial Officer

*Signature Page
Supplemental Indenture*

**THIRD SUPPLEMENTAL INDENTURE
TO BE DELIVERED BY FUTURE GUARANTORS**

THIS THIRD SUPPLEMENTAL INDENTURE (this “*Supplemental Indenture*”), is dated as of May 7, 2012 among Carriage Merger V, Inc., Carriage Merger VI, Inc., Carriage Merger VII, Inc., Carriage Merger VIII, Inc., Carriage Merger IX, Inc., and Carriage Merger X, Inc. (the “*New Guarantors*”), each a subsidiary of Carriage Services, Inc., a Delaware corporation (the “*Company*”), the existing Guarantors (as defined in the Indenture referred to herein), and Wells Fargo Bank, National Association, as trustee under the Indenture referred to herein (the “*Trustee*”). The New Guarantors and the existing Guarantors are sometimes referred to collectively herein as the “*Guarantors*,” or individually as a “*Guarantor*.”

W I T N E S S E T H

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (as amended and supplemented by the first supplemental indenture and the second supplemental indenture thereto, the “*Indenture*”), dated as of January 27, 2005, relating to the 7.875% Senior Notes due 2015 (the “*Securities*”) of the Company;

WHEREAS, Section 4.9 of the Indenture provides that if the Company or any of its Restricted Subsidiaries acquires or creates another Restricted Subsidiary after the Issue Date, then the Company shall cause newly acquired or created Restricted Subsidiary to become a Guarantor by executing a supplemental indenture as provided in the Indenture; and

WHEREAS, pursuant to Section 9.1 of the Indenture, the Company and the Trustee are authorized to execute and deliver this Supplemental Indenture to amend or supplement the Indenture without the consent of any Holder.

NOW THEREFORE, to comply with the provisions of the Indenture and in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Guarantors, the other Guarantors, the Company and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Securities as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AGREEMENT TO GUARANTEE. The New Guarantors hereby agree, jointly and severally, with all other Guarantors, to unconditionally Guarantee to each Holder and to the Trustee the Obligations, to the extent set forth in the Indenture and subject to the provisions in the Indenture. The obligations of the Guarantors to the Holders of Securities and to the Trustee pursuant to the Subsidiary Guarantees and the Indenture are expressly set forth in Article X of the Indenture and reference is hereby made to the Indenture for the precise terms of the Subsidiary Guarantees.

3. EXECUTION AND DELIVERY. Each Guarantor agrees that the Subsidiary Guarantees shall remain in full force and effect notwithstanding any failure to endorse on each Security a notation of any such Subsidiary Guarantee of any Guarantor.

4. NEW YORK LAW TO GOVERN. THE LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE AND ENFORCE THIS SUPPLEMENTAL INDENTURE.

5. COUNTERPARTS. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. This Supplemental Indenture may be executed in multiple counterparts which, when taken together, shall constitute one instrument.

6. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

Third Supplemental Indenture

7. THE TRUSTEE. Except as otherwise expressly provided herein, no duties, responsibilities or liabilities are assumed, or shall be construed to be assumed, by the Trustee by reason of this Supplemental Indenture. This Supplemental Indenture is executed and accepted by the Trustee subject to all the terms and conditions set forth in the Indenture with the same force and effect as if those terms and conditions were repeated at length herein and made applicable to the Trustee with respect hereto.

Third Supplemental Indenture

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

NEW GUARANTORS:

CARRIAGE MERGER V, INC.

By: /s/ L. William Heiligbrodt
Name: L. William Heiligbrodt
Title: Executive Vice President and Secretary

CARRIAGE MERGER VI, INC.

By: /s/ L. William Heiligbrodt
Name: L. William Heiligbrodt
Title: Executive Vice President and Secretary

CARRIAGE MERGER VII, INC.

By: /s/ L. William Heiligbrodt
Name: L. William Heiligbrodt
Title: Executive Vice President and Secretary

CARRIAGE MERGER VIII, INC.

By: /s/ L. William Heiligbrodt
Name: L. William Heiligbrodt
Title: Executive Vice President and Secretary

CARRIAGE MERGER IX, INC.

By: /s/ L. William Heiligbrodt
Name: L. William Heiligbrodt
Title: Executive Vice President and Secretary

CARRIAGE MERGER X, INC.

By: /s/ L. William Heiligbrodt
Name: L. William Heiligbrodt
Title: Executive Vice President and Secretary

Signature Page to Third Supplemental Indenture

EXISTING GUARANTORS:

**CARRIAGE FUNERAL HOLDINGS, INC.
CFS FUNERAL SERVICES, INC.
CARRIAGE HOLDING COMPANY, INC.
CARRIAGE FUNERAL SERVICES OF MICHIGAN, INC.
CARRIAGE FUNERAL SERVICES OF KENTUCKY, INC.
CARRIAGE FUNERAL SERVICES OF CALIFORNIA, INC.
CARRIAGE CEMETERY SERVICES OF IDAHO, INC.
WILSON & KRATZER MORTUARIES
ROLLING HILLS MEMORIAL PARK
CARRIAGE SERVICES OF CONNECTICUT, INC.
CSI FUNERAL SERVICES OF MASSACHUSETTS, INC.
CHC INSURANCE AGENCY OF OHIO, INC.
BARNETT, DEMROW & ERNST, INC.
CARRIAGE SERVICES OF NEW MEXICO, INC.
FORASTIERE FAMILY FUNERAL SERVICE, INC.
CARRIAGE CEMETERY SERVICES, INC.
CARRIAGE SERVICES OF OKLAHOMA, L.L.C.
CARRIAGE SERVICES OF NEVADA, INC.
HUBBARD FUNERAL HOME, INC.
CARRIAGE TEAM CALIFORNIA(CEMETERY), LLC
CARRIAGE TEAM CALIFORNIA(FUNERAL), LLC
CARRIAGE TEAM FLORIDA (CEMETERY), LLC
CARRIAGE TEAM FLORIDA (FUNERAL), LLC
CARRIAGE SERVICES OF OHIO, LLC
CARRIAGE TEAM KANSAS, LLC
CARRIAGE MUNICIPAL CEMETERY
SERVICES OF NEVADA, INC.
CARRIAGE CEMETERY SERVICES OF CALIFORNIA, INC.
CARRIAGE INTERNET STRATEGIES, INC.
CARRIAGE INVESTMENTS, INC.
(FOR ITSELF AND AS GENERAL PARTNER OF CARRIAGE
MANAGEMENT, L.P)
CARRIAGE MANAGEMENT, L.P.
HORIZON CREMATION SOCIETY, INC.
CARRIAGE LIFE EVENTS, INC.
CARRIAGE PENNSYLVANIA HOLDINGS, INC.
CARRIAGE FUNERAL MANAGEMENT, INC.
CARRIAGE FLORIDA HOLDINGS, INC.
CARRIAGE ARIA CREMATION SERVICES, INC.
CARRIAGE INSURANCE AGENCY OF MASSACHUSETTS, INC.
CLOVERDALE PARK, INC.
CATAUDELLA FUNERAL HOME, INC.
COCHRANE'S CHAPEL OF THE ROSES, INC.**

By: /s/ L. William Heiligbrodt
Name: L. William Heiligbrodt
Title: Executive Vice President and Secretary

Signature Page to Third Supplemental Indenture

CARRIAGE SERVICES, INC.

By: /s/ L. William Heiligbrodt

Name: L. William Heiligbrodt

Title: Executive Vice President and Secretary

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**WELLS FARGO BANK, NATIONAL ASSOCIATION, as
Trustee**

By: /s/ Patrick Giordano
Authorized Signatory

Signature Page to Third Supplemental Indenture

**CARRIAGE SERVICES, INC.
SECOND AMENDED AND RESTATED
2006 LONG-TERM INCENTIVE PLAN**

**ARTICLE I
ESTABLISHMENT AND PURPOSE**

1.1 Establishment and Purpose. Carriage Services, Inc. (“Carriage”) hereby further amends and restates the Carriage Services, Inc. 2006 Long-Term Incentive Plan (the “Plan”) as set forth in this document. The purposes of the Plan are to attract and retain highly qualified individuals to perform services for Carriage and its Affiliates and to serve on Carriage’s Board of Directors, to further align the interests of those individuals with those of the stockholders of Carriage, and closely link compensation with Company performance. Carriage is committed to creating long-term stockholder value. Carriage’s compensation philosophy is based on a belief that Carriage can best create stockholder value if employees and directors act and are rewarded as business owners. Carriage believes that an equity stake through equity compensation programs effectively aligns employee and stockholder interests by motivating and rewarding performance that will enhance stockholder value.

1.2 Effectiveness and Term. The Plan originally became effective as of May 25, 2006, and was amended and restated on May 18, 2010 to incorporate the previous amendment to the Plan and certain other changes. The Plan is hereby further amended and restated as of May 24, 2012 (the “Effective Date”) to incorporate certain changes. Unless terminated earlier by the Board pursuant to Section 13.1, the Plan shall terminate on the day prior to the tenth anniversary of the Effective Date. Notwithstanding the foregoing, this amendment and restatement of the Plan is expressly conditioned upon the approval by the holders of a majority of all shares of Common Stock present, or represented, and entitled to vote at a meeting of Carriage’s stockholders. If the stockholders of Carriage should fail to so approve the Plan, this amendment and restatement of the Plan shall not be of any force or effect.

**ARTICLE II
DEFINITIONS**

2.1 “Affiliate” means (a) with respect to Incentive Stock Options, a “parent corporation” or a “subsidiary corporation” of Carriage, as those terms are defined in Sections 424(e) and (f) of the Code, respectively, and (b) with respect to other Awards, (i) a “parent corporation” or a subsidiary corporation” of Carriage as defined in (a) above, or (ii) any other person with whom Carriage would be considered a single employer under Section 414(b) of the Code (controlled group of corporations) or Section 414(c) of the Code (partnerships, proprietorships, etc., under common control), provided that in applying Code Sections 1563(a)(1), (2) and (3) for purposes of determining a controlled group of corporations under Section 414(b) of the Code, the language “at least 50 percent” shall be used instead of “at least 80 percent” each place it appears in Code Sections 1563(a)(1), (2) and (3), and in applying Treasury Regulation Section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c) of the Code, the language “at least 50 percent” shall be used instead of “at least 80 percent” each place it appears in Treasury Regulation Section 1.414(c)-2.

