

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

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

COMMISSION FILE NUMBER: 1-11961

CARRIAGE SERVICES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	76-0423828
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

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

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (281) 556-7400

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

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

CLASS A COMMON STOCK, \$.01 PAR VALUE
(TITLE OF CLASS)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

The aggregate market value of the voting stock held by non-affiliates (affiliates being, for these purposes only, directors, executive officers and holders of more than 5% of the Company's Class A Common Stock) of the Registrant as of March 12, 1998 was approximately \$124,268,000.

The number of shares of the Registrant's Class A Common Stock, \$.01 par value per share, and Class B Common Stock, \$.01 par value per share, outstanding as of March 12, 1998 was 6,530,827 and 4,624,823 respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement in connection with the 1998 annual meeting of shareholders, incorporated in Part III of this Report.

PART I

ITEM 1. BUSINESS

THE COMPANY

Carriage Services, Inc. (the "Company") is the fifth largest publicly traded provider of death care services and products in the United States. The Company provides a complete range of funeral services and products to meet families' needs, including consultation, removal and preparation of remains, sale of caskets and related funeral merchandise, transportation services and the use of funeral home facilities for visitation. The Company also offers cemetery products and services, including rights to interment in cemetery sites, interment services and related cemetery merchandise. As of December 31, 1997, the Company operated 120 funeral homes and 20 cemeteries in 20 states. Funeral services constituted approximately 93% and 84% of revenues in 1996 and 1997, respectively.

Since the Company's formation in 1991, management has undertaken a disciplined approach to growth that has allowed the Company the necessary time to integrate acquisitions, develop effective operating, administrative and financial systems and controls, recruit an experienced operating management team and promote a decentralized, entrepreneurial service culture. From 1992 through 1995, the Company acquired 42 funeral homes and four cemeteries for consideration ranging from approximately \$9 million to \$14 million in each of the four years. The Company believes that the infrastructure it developed during this period positioned the Company to pursue an accelerated growth strategy beginning in late 1995. As a result, the Company acquired 38 funeral homes and seven cemeteries for consideration of \$68 million during 1996 and 44 funeral homes and 10 cemeteries for consideration of \$118 million during 1997. In addition, as of March 12, 1998, the Company has either acquired or had letters of intent to acquire 14 funeral homes and two cemeteries for consideration of approximately \$31 million.

The Company was incorporated in Delaware on December 29, 1993, and became a public reporting company in August, 1996. The Company's principal executive office is located at 1300 Post Oak Blvd., Suite 1500, Houston, Texas 77056, and

its telephone number is (281) 556-7400.

DEATH CARE INDUSTRY

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

HIGHLY FRAGMENTED OWNERSHIP. A significant majority of death care operators consist of small, family-owned businesses that control one or several funeral homes or cemeteries in a single community. Management estimates that there are approximately 22,000 funeral homes and 9,600 commercial (as opposed to religious, family, fraternal, military or municipal) cemeteries in the United States. Less than 21% of the 1995 United States death care industry revenues are represented by the Company and the four largest publicly traded domestic death care companies.

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

STABILITY. The death rates in the United States are fairly predictable, thereby affording stability to the death care industry. Since 1980, the number of deaths in the United States has increased at a compounded rate of approximately 1% per year until 1997, when there was no increase from 1996. The number of deaths in the United States is expected to increase by approximately 1% per year through 2010. Because the industry is relatively stable, non-cyclical and fairly predictable, business failures are uncommon. As a result, ownership of funeral home and cemetery businesses generally

has not experienced significant turnover, and the aggregate number of funeral homes and cemeteries in the United States has remained relatively constant.

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

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

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

CREMATION. In recent years, there has been steady, gradual growth in the number of families in the United States that have chosen cremation as an alternative to traditional methods of burial. According to industry studies, cremations represented approximately 21% of the United States burial market in 1996, as compared to approximately 10% in 1980. Many parts of the Southern and Midwestern United States and many non-metropolitan communities exhibit significantly lower rates of cremation as a result of religious and cultural traditions. Cremation historically has been marketed as a less costly alternative to interment. However, cremation is increasingly marketed as part of a complete death care package that includes traditional funeral services and memorialization.

BUSINESS STRATEGY

The Company's objective is to become the most professional, ethical and highest quality funeral and cemetery service organization in the industry while continuing to promote a decentralized, entrepreneurial service culture. Management believes that the Company's reputation and collaborative operating style allows it to successfully pursue attractive acquisition candidates. The Company also has been successful in implementing programs to increase profitability at newly acquired properties.

OPERATING STRATEGY. Since its formation, the Company has focused on quality service and on becoming a succession planning alternative to the larger death care providers. The Company believes that its decentralized operating style, which provides autonomy and flexibility to local management, is attractive to owners of funeral homes seeking to sell their operations. Management believes that its operating style is also a key component in its ability to attract and retain quality managers. While the Company's management style allows local operators significant responsibility in the daily operating decisions, financial parameters, jointly established during the budgeting process, are monitored by senior management through the Company's management and accounting systems. The Company utilizes computer systems linked to most of the Company's funeral home locations. These systems enable a location to function on its own by maintaining accounts receivables and payables locally, at a cluster processing site, or at the Company's centralized processing center at the option of the local manager. The same information is provided to the Company's senior

management which allows the Company, on a timely basis, to access critical operating and financial data from a site in order to analyze the performance of individual locations and institute corrective action if necessary.

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

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

ACQUISITION STRATEGY. The Company believes that significant acquisition opportunities currently exist in the death care industry that the Company intends to aggressively pursue. In evaluating specific acquisition candidates, the Company considers such factors as the property's location, reputation, heritage, physical size, volume of business, profitability, name recognition, aesthetics, potential for development or expansion, competitive market position, pricing structure and quality of operating management. The Company will continue to aggressively pursue the acquisition of premier funeral homes that have a strong local market presence and that conduct from 100 to 600 funeral services per year, as well as funeral homes in close proximity to the Company's existing businesses. In addition, although the Company, in the early years, focused on acquiring funeral home operations, the Company aggressively pursues cemetery acquisitions in markets where the Company operates, or plans to operate, funeral homes to take advantage of cross-marketing opportunities. The Company is also pursuing larger acquisition transactions which provides significant strategic benefits to the Company, such as new market penetration. For example, in January 1997, the Company merged with CNM, a premier California-based company which operates ten funeral homes and one cemetery, and in November 1997, merged with the John E. Day Funeral Home in New Jersey and the Forest Lawn/Evergreen Management Co. of Florida, which together operate seven funeral homes and three cemeteries. These three transactions accounted for over 60% of the acquisition spending in 1997. The Company also seeks to issue, and has been successful in issuing, equity securities to the previous owners of acquired businesses. Since inception through March 12, 1998, the Company has issued 37,775,608 shares of redeemable preferred stock and 982,044 shares of Class A Common Stock in conjunction with acquisition transactions. As of March 12, 1998, a total of 23,760,823 shares of redeemable preferred stock have converted into shares of Class A and Class B Common Stock. Management believes that its success in issuing equity securities in conjunction with acquisitions reflects in large part previous owners' desires to remain affiliated with and to be invested in the Company.

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

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

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

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

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

YEAR(3)	CONSIDERATION	FUNERAL HOMES(1)	CEMETERIES(2)
	-----	-----	-----
	(dollars in thousands)		
1992	\$ 11,832	14	2
1993	13,843	11	1
1994	9,153	9	1
1995	12,191	8	0
1996	68,181	38	7
1997	118,260	44	10
	-----	-----	-----
	\$ 233,460	124	21
	=====	=====	=====

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

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

(3) From January 1, 1998 through March 12, 1998, the Company has acquired four funeral homes and one cemetery for aggregate consideration of \$8 million.

OPERATIONS

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

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

FUNERAL HOME OPERATIONS. As of December 31, 1997, the Company operated 120 funeral homes in 20 states. Funeral home revenues accounted for approximately 93% and 84% of the Company's net revenues for each of the years ended December 31, 1996 and 1997. The Company's funeral home operations are managed by a team of experienced death care industry professionals.