2.2 “ASC Topic 718” means Accounting Standards Codification Topic 718, *Compensation – Stock Compensation*, or any successor accounting standard.

2.3 “Award” means an award granted to a Participant in the form of Options, SARs, Restricted Stock, Performance Awards, Stock Awards or Other Incentive Awards, whether granted singly or in combination.

2.4 “Award Agreement” means a written agreement between Carriage and a Participant that sets forth the terms, conditions, restrictions and limitations applicable to an Award.

2.5 “Board” means the Board of Directors of Carriage.

2.6 “Carriage” means Carriage Services, Inc., a Delaware corporation, or any successor thereto.

2.7 “Cause” means a finding by the Committee of acts or omissions constituting, in the Committee’s reasonable judgment, (a) a breach of duty by the Participant in the course of his employment involving fraud, acts of dishonesty (other than inadvertent acts or omissions), disloyalty to the Company, or moral turpitude constituting criminal felony; (b) conduct by the Participant that is materially detrimental to the Company, monetarily or otherwise, or reflects unfavorably on the Company or the Participant to such an extent that the Company’s best interests reasonably require the termination of the Participant’s employment; (c) acts or omissions of the Participant materially in violation of his obligations under any written employment or other agreement between the Participant and the Company or at law; (d) the Participant’s failure to comply with or enforce Company policies concerning equal employment opportunity, including engaging in sexually or otherwise harassing conduct; (e) the Participant’s repeated insubordination; (f) the Participant’s failure to comply with or enforce, in any material respect, all other personnel policies of the Company; (g) the Participant’s failure to devote his full (or other required) working time and best efforts to the performance of his responsibilities to the Company; or (h) the Participant’s conviction of, or entry of a plea agreement or consent decree or similar arrangement with respect to a felony or any violation of federal or state securities laws.

2.8 “Code” means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations.

2.9 “Committee” means the Compensation Committee of the Board or such other committee of the Board as may be designated by the Board to administer the Plan, which committee shall consist of two or more members of the Board; provided, however, that with respect to the application of the Plan to Awards made to Outside Directors, the “Committee” shall be the Board. During such time as the Common Stock is registered under Section 12 of the Exchange Act, each member of the Committee shall be an Independent Director. To the extent that no Committee exists that has the authority to administer the Plan, the functions of the Committee shall be exercised by the Board.

2.10 “Common Stock” means the common stock of Carriage, \$.01 par value per share, or any stock or other securities of hereafter issued or issuable in substitution or exchange for the Common Stock.

2.11 “Company” means Carriage and any Affiliate.

2.12 “Corporate Change” means (a) the dissolution or liquidation of Carriage; (b) a reorganization, merger or consolidation of Carriage with one or more corporations (other than a merger or consolidation effecting a reincorporation of Carriage in another state or any other merger or consolidation in which the stockholders of the surviving corporation and their proportionate interests therein immediately after the merger or consolidation are substantially identical to the stockholders of Carriage and their proportionate interests therein immediately prior to the merger or consolidation) (collectively, a “Corporate Change Merger”); (c) the sale of all or substantially all of the assets of the Company; or (d) the occurrence of a Change in Control. A “Change in Control” shall be deemed to have occurred if (i) individuals who were directors of Carriage immediately prior to a Control Transaction shall cease, within two years of such Control Transaction to constitute a majority of the Board (or of the Board of Directors of any successor to

Carriage or to a company which has acquired all or substantially all its assets) other than by reason of an increase in the size of the membership of the applicable Board that is approved by at least a majority of the individuals who were directors of Carriage immediately prior to such Control Transaction or (ii) any entity, person or Group acquires shares of Carriage in a transaction or series of transactions that result in such entity, person or Group directly or indirectly owning beneficially 50% or more of the outstanding shares of Common Stock. As used herein, "Control Transaction" means (A) any tender offer for or acquisition of capital stock of Carriage pursuant to which any person, entity, or Group directly or indirectly acquires beneficial ownership of 20% or more of the outstanding shares of Common Stock; (B) any Corporate Change Merger of Carriage; (C) any contested election of directors of Carriage; or (D) any combination of the foregoing, any one of which results in a change in voting power sufficient to elect a majority of the Board. As used herein, "Group" means persons who act "in concert" as described in Sections 13(d)(3) and/or 14(d)(2) of the Exchange Act.

2.13 "Effective Date" means the date the Plan became effective as provided in Section 1.2.

2.14 "Employee" means an employee of the Company; provided, however, that the term "Employee" does not include an Outside Director.

2.15 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.16 "Fair Market Value" means (a) for so long as the Common Stock is listed on the New York Stock Exchange or any other national stock exchange, the average of the highest and lowest selling prices for such stock as quoted on such exchange for the date the Award is granted (or if there are no sales for such date of grant, then for the last preceding business day on which there were sales), (b) if the Common Stock is traded in the over-the-counter market, the average of the representative closing bid and asked prices as reported by NASDAQ for the date the Award is granted (or if there was no quoted price for such date of grant, then for the last preceding business day on which there was a quoted price), or (c) if the Common Stock is traded in the NASDAQ National Market System, the average of the highest and lowest selling prices for such stock as quoted on the NASDAQ National Market System for the date the Award is granted (or if there are no sales for such date of grant, then for the last preceding business day on which there were sales), or (d) if the Common Stock is not reported or quoted by any such organization, fair market value of the Common Stock as determined in good faith by the Committee using a "reasonable application of a reasonable valuation method" within the meaning Section 409A of the Code and the regulations thereunder. Notwithstanding the foregoing, "Fair Market Value" with respect to an Incentive Stock Option shall mean fair market value as determined in good faith by the Committee within the meaning of Section 422 of the Code.

2.17 "Good Reason" means any of the following actions if taken without the Participant's prior written consent: (a) any material failure by the Company to comply with its obligations under the terms of a written employment agreement; (b) any demotion of the Participant as evidenced by a material reduction in the Participant's responsibilities, duties, compensation, or benefits; or (c) any permanent relocation of the Participant's place of business to a location 50 miles or more from the then-current location. Neither a transfer of employment among Carriage and any of its Affiliates, a change in any co-employment relationship, nor a mere change in job title or reporting structure constitutes "Good Reason."

2.18 "Grant Date" means the date an Award is determined to be effective by the Committee upon the grant of such Award.

2.19 "Inability to Perform" means and shall be deemed to have occurred if the Participant has been determined under the Company's or any co-employer's long-term disability plan to be eligible for long-term disability benefits. In the absence of the Participant's participation in, application for benefits

under, or existence of such a plan, “Inability to Perform” means a finding by the Committee in its sole judgment that the Participant is, despite any reasonable accommodation required by law, unable to perform the essential functions of his position because of an illness or injury for (a) 60% or more of the normal working days during six consecutive calendar months or (b) 40% or more of the normal working days during twelve consecutive calendar months.

2.20 “Incentive Stock Option” means an Option that is intended to meet the requirements of Section 422(b) of the Code.

2.21 “Independent Director” means a member of the Board who: (a) meets the independence requirements of the New York Stock Exchange (or such other exchange or quotation system upon which the shares of Common Stock are listed or quoted), (b) from and after the date on which the remuneration paid pursuant to the Plan becomes subject to the deduction limitation under Section 162(m) of the Code, qualifies as an “outside director” under Section 162(m) of the Code, (c) qualifies as a “non-employee director” of Carriage under Rule 16b-3, and (d) satisfies independence criteria under any other applicable laws or regulations relating to the issuance of shares of Common Stock to Employees.

2.22 “NASDAQ” means The NASDAQ Stock Market, Inc.

2.23 “Nonqualified Stock Option” means an Option that is not an Incentive Stock Option.

2.24 “Option” means an option to purchase shares of Common Stock granted to a Participant pursuant to Article VII. An Option may be either an Incentive Stock Option or a Nonqualified Stock Option, as determined by the Committee.

2.25 “Other Incentive Award” means an incentive award granted to a Participant pursuant to Article XI.

2.26 “Outside Director” means a member of the Board who is either: (a) an Independent Director, or (b) another member of the Board who may be an Employee but who is not an executive officer of Carriage.

2.27 “Participant” means an Employee or Outside Director who has been granted an Award; provided, however, that no Award that may be settled in Common Stock may be issued to a Participant that is not a natural person.

2.28 “Performance Award” means an Award granted to a Participant pursuant to Article X to receive cash or Common Stock conditioned in whole or in part upon the satisfaction of specified performance criteria.

2.29 “Permitted Transferee” shall have the meaning given such term in Section 14.4.

2.30 “Plan” means the Carriage Services, Inc. Amended and Restated 2006 Long-Term Incentive Plan, as in effect and amended from time to time.

2.31 “Restricted Period” means the period established by the Committee with respect to an Award during which the Award remains subject to forfeiture.

2.32 “Restricted Stock” means a share of Common Stock granted to a Participant pursuant to Article IX that is subject to such terms, conditions, and restrictions as may be determined by the Committee.

2.33 “**Rule 16b-3**” means Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation that may be in effect from time to time.

2.34 “**SEC**” means the United States Securities and Exchange Commission, or any successor agency or organization.

2.35 “**Section 16 Participant**” means a Participant who is subject to Section 16 of the Exchange Act.

2.36 “**Securities Act**” means the Securities Act of 1933, as amended.