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

CEMETERY OPERATIONS. As of December 31, 1997, the Company operated 20 cemeteries in 10 states. Cemetery revenues accounted for approximately 7% and 16% of the Company's net revenues for each of the years ended December 31, 1996 and 1997.

As a result of a growing number of potential cemetery acquisition candidates, the Company has made additional investments in the cemetery operations infrastructure. Beginning in the fourth quarter of 1996, experienced preneed marketing professionals were added at the national and regional levels. This investment in additional preneed marketing management allowed the Company to increase preneed sales at existing cemetery properties and positioned the Company to more effectively integrate future cemetery acquisitions. As of December 31, 1997, the Company employed a staff of approximately 144 advance planning representatives for the sale of interment rights and merchandise.

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

PRENEED PROGRAMS. In addition to sales of funeral merchandise and services, cemetery interment rights, cemetery merchandise and services at the time of need, the Company also markets funeral and cemetery services and products on a preneed basis. Preneed funeral or cemetery contracts enable families to establish in advance the type of service to be performed, the products to be used and the cost of such products and services in accordance with prices prevailing at the time the contract is signed rather than when the products and services are delivered. Preneed contracts permit families to eliminate the emotional strain of making death care plans at the time of need and enable the Company to establish a portion of its future market share. Proceeds from the sale of preneed funeral contracts are not recognized as revenues until the time the funeral service is performed. The Company sold 3,760 and 4,020 preneed funeral contracts in the years ended December 31, 1996 and 1997, respectively. At December 31, 1997, the Company had a backlog of 34,797 preneed funeral contracts to be delivered in the future.

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

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

Preneed cemetery sales are usually financed by the Company through installment sale contracts, generally with terms of five years. Preneed sales of cemetery interment rights and other related services and merchandise are recorded as revenues when the contract is signed, with concurrent recognition of related costs. The Company always receives an initial payment at the time the contract is signed. Allowances for customer cancellations and refunds are accrued at the

date of sale based upon historical experience. Preneed cemetery sales represented approximately 67% and 65% of the Company's net cemetery revenues for the years ended December 31, 1996 and 1997, respectively.

COMPETITION

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

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

TRUST FUNDS

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

PRENEED FUNERAL TRUSTS. Preneed funeral sales are facilitated by deposits to a trust or purchase of a third-party insurance product. All preneed funeral sales are deferred until the service is performed. The trust fund income earned and any increase in insurance benefits are also deferred until the service is performed in order to offset possible inflation in cost when providing the service in the future. Although direct marketing costs and commissions incurred for the sale of preneed funeral contracts are a current use of cash, such costs are also deferred and amortized over the expected timing of the performance of the services related to the preneed funeral sales. Since the Company does not have access to the trust fund principal or earnings, the related assets and liabilities are not reflected on the Company's balance sheet. In most states, the Company is not permitted to withdraw principal or investment income from such trusts until the funeral service is performed. Some states, however, allow for the retention of a percentage (generally 10%) of the receipts to offset any administrative and selling expenses, which the Company defers until the service is provided. The aggregate balance of the Company's preneed funeral contracts held in trust was approximately \$36.5 million and \$52.9 million as of December 31, 1996 and 1997, respectively.

PRENEED CEMETERY MERCHANDISE AND SERVICE TRUSTS. The Company is generally required under applicable state laws to deposit a specified amount (which varies from state to state, generally 50% to 100% of selling price) into a merchandise and service trust fund for cemetery merchandise and services sold on a preneed basis. The related trust fund income earned is recognized in current revenues as trust earnings. These earnings are offset by any current period inflation costs accrued related to the merchandise and services that have not yet been provided. Liabilities for undelivered cemetery merchandise and services, including accruals for inflation increases, are reflected in the balance sheet net of the merchandise and service trust balance. The Company is permitted to withdraw the trust principal and the accrued income when the merchandise is purchased or service is provided by the Company or when the contract is canceled. The merchandise and service trust fund balances, in the aggregate, were approximately \$1.1 million and \$9.6 million as of December 31, 1996 and 1997, respectively.

PERPETUAL CARE TRUSTS. In certain states, regulations require a portion (generally 10%), of the sale amount of cemetery property and memorials to be placed in trust. These perpetual care trusts provide the funds necessary to maintain cemetery property and memorials in perpetuity. The related trust fund income earned is recognized in current

revenues as trust earnings. While the Company is entitled to withdraw the income from its perpetual care trust to provide for the maintenance of the cemetery property and memorials, they are not entitled to withdraw any of the principal balance of the trust fund, and therefore, none of the principal balances are reflected in the Company's balance sheet. The Company's perpetual care trust balances were approximately \$2.0 million and \$8.4 million as of December 31, 1996 and 1997, respectively.

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

REGULATION

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

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

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

The Company believes that it is in substantial compliance with all such laws and regulations. Federal and state legislatures and regulatory agencies frequently propose new laws, rules and regulations some of which, if enacted, could have a material adverse effect on the Company's results of operations. The Company cannot predict the outcome of any proposed legislation or regulations or the effect that any such legislation or regulations might have on the Company.

EMPLOYEES

As of December 31, 1997, the Company and its subsidiaries employed 616 full-time employees, 523 part-time employees and 186 advance planning representatives. All of the Company's funeral directors and embalmers possess licenses required by applicable regulatory agencies. Management believes that its relationship with its employees is good. No employees of the Company or its subsidiaries are members of a collective bargaining unit.

ITEM 2. PROPERTIES

At December 31, 1997, the Company operated 120 funeral homes and 20 cemeteries in 20 states. The Company owns the real estate and buildings of 89 of its funeral homes and all of its cemeteries and leases facilities in connection with 31 of its funeral homes. The 20 cemeteries operated by the Company cover a total of approximately 725 acres. The Company's inventory of unsold developed lots totaled approximately 44,000 and 80,000 at December 31, 1996 and 1997, respectively. In addition, approximately 359 acres, or approximately 50% of the total acreage, is available for future development. The Company does not anticipate any shortage of available space in any of its current cemeteries for the foreseeable future.

The following table sets forth certain information as of December 31, 1997 regarding the Company's funeral homes and cemeteries by state:

STATE	NUMBER OF FUNERAL HOMES		CEMETERIES
	OWNED	LEASED(1)	
Ohio.....	13	3	0
California.....	11	2	1
Texas.....	10(2)	1	3
Kentucky.....	7	4	1
Florida.....	4	3	4
South Carolina.....	5	0	4
Idaho.....	5(3)	0	3
Kansas.....	8	0	0
Connecticut.....	5	2	0
Georgia.....	3	3	0
Michigan.....	4	2	0
Illinois.....	0	5	1
New Jersey.....	3	2	0
Tennessee.....	3	1	1
Indiana.....	1	2	1
North Carolina.....	1	1	1
Alabama.....	2	0	0
Washington.....	2	0	0
Montana.....	1	0	0
Rhode Island.....	1	0	0
	---	---	---
Total(4).....	89	31	20
	===	===	===

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

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

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

(4)From January 1, 1998 through March 12, 1998, the Company has acquired one funeral home and one cemetery in California, one funeral home in Illinois, one funeral home in Kentucky and one funeral home in New England for an aggregate consideration of \$8 million.

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

At December 31, 1997, the Company operated 465 vehicles, of which 388 were owned and 77 were leased.

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

ITEM 3. LEGAL PROCEEDINGS

Certain of the funeral homes located in California that were acquired by the Company in early 1997, along with other death care providers, are defendants in litigation in the state of California alleging that a flight service contracted to

dispose of cremains failed to properly carry out its duties. While the litigation is in the early stages, management, with advice of legal counsel, believes that there are adequate insurance coverages, indemnities and reserves such that the results of the litigation will not have a material effect on the Company's consolidated financial position or result of operations. Additionally, the Company and its subsidiaries are parties to a number of legal proceedings that arise from time to time in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the Company.

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

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

None.