2.37 “**Stock Appreciation Right**” or “**SAR**” means a right granted to a Participant pursuant to Article VIII with respect to a share of Common Stock to receive upon exercise cash, Common Stock or a combination of cash and Common Stock, equal to the appreciation in value of a share of Common Stock.

2.38 “**Stock Award**” means a stock award granted to a Participant pursuant to Article XI.

ARTICLE III PLAN ADMINISTRATION

3.1 Plan Administrator and Discretionary Authority. The Plan shall be administered by the Committee. The Committee shall have total and exclusive responsibility to control, operate, manage and administer the Plan in accordance with its terms. The Committee shall have all the authority that may be necessary or helpful to enable it to discharge its responsibilities with respect to the Plan. Without limiting the generality of the preceding sentence, the Committee shall have the exclusive right to: (a) interpret the Plan and the Award Agreements executed hereunder; (b) decide all questions concerning eligibility for, and the amount of, Awards granted under the Plan; (c) construe any ambiguous provision of the Plan or any Award Agreement; (d) prescribe the form of Award Agreements; (v) correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement; (e) issue administrative guidelines as an aid to administering the Plan and make changes in such guidelines as the Committee from time to time deems proper; (f) make regulations for carrying out the Plan and make changes in such regulations as the Committee from time to time deems proper; (g) determine whether Awards should be granted singly or in combination; (h) to the extent permitted under the Plan, grant waivers of Plan terms, conditions, restrictions and limitations; (i) accelerate the exercise, vesting or payment of an Award when such action or actions would be in the best interests of the Company; (j) require Participants to hold a stated number or percentage of shares of Common Stock acquired pursuant to an Award for a stated period; and (k) take any and all other actions the Committee deems necessary or advisable for the proper operation or administration of the Plan. The Committee shall have authority in its sole discretion with respect to all matters related to the discharge of its responsibilities and the exercise of its authority under the Plan, including without limitation its construction of the terms of the Plan and its determination of eligibility for participation in, and the terms of Awards granted under, the Plan. The decisions of the Committee and its actions with respect to the Plan shall be final, conclusive and binding on all persons having or claiming to have any right or interest in or under the Plan, including without limitation Participants and their respective Permitted Transferees, estates, beneficiaries and legal representatives.

3.2 Liability; Indemnification. No member of the Committee, nor any person to whom it has delegated authority, shall be personally liable for any action, interpretation or determination made in good faith with respect to the Plan or Awards granted hereunder, and each member of the Committee (or delegatee of the Committee) shall be fully indemnified and protected by Carriage with respect to any liability he may incur with respect to any such action, interpretation or determination, to the maximum extent permitted by applicable law.

ARTICLE IV
SHARES SUBJECT TO THE PLAN

4.1 Available Shares.

(a) Subject to adjustment as provided in Section 4.2, the maximum number of shares of Common Stock that shall be available for grant of Awards under the Plan shall be 5,000,000 shares of Common Stock.

(b) The maximum number of shares of Common Stock that may be subject to Incentive Stock Options granted under the Plan is 5,000,000. The limitations provided in this Section 4.1(b) shall be subject to adjustment as provided in Section 4.2.

(c) Shares of Common Stock issued pursuant to the Plan may be original issue or treasury shares or a combination of the foregoing, as the Committee, in its sole discretion, shall from time to time determine. During the term of the Plan, Carriage will at all times reserve and keep available such number of shares of Common Stock as shall be sufficient to satisfy the requirements of the Plan.

4.2 Adjustments for Recapitalizations and Reorganizations. Subject to Article XII, if there is any change in the number or kind of shares of Common Stock outstanding (a) by reason of a stock dividend, spin-off, recapitalization, stock split, or combination or exchange of shares, (b) by reason of a merger, reorganization, or consolidation, (c) by reason of a reclassification or change in par value, or (d) by reason of any other extraordinary or unusual event affecting the outstanding Common Stock as a class without Carriage's receipt of consideration, or if the value of outstanding shares of Common Stock is reduced as a result of a spin-off or Carriage's payment of an extraordinary cash dividend, or distribution or dividend or distribution consisting of any assets of Carriage other than cash, the maximum number and kind of shares of Common Stock available for issuance under the Plan, the maximum number and kind of shares of Common Stock for which any individual may receive Awards in any fiscal year or under the Plan, the number and kind of shares of Common Stock covered by outstanding Awards, and the price per share or the applicable market value or performance target of such Awards shall be appropriately adjusted by the Committee to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Common Stock to preclude, to the extent practicable, the enlargement or dilution of rights under such Awards; provided, however, that any fractional shares resulting from such adjustment shall be eliminated.

4.3 Adjustments for Awards. The Committee shall have sole discretion to determine the manner in which shares of Common Stock available for grant of Awards under the Plan are counted. Without limiting the discretion of the Committee under this Section 4.3, unless otherwise determined by the Committee, the following rules shall apply for the purpose of determining the number of shares of Common Stock available for grant of Awards under the Plan:

(a) **Options, Restricted Stock and Stock Awards.** The grant of Options, Restricted Stock or Stock Awards shall reduce the number of shares of Common Stock available for grant of Awards under the Plan by the number of shares of Common Stock subject to such an Award.

(b) **SARs.** The grant of SARs that may be paid or settled (i) only in Common Stock or (ii) in either cash or Common Stock shall reduce the number of shares available for grant of Awards under the Plan by the number of shares subject to such an Award; provided, however, that

upon the exercise of SARs, the excess of the number of shares of Common Stock with respect to which the Award is exercised over the number of shares of Common Stock issued upon exercise of the Award shall again be available for grant of Awards under the Plan.

(c) **Performance Awards and Other Incentive Awards.** The grant of a Performance Award or Other Incentive Award denominated in shares of Common Stock and that may be paid or settled (i) only in Common Stock or (ii) in either Common Stock or cash or a combination thereof shall reduce the number of shares available for grant of Awards under the Plan by the number of shares subject to such an Award; provided, however, that upon settlement of the Award, the excess, if any, of the number of shares of Common Stock that had been subject to such Award over the number of shares of Common Stock issued upon its settlement shall again be available for grant of Awards under the Plan. The grant of a Performance Award or Other Incentive Award denominated in cash and that may be paid or settled (i) only in cash or (ii) in either Common Stock or cash or a combination thereof shall reduce the number of shares available for grant of Awards under the Plan by the number of shares of Common Stock, if any, that are actually issued with respect to such Award. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting and make adjustments if the number of shares of Common Stock actually delivered differs from the number of shares previously counted in connection with an Award.

(d) **Cancellation, Forfeiture and Termination.** If any Award referred to in Sections 4.3(a), (b), or (c) (other than an Award that may be paid or settled only for cash) is canceled or forfeited, or terminates, expires or lapses, for any reason, the shares then subject to such Award shall again be available for grant of Awards under the Plan.

(e) **Payment of Exercise Price and Withholding Taxes.** If previously acquired shares of Common Stock are used to pay the exercise price of an Award, the number of shares available for grant of Awards under the Plan shall be increased by the number of shares delivered as payment of such exercise price. If previously acquired shares of Common Stock are used to pay withholding taxes payable upon exercise, vesting or payment of an Award, or shares of Common Stock that would be acquired upon exercise, vesting or payment of an Award are withheld to pay withholding taxes payable upon exercise, vesting or payment of such Award, the number of shares available for grant of Awards under the Plan shall be increased by the number of shares delivered or withheld as payment of such withholding taxes.

ARTICLE V ELIGIBILITY

The Committee shall select Participants from those Employees and Outside Directors who, in the opinion of the Committee, are in a position to make a significant contribution to the success of the Company. Once a Participant has been selected for an Award by the Committee, the Committee shall determine the type and size of Award to be granted to the Participant and shall establish in the related Award Agreement the terms, conditions, restrictions and limitations applicable to the Award, in addition to those set forth in the Plan and the administrative guidelines and regulations, if any, established by the Committee.

ARTICLE VI FORM OF AWARDS

6.1 Form of Awards. Awards may be granted under the Plan, in the Committee's sole discretion, in the form of Options pursuant to Article VII, SARs pursuant to Article VIII, Restricted Stock pursuant to Article IX, Performance Awards pursuant to Article X, and Stock Awards and Other Incentive

Awards pursuant to Article XI, or a combination thereof. All Awards shall be subject to the terms, conditions, restrictions and limitations of the Plan. The Committee may, in its sole discretion, subject any Award to such other terms, conditions, restrictions and/or limitations (including without limitation the time and conditions of exercise, vesting or payment of an Award and restrictions on transferability of any shares of Common Stock issued or delivered pursuant to an Award), provided they are not inconsistent with the terms of the Plan. The Committee may, but is not required to, subject an Award to such conditions as it determines are necessary or appropriate to ensure that an Award constitutes "qualified performance based compensation" within the meaning of Section 162(m) of the Code and the regulations thereunder. Awards under a particular Article of the Plan need not be uniform, and Awards under more than one Article of the Plan may be combined in a single Award Agreement. Any combination of Awards may be granted at one time and on more than one occasion to the same Participant.

6.2 No Repricing or Reload Rights. Except for adjustments made pursuant to Section 4.2, no Award may be repriced, replaced, regranted through cancellation or otherwise modified without stockholder approval, if the effect would be to reduce the exercise price for the shares underlying such Award. The Committee may not cancel an outstanding Option that is under water for the purpose of granting a replacement Award of a different type.

6.3 Loans. The Committee may, in its sole discretion, approve the extension of a loan by the Company to a Participant who is an Employee to assist the Participant in paying the exercise price or purchase price of an Award; provided, however, that no loan shall be permitted if the extension of such loan would violate any provision of applicable law (including but not limited to Section 402 of the Sarbanes-Oxley Act of 2002). Any loan will be made upon such terms and conditions as the Committee shall determine.