PART II

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

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

1996	HIGH -----	LOW -----
Third Quarter (beginning August 9, 1996) ..	\$22.75	\$14.25
Fourth Quarter	\$23.50	\$18.375
1997		
First Quarter	\$26.00	\$18.25
Second Quarter	\$22.75	\$17.00
Third Quarter	\$22.75	\$16.25
Fourth Quarter	\$19.625	\$16.50

As of March 12, 1998, there were 6,530,827 shares of the Company's Class A Common Stock and 4,624,823 shares of the Company's Class B Common Stock outstanding. The holders of Class A Common Stock are entitled to one vote for each share held on all matters submitted to a vote of Common stockholders. The holders of Class B Common Stock are entitled to ten votes for each share held on all matters submitted to a vote of Common stockholders. The Class A Common Stock shares outstanding are held by approximately 194 stockholders of record. The Company believes there are approximately 2,400 beneficial owners of the Class A Common Stock.

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

RECENT SALES OF UNREGISTERED SECURITIES

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

On September 25, 1995, the Company sold in a private placement an aggregate of 8,500,000 shares of Preferred Stock. The Chicago Corporation acted as placement agent in connection with this offering. Such shares were purchased for \$1.00 per share. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting the placement.

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

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

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

From August 30, 1996 to May 31, 1997, the Company sold an aggregate of 517,197 shares of Class A Common Stock, valued at market prices, to the former owners of acquired funeral homes. Consideration for such shares consisted of ownership interests in funeral home businesses. The Company relied on an exemption under Section 4(2) of the Securities Act in effecting these transactions.

SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,				
	1993	1994	1995	1996	1997
	(in thousands, except per share and operating data)				
INCOME STATEMENT DATA:					
Revenues, net:					
Funeral	\$ 10,651	\$ 17,368	\$ 22,661	\$ 37,445	\$ 64,888
Cemetery	614	1,036	1,576	2,903	12,533
Total net revenues	11,265	18,404	24,237	40,348	77,421
Gross profit:					
Funeral	917	2,856	3,740	6,804	16,484
Cemetery	143	158	250	362	2,899
Total gross profit	1,060	3,014	3,990	7,166	19,383
General and administrative expenses	985	1,266	2,106	2,474	5,277
Operating income	75	1,748	1,884	4,692	14,106
Interest expense, net	1,745	2,671	3,684	4,347	5,889
Income (loss) before income taxes	(1,670)	(923)	(1,800)	345	8,217
Provision for income taxes	-- (1)	40	694	138	3,726
Net income (loss) before extraordinary item	(1,670)	(963)	(2,494)	207	4,491
Extraordinary item, net	--	--	--	(498)	(195)
Income (loss) after extraordinary item	(1,670)	(963)	(2,494)	(291)	4,296
Preferred stock dividends	--	--	--	622	890
Net income (loss) available to common stockholders	\$ (1,670)	\$ (963)	\$ (2,494)	\$ (913)	\$ 3,406
Earnings (loss) per share					
Basic:					
Continuing operations	\$ (.66)(1)	\$ (.38)	\$ (.99)	\$ (.09)	\$.35
Extraordinary item	--	--	--	(.10)	(.02)
Basic earnings (loss) per share	\$ (.66)	\$ (.38)	\$ (.99)	\$ (.19)	\$.33
Diluted:					
Continuing operations	\$ (.66)(1)	\$ (.38)	\$ (.99)	\$ (.09)	\$.34
Extraordinary item	--	--	--	(.10)	(.02)
Diluted earnings (loss) per share	\$ (.66)	\$ (.38)	\$ (.99)	\$ (.19)	\$.32
Weighted average number of common and common equivalent shares outstanding:					
Basic	2,520 (1)	2,520	2,520	4,869	10,226
Diluted	2,520 (1)	2,520	2,520	4,869	10,485
OPERATING AND FINANCIAL DATA:					
Funeral homes at end of period	25	34	41	76	120
Funeral services performed during period	2,265	3,529	4,414	7,181	12,131
Preneed funeral contracts sold	644	762	2,610	3,760	4,020
Backlog of preneed funeral contracts	5,170	6,855	8,676	22,925	34,797
Depreciation and amortization	\$ 947	\$ 1,476	\$ 1,948	\$ 3,629	\$ 7,809
BALANCE SHEET DATA:					
Working capital	\$ (142)	\$ 4,271	\$ 6,472	\$ 5,089	\$ 5,823
Total assets	28,784	44,165	61,746	131,308	277,940
Long-term debt, net of current maturities	26,270	32,622	42,057	42,733	121,553
Redeemable preferred stock	--	--	--	17,251	13,951
Stockholders' equity (deficit)	(2,626)	3,429	9,151	57,043	98,565