ARTICLE VII OPTIONS

7.1 General. Awards may be granted in the form of Options that may be Incentive Stock Options or Nonqualified Stock Options, or a combination of both; provided, however, that Incentive Stock Options may be granted only to Employees. The maximum number of shares of Common Stock that may be subject to all Options granted under the Plan to any one Participant (i) during the fiscal year of Carriage in which the Participant is first hired by the Company is 100,000 shares and (ii) during each subsequent fiscal year is 100,000 shares.

7.2 Terms and Conditions of Options. An Option shall be exercisable in whole or in such installments and at such times as may be determined by the Committee. The price at which a share of Common Stock may be purchased upon exercise of an Option shall be determined by the Committee, but such exercise price shall not be less than 100% of the Fair Market Value per share of Common Stock on the Grant Date unless the Option was granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became Employees as a result of a merger, consolidation, acquisition, or other corporate transaction involving the Company and complies with Section 409A of the Code. Except as otherwise provided in Section 7.3, the term of each Option shall be as specified by the Committee; provided, however, that no Options shall be exercisable later than ten years after the Grant Date. Options may be granted with respect to Restricted Stock or shares of Common Stock that are not Restricted Stock, as determined by the Committee in its sole discretion.

7.3 Restrictions Relating to Incentive Stock Options.

(a) Options granted in the form of Incentive Stock Options shall, in addition to being subject to the terms and conditions of Section 7.2, comply with Section 422(b) of the Code. To the extent the aggregate Fair Market Value (determined as of the times the respective Incentive Stock Options are granted) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company exceeds \$100,000, such excess Incentive Stock Options shall be treated as options that do not constitute Incentive Stock Options. The Committee shall determine, in accordance with the applicable provisions of the Code and based on information available to it, which of a Participant's Incentive Stock Options will not constitute Incentive Stock Options because of such limitation and will notify the Participant of such determination as soon as practicable after such determination (but without liability for any failure or delay in providing such notification). The price at which a share of Common Stock may be purchased upon exercise of an Incentive Stock Option shall be determined by the Committee, but such exercise price shall not be less than 100% of the Fair Market Value of a share of Common Stock on the Grant Date. No Incentive Stock Option shall be granted to an Employee under the Plan if, at the time such Option is granted, such Employee owns stock possessing more than 10% of the total combined voting power of all classes of stock of Carriage or an Affiliate, within the meaning of Section 422(b)(6) of the Code, unless (i) on the Grant Date of such Option, the exercise price of such Option is at least 110% of the Fair Market Value of the Common Stock subject to the Option and (ii) such Option by its terms is not exercisable after the expiration of five years from the Grant Date of the Option.

(b) Each Participant awarded an Incentive Stock Option shall notify Carriage in writing immediately after the date he or she makes a disqualifying disposition of any shares of Common Stock acquired pursuant to the exercise of such Incentive Stock Option. A disqualifying disposition is any disposition (including any sale) of such Common Stock before the later of (i) two years after the Grant Date of the Incentive Stock Option or (ii) one year after the date of exercise of the Incentive Stock Option.

7.4 Exercise of Options.

(a) Subject to the terms and conditions of the Plan, Options shall be exercised by the delivery of a written notice of exercise to Carriage, setting forth the number of whole shares of Common Stock with respect to which the Option is to be exercised, accompanied by full payment for such shares.

(b) Upon exercise of an Option, the exercise price of the Option shall be payable to Carriage in full either: (i) in cash or an equivalent acceptable to the Committee, or (ii) in the sole discretion of the Committee and in accordance with any applicable administrative guidelines established by the Committee, by tendering one or more previously acquired nonforfeitable, unrestricted shares of Common Stock that have been held by the Participant for at least six months having an aggregate Fair Market Value at the time of exercise equal to the total exercise price, or (iii) in a combination of the forms of payment specified in clauses (i) and (ii) above.

(c) During such time as the Common Stock is registered under Section 12 of the Exchange Act, to the extent permissible under applicable law, payment of the exercise price of an Option may also be made, in the absolute discretion of the Committee, by delivery to Carriage or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions to a broker-dealer to sell or margin a sufficient portion of the shares with respect to which the Option is exercised and deliver the sale or margin loan proceeds directly to Carriage to pay the exercise price and any required withholding taxes.

(d) As soon as reasonably practicable after receipt of written notification of exercise of an Option and full payment of the exercise price and any required withholding taxes, Carriage shall (i) deliver to the Participant, in the Participant's name or the name of the Participant's designee, a stock certificate or certificates in an appropriate aggregate amount based upon the number of shares of Common Stock purchased under the Option, or (ii) cause to be issued in the Participant's name or the name of the Participant's designee, in book-entry form, an appropriate number of shares of Common Stock based upon the number of shares purchased under the Option.

7.5 Termination of Employment. Each Award Agreement embodying the Award of an Option shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment with the Company. Such provisions shall be determined by the Committee in its absolute discretion, need not be uniform among all Options granted under the Plan and may reflect distinctions based on the reasons for termination of employment. In the event a Participant's Award Agreement embodying the award of an Option does not set forth such termination provisions, the following termination provisions shall apply with respect to such Award:

(a) **Termination Other Than For Cause.** If the employment of a Participant shall terminate for any reason other than Cause, each outstanding Option held by the Participant may be exercised, to the extent then vested, until the earlier of (i) the expiration of one year from the date of such termination of employment or (ii) the expiration of the term of such Option.

(b) **Termination for Cause.** Notwithstanding paragraph (a) above, if the employment of a Participant shall terminate for Cause, each outstanding Option held by the Participant may be exercised, to the extent then vested, until the earlier of (i) the expiration of 30 days from the date of such termination of employment or (ii) the expiration of the term of such Option.

Notwithstanding the foregoing provisions of this Section 7.5, an Option will not be treated as an Incentive Stock Option unless at all times beginning on the Grant Date and ending on the day three months (one year in the case of a Participant who is "disabled" within the meaning of Section 22(e)(3) of the Code) before the date of exercise of the Option, the Participant is an employee of Carriage or an Affiliate (or a corporation or a parent or subsidiary corporation of such corporation issuing or assuming an option in a transaction to which Section 424(a) of the Code applies).

ARTICLE VIII STOCK APPRECIATION RIGHTS

8.1 General. The Committee may grant Awards in the form of SARs in such numbers and at such times as it shall determine. SARs shall vest and be exercisable in whole or in such installments and at such times as may be determined by the Committee. The price at which SARs may be exercised shall be determined by the Committee but shall not be less than 100% of the Fair Market Value per share of Common Stock on the Grant Date unless the SARs were granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who became Employees as a result of a merger, consolidation, acquisition, or other corporate transaction involving the Company and comply with Section 409A of the Code. The term of each SAR shall be as specified by the Committee; provided, however, that no SARs shall be exercisable later than ten years after the Grant Date. At the time of an Award of SARs, the Committee may, in its sole discretion, prescribe additional terms, conditions, restrictions and limitations applicable to the SARs, including without limitation rules pertaining to the termination of employment (by reason of death, permanent and total disability, or otherwise) of a

Participant prior to exercise of the SARs, as it determines are necessary or appropriate, provided they are not inconsistent with the Plan. The maximum number of shares of Common Stock that may be subject to all SARs granted under the Plan to any one Participant (i) during the fiscal year of Carriage in which the Participant is first hired by the Company is 100,000 shares and (ii) during each subsequent fiscal year is 100,000 shares; provided, however that if a SAR is to be paid in cash, the number of shares of Common Stock subject to such SAR shall not count toward the individual share limit set forth in this sentence.

8.2 Exercise of SARs. SARs shall be exercised by the delivery of a written notice of exercise to Carriage, setting forth the number of whole shares of Common Stock with respect to which the Award is being exercised. Upon the exercise of SARs, the Participant shall be entitled to receive an amount equal to the excess of the aggregate Fair Market Value of the shares of Common Stock with respect to which the Award is exercised (determined as of the date of such exercise) over the aggregate exercise price of such shares. Such amount shall be payable to the Participant in cash or in shares of Common Stock, as provided in the Award Agreement.

ARTICLE IX RESTRICTED STOCK

9.1 General. Awards may be granted in the form of Restricted Stock in such numbers and at such times as the Committee shall determine. The Committee shall impose such terms, conditions and restrictions on Restricted Stock as it may deem advisable, including without limitation providing for vesting upon the achievement of specified performance goals pursuant to a Performance Award and restrictions under applicable Federal or state securities laws. A Participant shall not be required to make any payment for Restricted Stock unless required by the Committee pursuant to Section 9.2.

9.2 Purchased Restricted Stock. The Committee may in its sole discretion require a Participant to pay a stipulated purchase price for each share of Restricted Stock.

9.3 Restricted Period. At the time an Award of Restricted Stock is granted, the Committee shall establish a Restricted Period applicable to such Restricted Stock. Each Award of Restricted Stock may have a different Restricted Period in the sole discretion of the Committee; provided, however, that no Award of Restricted Stock (other than an Award of Restricted Stock granted in the form of a Performance Award or an Award of Restricted Stock granted to an Outside Director) shall have a Restricted Period of less than three years.

9.4 Other Terms and Conditions. Restricted Stock shall constitute issued and outstanding shares of Common Stock for all corporate purposes. Restricted Stock awarded to a Participant under the Plan shall be registered in the name of the Participant or, at the option of Carriage, in the name of a nominee of Carriage, and shall be issued in book-entry form or represented by a stock certificate. Subject to the terms and conditions of the Award Agreement, a Participant to whom Restricted Stock has been awarded shall have the right to receive dividends thereon during the Restricted Period, to vote the Restricted Stock and to enjoy all other stockholder rights with respect thereto, except that (a) Carriage shall retain custody of any certificates evidencing the Restricted Stock during the Restricted Period, and (b) the Participant may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the Restricted Stock during the Restricted Period. A breach of the terms and conditions established by the Committee pursuant to the Award of the Restricted Stock may result in a forfeiture of the Restricted Stock. At the time of an Award of Restricted Stock, the Committee may, in its sole discretion, prescribe additional terms, conditions, restrictions and limitations applicable to the Restricted Stock, including without limitation rules pertaining to the termination of employment (by reason of death, permanent and total disability, retirement, cause or otherwise) of a Participant prior to expiration of the Restricted Period.