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

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

OVERVIEW

The Company became a public company during the third quarter of 1996, and achieved initial profitability for the fourth quarter of 1996. The Company's focus is on growth through acquisitions and enhancements at facilities currently owned to increase revenues and gross profit. The Company entered 1997 with the goals (among others) of increasing cash flow from operations; increasing margins in the funeral home and cemetery sectors; substantially increasing the preneed sales and marketing activities; and filling critical personnel needs in the finance, corporate development and cemetery operations areas. The objective of these goals was to build the infrastructure and stability of the Company as it continues to pursue consolidation opportunities in the death care industry. These goals were met with success and the end result was profitability in each quarter of 1997, even though death rates were lower than expected in certain markets.

Cash flow from operations, which the Company defines as earnings before interest, income taxes, and depreciation and amortization, increased, as a percentage of net revenues, from 22.6% for 1996 to 29.7% for 1997. This improvement was largely due to the increased gross profits at the individual locations, as general and administrative expenses on the same basis were comparable. Gross margins for the funeral homes increased from 18% in 1996 to 25% in 1997 as a result of margin management training for the managers and directors related to merchandising and memorialization and benefits from cost containment and clustering, where realizable. Improvements in cemetery gross profit margins were dramatic in 1997. Fueled by a doubling of the number of cemeteries during the year and the restructuring of the preneed sales function in late 1996, cemetery gross profit increased 700% while cemetery revenues increased 332%. As a percentage of cemetery net revenues, cemetery gross profit was 23% in 1997 compared to 12% in 1996. The Rolling Hills Cemetery, which was part of the CNM acquisition in early 1997, contributed 87% of the revenue increase for the year. Preneed sales and marketing efforts began to have a significant impact in the latter part of 1997, as revenues and gross profits from cemeteries owned at least one year increased 66% and 373%, respectively, in the fourth quarter compared to the same period in 1996.

Beginning in late 1995, the Company began identifying infrastructure needs in anticipation of accelerating its acquisition activity. At the end of 1995, the Company owned 44 facilities. During 1996 and 1997, the Company acquired 45 and 54 facilities, respectively. In a deliberate and managed process, the Company increased personnel and related infrastructure as a function of the increase in the Company's revenue run rate. As a consequence, general and administrative expenses increased from \$2.1 million in 1995 to \$2.5 million in 1996 and to \$5.3 million in 1997. The additional personnel filled critical roles in expanding the geographic coverage of both corporate development and preneed sales and marketing activities, as well as the financial, data processing and administrative functions needed to support the growing number of locations operating in a decentralized management fashion with timely financial and management information.

During 1996, the Company acquired 38 funeral homes and seven cemeteries for an aggregate consideration of approximately \$68 million. Forty-four funeral homes and ten cemeteries were acquired during 1997 for approximately \$118 million. These acquisitions were funded through cash flow from operations, additional borrowings under the Company's credit facilities and issuance of preferred and common stock. In addition, as of March 12, 1998, the Company has either acquired or has letters of intent to acquire 14 funeral homes and two cemeteries for an aggregate consideration of approximately \$31 million. The Company believes its increased recognition in the death care industry as an established purchaser of funeral homes and cemeteries has improved its ability to attract potential acquisitions that are larger, strategic and accretive and its ability to finance its acquisitions with debt and equity.

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

RESULTS OF OPERATIONS

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

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
Total revenues, net.....	100.0%	100.0%	100.0%
Total gross profit.....	16.5	17.8	25.0
General and administrative expenses.	8.7	6.1	6.8
Operating income.....	7.8	11.6	18.2
Interest expense, net.....	15.2	10.8	7.6
Net income (loss) before extraordinary item.....	(10.3)	0.5	5.8

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

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
Funeral homes at beginning of period	34	41	76
Acquisitions	8	38	44
Divestitures	1	3	0
Funeral homes at end of period	41	76	120
Cemeteries at beginning of period	3	3	10
Acquisitions	0	7	10
Divestitures	0	0	0
Cemeteries at end of period	3	10	20

The following is a discussion of the Company's results of operations for 1995, 1996 and 1997. For purposes of this discussion, funeral homes and cemeteries owned and operated for the entirety of each year being compared are referred to as "existing operations". Operations acquired or opened during either year being compared are referred to as "acquired operations".