9.5 Miscellaneous. Nothing in this Article shall prohibit the exchange of shares of Restricted Stock pursuant to a plan of merger or reorganization for stock or other securities of Carriage or another corporation that is a party to the reorganization, provided that the stock or securities so received in exchange for shares of Restricted Stock shall, except as provided in Article XII, become subject to the restrictions applicable to such Restricted Stock. Any shares of Common Stock received as a result of a stock split or stock dividend with respect to shares of Restricted Stock shall also become subject to the restrictions applicable to such Restricted Stock.

ARTICLE X PERFORMANCE AWARDS

10.1 General. Awards may be granted in the form of Performance Awards that may be payable in the form of cash, shares of Common Stock, or a combination of both, in such amounts and at such times as the Committee shall determine. Performance Awards shall be conditioned upon the level of achievement of one or more stated performance goals over a specified performance period that shall not be shorter than one year. Without limiting the foregoing, no Performance Award that is an Award of Restricted Stock or an Other Incentive Award shall have a Restricted Period of less than one year. Performance Awards may be combined with other Awards to impose performance criteria as part of the terms of such other Awards.

10.2 Terms and Conditions. Each Award Agreement embodying a Performance Award shall set forth (a) the amount, including a target and maximum amount if applicable, a Participant may earn in the form of cash or shares of Common Stock or a formula for determining such amount, (b) the performance criteria and level of achievement versus such criteria that shall determine the amount payable or number of shares of Common Stock to be granted, issued, retained and/or vested, (c) the performance period over which performance is to be measured, (d) the timing of any payments to be made, (e) restrictions on the transferability of the Award, and (f) such other terms and conditions as the Committee may determine that are not inconsistent with the Plan.

10.3 Code Section 162(m) Requirements. From and after the date on which remuneration paid pursuant to the Plan becomes subject to the deduction limitation of Section 162(m) of the Code, the Committee shall determine in its sole discretion whether all or any portion of a Performance Award shall be intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code (the “162(m) Requirements”). The performance criteria for any Performance Award that is intended to satisfy the 162(m) Requirements shall be established in writing by the Committee based on one or more performance goals as set forth in Section 10.4 not later than 90 days after commencement of the performance period with respect to such Award, provided that the outcome of the performance in respect of the goals remains substantially uncertain as of such time. The maximum amount that may be paid in cash pursuant to Performance Awards granted to a Participant with respect to a Carriage’s fiscal year that are intended to satisfy the 162(m) Requirements is \$1,000,000; provided, however, that such maximum amount with respect to a Performance Award that provides for a performance period longer than one fiscal year shall be the foregoing limit multiplied by the number of full fiscal years in the performance period. At the time of the grant of a Performance Award and to the extent permitted under Code Section 162(m) and regulations thereunder for a Performance Award intended to satisfy the 162(m) Requirements, the Committee may provide for the manner in which the performance goals will be measured in light of specified corporate transactions, extraordinary events, accounting changes and other similar occurrences.

10.4 Performance Goals. The performance measure(s) to be used for purposes of Performance Awards may be described in terms of objectives that are related to the individual Participant or objectives that are Company-wide or related to a subsidiary, division, department, region, function or business unit of the Company in which the Participant is employed, and may consist of one or more or any combination of the following criteria: (a) earnings or earnings per share (whether on a pre-tax, after-tax, operational or

other basis), (b) return on equity, (c) return on assets or net assets, (d) return on capital or invested capital and other related financial measures, (e) cash flow, (f) revenues, (g) income or operating income, (h) expenses or expense levels, (i) one or more operating ratios, (j) stock price, (k) total stockholder return, (l) market share, (m) operating profit, (n) profit margin, (o) capital expenditures, (p) net borrowing, debt leverage levels, credit quality or debt ratings, (q) the accomplishment of mergers, acquisitions, dispositions, public offerings or similar extraordinary business transactions, (r) net asset value per share, (s) economic value added and (t) individual business objectives. The performance goals based on these performance measures may be made relative to the performance of other business entities.

10.5 Certification and Negative Discretion. Prior to the payment of any compensation pursuant to a Performance Award that is intended to satisfy the 162(m) Requirements, the Committee shall certify the extent to which the performance goals and other material terms of the Award have been achieved or satisfied. The Committee in its sole discretion shall have the authority to reduce, but not to increase, the amount payable and the number of shares to be granted, issued, retained or vested pursuant to a Performance Award.

ARTICLE XI STOCK AWARDS AND OTHER INCENTIVE AWARDS

11.1 Stock Awards. Stock Awards may be granted to Participants upon such terms and conditions as the Committee may determine; provided, however, that no Stock Award (other than a Stock Award granted in the form of a Performance Award or a Stock Award granted to an Outside Director) shall have a Restricted Period of less than three years. Shares of Common Stock issued pursuant to Stock Awards may be issued for cash consideration or for no cash consideration. The Committee shall determine the number of shares of Common Stock to be issued pursuant to a Stock Award.

11.2 Other Incentive Awards. Other Incentive Awards may be granted in such amounts, upon such terms and at such times as the Committee shall determine; provided, however, that no Other Incentive Award (other than an Other Incentive Award granted in the form of a Performance Award or an Other Incentive Award granted to an Outside Director) shall have a Restricted Period of less than three years. Other Incentive Awards may be granted based upon, payable in or otherwise related to, in whole or in part, shares of Common Stock if the Committee, in its sole discretion, determines that such Other Incentive Awards are consistent with the purposes of the Plan. Each grant of an Other Incentive Award shall be evidenced by an Award Agreement that shall specify the amount of the Other Incentive Award and the terms, conditions, restrictions and limitations applicable to such Award. Payment of Other Incentive Awards shall be made at such times and in such form, which may be cash, shares of Common Stock or other property (or a combination thereof), as established by the Committee, subject to the terms of the Plan.

ARTICLE XII CORPORATE CHANGE

12.1 Vesting of Awards. Except as provided otherwise below in this Article or in an Award Agreement at the time an Award is granted, notwithstanding anything to the contrary in the Plan, if a Participant's employment with the Company is terminated for any reason other than death, Cause or Inability to Perform or if a Participant voluntarily terminates employment for Good Reason, in either case within the one-year period following a Corporate Change of Carriage, any time periods, conditions or contingencies relating to the exercise or realization of, or lapse of restrictions under, any Award shall be automatically accelerated or waived so that:

(a) if no exercise of the Award is required, the Award may be realized in full at the time of the occurrence of the Participant's termination of employment; or

(b) if exercise of the Award is required, the Award may be exercised in full commencing on the date of the Participant's termination of employment;

provided, however, that with respect to an Award that consists of deferred compensation under Section 409A of the Code, in the event of a Corporate Change that does not satisfy the requirements for a change in the ownership or effective control of Carriage or a change in the ownership of a substantial portion of the assets of Carriage within the meaning of Section 409A of the Code and Treasury guidance and regulations related to Section 409A of the Code, then delivery of payment with respect to such Award as provided above shall be delayed until payment may be made to the Participant without negative tax consequences to the Participant under Section 409A of the Code.

12.2 Replacement Awards. In the event all outstanding Awards are replaced in connection with a Corporate Change by comparable types of awards of at least substantially equivalent value, as determined by the Committee in its sole discretion, such replacement awards shall provide for automatic acceleration or waiver as provided in Section 12.1 in the event of a Participant's involuntary termination of employment with the Company other than for Cause or voluntary termination of employment for Good Reason, as applicable, within the one-year period following the Corporate Change of Carriage.

12.3 Cancellation of Awards. Notwithstanding the foregoing, on or prior to the date of a Corporate Change, the Committee may take any of the following actions with respect to all outstanding Awards, without the consent of any Participant: (a) the Committee may require that Participants surrender their outstanding Options and SARs in exchange for payment by the Company, in cash, Common Stock, the securities of another company, or a combination thereof, as determined by the Committee, in an amount equal to the amount, if any, by which the then Fair Market Value of the shares of Common Stock subject to the Participant's unexercised Options and SARs exceeds the exercise price or grant price, and (b) with respect to Participants holding Restricted Stock, Performance Awards or Other Incentive Awards, the Committee may determine that such Participants shall receive payment in settlement of such Awards (and dividend rights), in an amount equivalent to the value of such Awards (and dividend rights) at the time of such settlement.

ARTICLE XIII AMENDMENT AND TERMINATION

13.1 Plan Amendment and Termination. The Board may at any time suspend, terminate, amend or modify the Plan, in whole or in part; provided, however, that no amendment or modification of the Plan shall become effective without the approval of such amendment or modification by the holders of at least a majority of the shares of Common Stock if (a) such amendment or modification increases the maximum number of shares subject to the Plan (except as provided in Article IV) or changes the designation or class of persons eligible to receive Awards under the Plan, or (b) counsel for Carriage determines that such approval is otherwise required by or necessary to comply with applicable law or the listing requirements of the New York Stock Exchange or such other exchange or association on which the Common Stock is then listed or quoted. An amendment to the Plan shall not require stockholder approval if it curtails rather than expands the scope of the Plan, nor if it is made to conform the Plan to new statutory or regulatory requirements that arise after submission of the Plan to stockholders for their approval, such as, without limitation, changes to Code Section 409A, or regulations issued thereunder. Upon termination of the Plan, the terms and provisions of the Plan shall, notwithstanding such termination, continue to apply to Awards granted prior to such termination. Except as otherwise provided herein, no suspension, termination, amendment or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the consent of the Participant (or the Permitted Transferee) holding such Award. Notwithstanding the foregoing, Carriage may amend any Award Agreement to be exempt from

Code Section 409A or to comply with the requirements of Code Section 409A or to modify any provision that causes an Award that is intended to be classified as an "equity instrument" under ASC Topic 718 to be classified as a liability on Carriage's financial statements.

13.2 Award Amendment and Cancellation. The Committee may amend the terms of any outstanding Award granted pursuant to the Plan, but except as otherwise provided herein, no such amendment shall adversely affect in any material way the Participant's (or a Permitted Transferee's) rights under an outstanding Award without the consent of the Participant (or the Permitted Transferee) holding such Award.

ARTICLE XIV MISCELLANEOUS

14.1 Award Agreements. After the Committee grants an Award under the Plan to a Participant, Carriage and the Participant shall enter into an Award Agreement setting forth the terms, conditions, restrictions and limitations applicable to the Award and such other matters as the Committee may determine to be appropriate. The Committee may permit or require a Participant to defer receipt of the payment of cash or the delivery of shares of Common Stock that would otherwise be due to the Participant in connection with any Award. Awards that are not paid currently shall be recorded as payable on Carriage's records for the Plan. The terms and provisions of the respective Award Agreements need not be identical. All Award Agreements shall be subject to the provisions of the Plan, and in the event of any conflict between an Award Agreement and the Plan, the terms of the Plan shall govern.

14.2 Listing; Suspension.

(a) As long as the Common Stock is listed on a national securities exchange or system sponsored by a national securities association, the issuance of any shares of Common Stock pursuant to an Award shall be conditioned upon such shares being listed on such exchange or system. Carriage shall have no obligation to issue such shares unless and until such shares are so listed, and the right to exercise any Option or other Award with respect to such shares shall be suspended until such listing has been effected.

(b) If at any time counsel to Carriage or its Affiliates shall be of the opinion that any sale or delivery of shares of Common Stock pursuant to an Award is or may in the circumstances be unlawful or result in the imposition of excise taxes on Carriage or its Affiliates under the laws of any applicable jurisdiction, Carriage or its Affiliates shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration under the Securities Act, or otherwise, with respect to shares of Common Stock or Awards, and the right to exercise any Option or other Award shall be suspended until, in the opinion of such counsel, such sale or delivery shall be lawful or will not result in the imposition of excise taxes on Carriage or its Affiliates.

(c) Upon termination of any period of suspension under this Section, any Award affected by such suspension that shall not then have expired or terminated shall be reinstated as to all shares available before such suspension and as to shares that would otherwise have become available during the period of such suspension, but no such suspension shall extend the term of any Award unless otherwise determined by the Committee in its sole discretion.

14.3 Additional Conditions. Notwithstanding anything in the Plan to the contrary: (a) the Committee may, if it shall determine it necessary or desirable in its sole discretion, at the time of grant of any Award or the issuance of any shares of Common Stock pursuant to any Award, require the recipient of

the Award or such shares of Common Stock, as a condition to the receipt thereof, to deliver to Carriage a written representation of present intention to acquire the Award or such shares of Common Stock for his own account for investment and not for distribution, (b) the certificate for shares of Common Stock issued to a Participant may include any legend that the Committee deems appropriate to reflect any restrictions on transfer, and (c) all certificates for shares of Common Stock delivered under the Plan shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the SEC, any stock exchange or association upon which the Common Stock is then listed or quoted, any applicable federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions.

14.4 Transferability.

(a) All Awards granted to a Participant shall be exercisable during his lifetime only by such Participant, or if applicable, a Permitted Transferee as provided in subsection (c) of this Section; provided, however, that in the event of a Participant's legal incapacity, an Award may be exercised by his guardian or legal representative. When a Participant dies, the personal representative, beneficiary, or other person entitled to succeed to the rights of the Participant may acquire the rights under an Award. Any such successor must furnish proof satisfactory to Carriage of the successor's entitlement to receive the rights under an Award under the Participant's will or under the applicable laws of descent and distribution.

(b) Except as otherwise provided in this Section, no Award shall be subject to execution, attachment or similar process, and no Award may be sold, transferred, pledged, exchanged, hypothecated or otherwise disposed of, other than by will or pursuant to the applicable laws of descent and distribution. Any attempted sale, transfer, pledge, exchange, hypothecation or other disposition of an Award not specifically permitted by the Plan or the Award Agreement shall be null and void and without effect.

(c) If provided in the Award Agreement, Nonqualified Stock Options may be transferred by a Participant to a Permitted Transferee. For purposes of the Plan, "Permitted Transferee" means (i) a member of a Participant's immediate family, (ii) any person sharing the Participant's household (other than a tenant or employee of the Participant), (iii) trusts in which a person listed in (i) or (ii) above has more than 50% of the beneficial interest, (iv) a foundation in which the Participant or a person listed in (i) or (ii) above controls the management of assets, (v) any other entity in which the Participant or a person listed in (i) or (ii) above owns more than 50% of the voting interests, provided that in the case of the preceding clauses (i) through (v), no consideration is provided for the transfer, and (vi) any transferee permitted under applicable securities and tax laws as determined by counsel to Carriage. In determining whether a person is a "Permitted Transferee," immediate family members shall include a Participant's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships.

(d) Incident to a Participant's divorce, the Participant may request that Carriage agree to observe the terms of a domestic relations order which may or may not be part of a qualified domestic relations order (as defined in Code Section 414(p)) with respect to all or a part of one or more Awards made to the Participant under the Plan. Carriage's decision regarding such a request shall be made by the Committee, in its sole and absolute discretion, based upon the best interests of Carriage. The Committee's decision need not be uniform among Participants. As a condition of participation, a Participant agrees to hold Carriage harmless from any claim that may arise out of Carriage's observance of the terms of any such domestic relations order.

14.5 Withholding Taxes. The Company shall be entitled to deduct from any payment made under the Plan, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment, may require the Participant to pay to the Company such withholding taxes prior to and as a condition of the making of any payment or the issuance or delivery of any shares of Common Stock under the Plan, and shall be entitled to deduct from any other compensation payable to the Participant any withholding obligations with respect to Awards. In accordance with any applicable administrative guidelines it establishes, with respect to a Participant who is not a Section 16 Participant, the Committee may allow such Participant to pay the amount of taxes required by law to be withheld from or with respect to an Award by (i) withholding shares of Common Stock from any payment of Common Stock due as a result of such Award, or (ii) permitting the Participant to deliver to the Company previously acquired shares of Common Stock, in each case having an aggregate Fair Market Value equal to the amount of such required withholding taxes. No payment shall be made and no shares of Common Stock shall be issued pursuant to any Award unless and until the applicable tax withholding obligations have been satisfied. Notwithstanding the foregoing, a Section 16 Participant shall satisfy the tax withholding obligations with respect to an Award by either (x) tendering a cash payment to the Company or (y) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to such Section 16 Participant as a result of the exercise or acquisition of Common Stock under the Award. In the event that shares of Common Stock that would otherwise be issued pursuant to an Award are used to satisfy such withholding obligations, the number of shares of Common Stock which may be withheld or surrendered shall be limited to the number of shares of Common Stock which have a Fair Market Value (which, in the case of a broker-assisted transaction, shall be determined by the Committee, consistent with applicable provisions of the Code), on the date of withholding, equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income. No payment shall be made and no shares of Common Stock shall be issued pursuant to any Award unless and until the applicable tax withholding obligations have been satisfied.

14.6 No Fractional Shares. No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan or any Award granted hereunder, provided that the Committee in its sole discretion may round fractional shares down to the nearest whole share or settle fractional shares in cash.

14.7 Notices. All notices required or permitted to be given or made under the Plan or pursuant to any Award Agreement (unless provided otherwise in such Award Agreement) shall be in writing and shall be deemed to have been duly given or made if (a) delivered personally, (b) transmitted by first class registered or certified United States mail, postage prepaid, return receipt requested, (c) sent by prepaid overnight courier service, or (d) sent by telecopy or facsimile transmission, with confirmation receipt, to the person who is to receive it at the address that such person has theretofore specified by written notice delivered in accordance herewith. Such notices shall be effective (i) if delivered personally or sent by courier service, upon actual receipt by the intended recipient, (ii) if mailed, upon the earlier of five days after deposit in the mail or the date of delivery as shown by the return receipt therefor, or (iii) if sent by telecopy or facsimile transmission, when the answer back is received. Carriage or a Participant may change, at any time and from time to time, by written notice to the other, the address that it or such Participant had theretofore specified for receiving notices. Until such address is changed in accordance herewith, notices hereunder or under an Award Agreement shall be delivered or sent (A) to a Participant at his address as set forth in the records of the Company or (B) to Carriage at the principal executive offices of Carriage clearly marked "Attention: Chief Financial Officer."

14.8 Clawback. To the extent required by (i) applicable law, including, without limitation, the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, any SEC rule or any applicable securities exchange listing standards and/or (ii) any policy that may be adopted by the

Board, Awards and amounts paid or payable pursuant to or with respect to Awards shall be subject to clawback to the extent necessary to comply with such law(s) and/or policy, which clawback may include forfeiture, repurchase and/or recoupment of Awards and amounts paid or payable pursuant to or with respect to Awards.

14.9 Compliance with Law and Stock Exchange or Association Requirements. In addition, it is the intent of Carriage that Options designated Incentive Stock Options comply with the applicable provisions of Section 422 of the Code, and that Awards intended to constitute “qualified performance-based awards” comply with the applicable provisions of Section 162(m) of the Code and that any deferral of the receipt of the payment of cash or the delivery of shares of Common Stock that the Committee may permit or require, and all Awards either be exempt from Code section 409A or, if not exempt, comply with the requirements of Section 409A of the Code. To the extent that any legal requirement of Section 16 of the Exchange Act or Sections 422, 162(m) or 409A of the Code as set forth in the Plan ceases to be required under Section 16 of the Exchange Act or Sections 422, 162(m) or 409A of the Code, that Plan provision shall cease to apply. Any provision of the Plan to the contrary notwithstanding, the Committee may revoke any Award if it is contrary to law, governmental regulation, or stock exchange or association requirements or modify an Award to bring it into compliance with any government regulation or stock exchange or association requirements. The Committee may agree to limit its authority under this Section.

14.10 California Blue Sky Laws. Prior to the effective registration of the Common Stock under Section 12 of the Exchange Act, (a) Carriage shall deliver a balance sheet and an income statement at least annually to each Participant who performs services in the State of California, unless such Participant is a key employee whose duties in connection with the Company assure such Participant access to equivalent information, (b) the Committee may not impose upon any Award grant made to a Participant who performs services in the State of California a vesting schedule that is more restrictive than 20 percent per year vesting, with the initial vesting to occur not later than one year after the Award’s grant date; provided, however, that such vesting limitation shall not be applicable to any Award grants made to individuals who are officers of Carriage, and (c) with respect to California Participants (including any individual whose Award is based in whole or in part on services performed in California), the Plan shall otherwise be administered in accordance with California Corporations Code Section 25102(o) and California Code of Regulations, Title 10, Sections 260.140.41, 260.140.42, 260.140.45, and 260.140.46.

14.11 Binding Effect. The obligations of Carriage under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of Carriage, or upon any successor corporation or organization succeeding to all or substantially all of the assets and business of Carriage. The terms and conditions of the Plan shall be binding upon each Participant and his Permitted Transferees, heirs, legatees, distributees and legal representatives.

14.12 Severability. If any provision of the Plan or any Award Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of the Plan or such agreement, as the case may be, but such provision shall be fully severable and the Plan or such agreement, as the case may be, shall be construed and enforced as if the illegal or invalid provision had never been included herein or therein.

14.13 No Restriction of Corporate Action. Nothing contained in the Plan shall be construed to prevent Carriage or any Affiliate from taking any corporate action (including any corporate action to suspend, terminate, amend or modify the Plan) that is deemed by Carriage or such Affiliate to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Awards made or to be made under the Plan. No Participant or other person shall have any claim against Carriage or any Affiliate as a result of such action.

14.14 Governing Law. The Plan shall be governed by and construed in accordance with the internal laws (and not the principles relating to conflicts of laws) of the State of Texas except as superseded by applicable federal law.

14.15 No Right, Title or Interest in Company Assets. No Participant shall have any rights as a stockholder of Carriage as a result of participation in the Plan until the date of issuance of Common Stock in his name and, in the case of Restricted Stock, unless and until such rights are granted to the Participant pursuant to the Plan. To the extent any person acquires a right to receive payments from the Company under the Plan, such rights shall be no greater than the rights of an unsecured general creditor of the Company, and such person shall not have any rights in or against any specific assets of the Company. All Awards shall be unfunded.

14.16 Risk of Participation. Nothing contained in the Plan shall be construed either as a guarantee by Carriage or the Affiliates, or their respective stockholders, directors, officers or employees, of the value of any assets of the Plan or as an agreement by Carriage or the Affiliates, or their respective stockholders, directors, officers or employees, to indemnify anyone for any losses, damages, costs or expenses resulting from participation in the Plan.

14.17 No Guarantee of Tax Consequences. No person connected with the Plan in any capacity, including without limitation Carriage and the Affiliates and their respective directors, officers, agents and employees, makes any representation, commitment or guarantee that any tax treatment, including without limitation federal, state and local income, estate and gift tax treatment, will be applicable with respect to any Awards or payments thereunder made to or for the benefit of a Participant under the Plan or that such tax treatment will apply to or be available to a Participant on account of participation in the Plan.

14.18 Continued Employment. Nothing contained in the Plan or in any Award Agreement shall confer upon any Participant the right to continue in the employ of the Company, or interfere in any way with the rights of the Company to terminate a Participant's employment at any time, with or without cause. The loss of existing or potential profit in Awards will not constitute an element of damages in the event of termination of employment for any reason, even if the termination is in violation of an obligation of Carriage or an Affiliate to the Participant.

14.19 Miscellaneous. Headings are given to the articles and sections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction of the Plan or any provisions hereof. The use of the masculine gender shall also include within its meaning the feminine. Wherever the context of the Plan dictates, the use of the singular shall also include within its meaning the plural, and vice versa.

Form for Directors

**CARRIAGE SERVICES, INC.
SECOND AMENDED AND RESTATED
2006 LONG-TERM INCENTIVE PLAN**

**PERFORMANCE-BASED
STOCK AWARD AGREEMENT**

This Performance-Based Stock Award Agreement (this "Agreement") is made and entered into as of _____, 20____ (the "Grant Date") by and between Carriage Services, Inc. (the "Company") and _____ (the "Director").

To carry out the purposes of the Carriage Services, Inc. Second Amended and Restated 2006 Long-Term Incentive Plan (the "Plan"), and in consideration of the mutual agreements and other matters set forth herein and in the Plan, the Company and the Director hereby agree as follows:

1. Grant of Performance-Based Stock Award. The Company hereby issues to the Director, as of the Grant Date, a Performance-Based Stock Award under Article X and Section 11.1 of the Plan in respect of _____ shares of Common Stock (the "Award"), subject to all of the terms and conditions set forth in the Plan and in this Agreement. To the extent vested, the Award represents the right of the Director to receive Common Stock upon payment of the Purchase Price (as defined below). Capitalized terms that are used but not defined herein have the meanings ascribed to them in the Plan unless the context indicates otherwise. Unless and until the Award vests pursuant to this Agreement, the Director will have no right to payment in respect of the Award.

2. Purchase Price. Prior to settlement of the Award, but in no event later than the date that is three business days prior to March 15th of the calendar year following the calendar year that includes the Vesting Date (as defined in Section 3 below), the Director shall deliver to the Company, with respect to each share of Common Stock subject to the Award, an amount equal to the greater of (a) the Fair Market Value of a share of Common Stock on the Grant Date plus \$0.50 or (b) \$9.00 (the "Purchase Price"). The Purchase Price shall be paid in full either (i) in cash or by certified or bank check, (ii) through irrevocable instructions to a broker-dealer to sell or margin a sufficient number of shares of Common Stock subject to the Award and deliver the sale or margin loan proceeds directly to the Company to pay the Purchase Price, (iii) by reduction in the number of shares otherwise deliverable upon vesting of the Award having a Fair Market Value equal to the Purchase Price or (iv) by any combination of the foregoing methods. Should the Purchase Price not be paid within the time period set forth in this Section 2, the Award shall thereupon automatically be forfeited by the Director without further action and without payment of consideration therefor.

3. Vesting. Except as otherwise provided herein, the Award shall vest in full on the Vesting Date (as defined below), provided that the Director continues to be a member of the Board from the Grant Date through the Vesting Date. If the Director ceases to be a member of the Board at any time before the Vesting Date for any reason or no reason whatsoever, then, except as otherwise provided in Section 5 below, Award shall thereupon automatically be

cancelled and terminated without further action and without payment of any consideration therefor. For purposes of this Agreement, the "Vesting Date" shall be the date on which the closing price of the Common Stock (as reported in *The Wall Street Journal* or such other reporting service approved by the Committee) is greater than or equal to \$21.50 for the third time (whether or not consecutive) within a period of 30 consecutive calendar days. Notwithstanding the foregoing, (a) if the conditions described in the preceding sentence are satisfied on or prior to the first anniversary of the Grant Date, then the Vesting Date shall be the first anniversary of the Grant Date and (b) if the conditions described in the preceding sentence are not satisfied on or prior to the fifth anniversary of the Grant Date, then the Award shall automatically terminate without payment of any consideration therefor and shall be of no further force or effect.

4. Settlement. Subject to Section 10 below, promptly following the Vesting Date (and in all events, no later than March 15th of the calendar year following the calendar year in which the Vesting Date occurs), subject to the Director's payment of the Purchase Price, the Company shall (a) issue and deliver to the Director the number of shares of Common Stock subject to the Award (subject to any reductions and/or withholdings pursuant to this Agreement) and (b) enter the Director's name on the books of the Company as the shareholder of record with respect to the shares of Common Stock delivered to the Director.

5. Corporate Change. In the event of a Corporate Change, notwithstanding anything in Article XII of the Plan to the contrary, the Award shall thereupon automatically be cancelled and terminated and, as soon as administratively practicable thereafter, but in no event later than March 15th of the calendar year following the calendar year in which such Corporate Change occurs, the Company shall pay (or cause to be paid) to the Director an amount of cash equal to the excess, if any, of the Change in Control Value (as defined below) of the shares of Common Stock subject to the Award over the Purchase Price, subject to any reductions and/or withholdings pursuant to this Agreement. For purposes of this Section 6, the "Change in Control Value" shall equal the amount determined in the following clause (a), (b) or (c), whichever is applicable: (a) the per share price offered to stockholders of the Company in any in any merger, consolidation, reorganization, sale of assets or dissolution or liquidation transaction that constitutes such Corporate Change; (b) the per share price offered to stockholders of the Company in any tender offer or exchange offer whereby such Corporate Change takes place; or (c) if such Corporate Change occurs other than pursuant to a tender or exchange offer, the Fair Market Value per share of the shares of Common Stock subject to the Award, as determined by the Committee as of the date determined by the Committee to be the date of cancellation and termination of the Award. In the event that the consideration offered to stockholders of the Company in any Corporate Change consists of anything other than cash, the Committee shall determine the fair cash equivalent of the portion of the consideration offered that is other than cash.

6. Restrictions. Neither the Award nor any of the rights relating thereto may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Director. Any attempt to assign, alienate, pledge, attach, sell or otherwise transfer or encumber the Award or the rights relating thereto shall be wholly ineffective and, if any such attempt is made, the Award will be forfeited by the Director and all of the Director's rights to such Award shall immediately terminate without any payment or consideration by the Company.

7. No Rights as Shareholder; No Dividend Equivalents. The Director shall not have any rights of a shareholder with respect to the shares of Common Stock underlying the Award (including, without limitation, any right to receive dividends or dividend equivalents) unless and until the Award vests and is settled pursuant to Section 4. Upon and following the settlement of the Award, the Director shall be the record owner of the shares of Common Stock underlying the Award unless and until such shares are sold or otherwise disposed of, and as record owner shall be entitled to all rights of a shareholder of the Company (including voting rights).

8. No Right to Continued Board Membership. Neither the Plan nor this Agreement shall confer upon the Director any right to be retained as an Outside Director of the Company. Further, nothing in the Plan or this Agreement shall be construed to limit the discretion of the Company to terminate the Director's membership on the Board at any time.

9. Adjustments. If any change is made to the outstanding Common Stock or the capital structure of the Company, if required, the number of shares of Common Stock subject to the Award shall be adjusted or terminated in any manner as contemplated by Section 4.3 of the Plan.

10. Tax Withholding. Unless other arrangements have been made that are acceptable to the Company, the Company and each of its Affiliates is authorized to deduct or withhold from the Award, or cause to be deducted or withheld from any compensation or other amount owing to the Director, the amount (in cash, Common Stock, other securities or property, or Common Stock that would otherwise be issued pursuant to the Award) of any applicable taxes payable in respect of the vesting and/or settlement of the Award and to take such other actions as may be necessary in the opinion of the Company or any of its Affiliates to satisfy its tax withholding obligations. Notwithstanding the foregoing, if the Director is subject to Rule 16b-3 at the time of vesting and/or settlement of the Award, except as otherwise provided in any tax withholding policy or procedure adopted by the Company, such tax withholding automatically shall be effected by the Company or one of its Affiliates either by (i) withholding shares of Common Stock otherwise deliverable to the Director on the settlement of the Award or (ii) requiring the Director to tender a cash payment to the Company or such Affiliate in an amount equal to the applicable taxes. In the event that shares of Common Stock that would otherwise be delivered pursuant to the Award are used to satisfy such withholding obligations, the number of shares that may be withheld shall be limited to the number of shares that have a Fair Market Value, on the date of withholding, equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income.

11. Compliance with Applicable Laws. The issuance and transfer of shares of Common Stock shall be subject to compliance by the Company and the Director with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Company's shares of Common Stock may be listed. No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of state and federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel.

12. Notices. Any notice required to be delivered to the Company under this Agreement shall be in writing and addressed to the Secretary of the Company at the Company's principal corporate offices. Any notice required to be delivered to the Director under this Agreement shall be in writing and addressed to the Director at the Director's address as shown in the records of the Company. Either party may designate another address in writing (or by such other method approved by the Company) from time to time.

13. Governing Law. This Agreement will be construed and interpreted in accordance with the laws of the State of Texas without regard to conflict of law principles thereof.

14. Interpretation. Any dispute regarding the interpretation of this Agreement shall be submitted by the Director or the Company to the Committee for review. The resolution of such dispute by the Committee shall be final and binding on the Director and the Company.

15. Award Subject to Plan. This Agreement is subject to the Plan as approved by the Company's shareholders. The terms and provisions of the Plan as it may be amended from time to time are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

16. Successors and Assigns. The Company may assign any of its rights under this Agreement. This Agreement will be binding upon, and inure to the benefit of, the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, this Agreement will be binding upon the Director and the Director's beneficiaries, executors, administrators and the person(s) to whom the Award may be transferred by will or the laws of descent or distribution.

17. Severability. The invalidity or unenforceability of any provision of the Plan or this Agreement shall not affect the validity or enforceability of any other provision of the Plan or this Agreement, and each provision of the Plan and this Agreement shall be severable and enforceable to the extent permitted by law.

18. Discretionary Nature of Plan. The Plan is discretionary and may be amended, cancelled or terminated by the Company at any time, in its discretion. The grant of the Award in this Agreement does not create any contractual right or other right to receive any award in the future. Future awards, if any, will be at the sole discretion of the Company. Any amendment, modification, or termination of the Plan shall not constitute a change or impairment of the terms and conditions of the Director's membership on the Board.

19. Amendment. The Committee has the right to amend, alter, suspend, discontinue or cancel the Award, prospectively or retroactively; *provided, however,* that no such amendment shall adversely affect the Director's material rights under this Agreement without the Director's consent.

20. Section 409A. This Award is not intended to constitute or provide for a deferral of compensation that is subject to Section 409A of the Code. Notwithstanding the foregoing, (a) the Company makes no representations that the Award or any amounts payable under this Agreement are exempt from Section 409A of the Code and in no event shall the Company be

liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Director on account of non-compliance with Section 409A of the Code and (b) if any payment provided for under the Award would be subject to additional taxes and interest under Section 409A of the Code if the Director's receipt of such payment is not delayed in accordance with the requirements of Section 409A(a)(2)(B)(i) of the Code, then such payment shall not be provided to the Director (or the Director's estate, if applicable) until the earlier of (i) the date of the Director's death or (ii) the date that is six months after the date of the Director's separation from service with the Company.

21. Acceptance. The Director hereby acknowledges receipt of a copy of the Plan and this Agreement. The Director has read and understands the terms and provisions thereof, and accepts the Award subject to all of the terms and conditions of the Plan and this Agreement. The Director acknowledges that there may be adverse tax consequences upon the vesting or settlement of the Award or disposition of the underlying shares and that the Director has been advised to consult a tax advisor prior to such vesting, settlement or disposition. The Director further acknowledges that the Award and any shares of Common Stock that may be delivered with respect to the Award are subject to clawback as provided in Section 14.8 of the Plan.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Director has executed this Agreement, effective for all purposes as provided above.

CARRIAGE SERVICES, INC.

By: _____
Name: _____
Title: _____

DIRECTOR

SIGNATURE PAGE
TO
PERFORMANCE-BASED
STOCK AWARD AGREEMENT

CARRIAGE SERVICES, INC.
COMPUTATION OF PER SHARE EARNINGS
(unaudited and in thousands, except per share data)

Earnings per share for the three and six months ended June 30, 2011 and 2012 is calculated based on the weighted average number of common and common equivalent shares outstanding during the periods. The following table sets forth the computation of the basic and diluted earnings per share for the three and six months ended June 30, 2011 and 2012, in thousands except for earnings per share:

	Three months ended June 30,		Six months ended June 30,	
	2011	2012	2011	2012
Net income	\$ 2,601	\$ 2,663	\$ 5,886	\$ 7,122
Net income allocated to non-vested share awards	(80)	(92)	(246)	(212)
Preferred stock dividend	(3)	(3)	(7)	(7)
Undistributed earnings available to common stockholders	2,518	2,568	5,633	6,903
Income from discontinued operations	(20)	—	(21)	(250)
Undistributed earnings from continuing operations available to common stockholders	<u>\$ 2,498</u>	<u>\$ 2,568</u>	<u>\$ 5,612</u>	<u>\$ 6,653</u>
Weighted average number of common shares outstanding for basic EPS computation	18,367	18,077	18,301	18,171
Effect of dilutive securities:				
Stock options	40	76	39	66
Weighted average number of common and common equivalent shares outstanding for diluted EPS computation	<u>18,407</u>	<u>18,153</u>	<u>18,340</u>	<u>18,237</u>
Basic earnings per common share:				
Undistributed earnings	\$ 0.14	\$ 0.15	\$ 0.31	\$ 0.37
Allocation of earnings to non-vested share awards	—	—	0.01	0.01
Discontinued operations	—	—	—	0.01
Total	<u>\$ 0.14</u>	<u>\$ 0.15</u>	<u>\$ 0.32</u>	<u>\$ 0.39</u>
Diluted earnings per common share:				
Undistributed earnings	\$ 0.14	\$ 0.15	\$ 0.31	\$ 0.37
Allocation of earnings to non-vested share awards	—	—	0.01	0.01
Discontinued operations	—	—	—	0.01
Total	<u>\$ 0.14</u>	<u>\$ 0.15</u>	<u>\$ 0.32</u>	<u>\$ 0.39</u>

The accounting for unvested share-based payment awards included in the calculation of earnings per share changed. Share-based awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are now participating securities and included in the computation of both basic and diluted earnings per share. Our grants of restricted stock awards to our employees and directors are considered participating securities, and we have prepared our earnings per share calculations to include outstanding unvested restricted stock awards in the basic and diluted weighted average shares outstanding calculation.

Options to purchase 0.2 and 0.3 million shares were not included in the computation of diluted earnings per share for the three and six months ended June 30, 2011, because the effect would be antidilutive as the exercise prices exceeded the average market price of the common shares.

The convertible junior subordinated debentures due in 2029 are convertible into 4.5 million shares of common stock and are not included in the computation of diluted earnings per share because the effect would be antidilutive.

I, Melvin C. Payne, certify that:

1. I have reviewed this report on Form 10-Q of Carriage Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 7, 2012

/s/ Melvin C. Payne

Melvin C. Payne
Chairman of the Board and
Chief Executive Officer

I, Terry E. Sanford, certify that:

1. I have reviewed this report on Form 10-Q of Carriage Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 7, 2012

/s/ Terry E. Sanford

Terry E. Sanford
Senior Vice President and
Chief Accounting Officer

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND CHIEF ACCOUNTING OFFICER
UNDER SECTION 906 OF THE
SARBANES OXLEY ACT OF 2002, 18 U.S.C. § 1350**

In connection with the Quarterly Report on Form 10-Q of Carriage Services, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Melvin C. Payne, Chief Executive Officer of the Company, and Terry E. Sanford, Chief Accounting Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 7, 2012

/s/ Melvin C. Payne

Melvin C. Payne
Chairman of the Board and
Chief Executive Officer (Principal
Executive Officer)

/s/ Terry E. Sanford

Terry E. Sanford
Senior Vice President and
Chief Accounting Officer
(Principal Financial Officer)