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

FUNERAL HOME SEGMENT. The following table sets forth certain information regarding the net revenues and gross profit of the Company from its funeral home operations during the years ended December 31, 1996 and 1997:

	YEAR ENDED DECEMBER 31,		CHANGE	
	1996	1997	AMOUNT	PERCENT
	(dollars in thousands)			
Net revenues:				
Existing operations	\$25,042	\$24,627	\$ (415)	(1.7)%
Acquired operations	12,403	40,261	27,858	*
Total net revenues	\$37,445	\$64,888	\$ 27,443	73.3%
Gross profit:				
Existing operations	4,396	5,675	1,279	29.1%
Acquired operations	2,408	10,809	8,401	*
Total gross profit	6,804	16,484	9,680	142.3%

*Not meaningful.

Due to the rapid growth of the Company, existing operations represented only 38% of the total funeral revenues and only 34% of the total funeral gross profit for the year ended December 31, 1997. Total funeral net revenues for the year ended December 31, 1997 increased \$27.4 million or 73.3% over 1996. The higher net revenues reflect an increase of \$27.9 million in net revenues from acquired operations and a decrease in net revenues of \$415,000 or 1.7% from existing operations. The decrease in revenues for the existing operations primarily resulted from fewer funeral services being performed, which was partially offset by a 2.6% increase in the average revenue per funeral service. Fewer services were performed in 1997 primarily due to lower than usual seasonal death rates in certain of the Company's markets, especially in the East North Central region of the country where the Company has a large number of existing operations.

Total funeral gross profit for the year ended December 31, 1997 increased \$9.7 million or 142.3% over 1996. The higher total gross profit reflected an increase of \$8.4 million from acquired operations and an increase of \$1.3 million or 29.1% from existing operations. Gross profit for existing operations increased due to the efficiencies gained by consolidation, cost savings, improved collections experience and the increasing effectiveness of the Company's merchandising strategy, which were partially offset by lower revenues. Total gross profit increased from 18.2% for 1996 to 25.4% for 1997 due to these factors.

CEMETERY SEGMENT. The following table sets forth certain information regarding the net revenues and gross profit of the Company from its cemetery operations for the years ended December 31, 1996 and 1997.

	YEAR ENDED DECEMBER 31,		CHANGE	
	1996	1997	AMOUNT	PERCENT
	(dollars in thousands)			
Total net revenues	\$2,903	\$12,533	\$9,630	331.7%
	=====	=====	=====	
Total gross profit	\$ 362	\$ 2,899	\$2,537	700.8%
	=====	=====	=====	

Due to the rapid growth of the Company, existing operations represented approximately 15% of cemetery revenues and approximately 9% of cemetery gross profit for the years ended December 31, 1997. As a result, the Company does not believe it is meaningful to present the results for existing and acquired operations separately.

Total cemetery net revenues for the years ended December 31, 1997 increased \$9.6 million or 331.7% over 1996 and total cemetery gross profit increased \$2.5 million or 700.8% over 1996. Total gross margin increased from 12.5% for the year ended December 31, 1996 to 23.1% for the year ended December 31, 1997. These increases were due primarily to the Company's acquisition of ten cemeteries during 1997 and increased preneed marketing efforts.

As a result of the acceleration of the Company's acquisition program beginning in 1996, the profit contribution from acquired properties exceeded that of existing operations even though most were not owned for the entire year. The acquisition and integration of these new properties received the majority of the corporate operations group's management focus during the year. During the fourth quarter of 1996, significant additional management resources were added to this group to provide assistance in increasing revenue and profit margins from existing ongoing operations and to more rapidly achieve targeted margins for acquired businesses.

General and administrative expenses for the year ended December 31, 1997 increased \$2.8 million or 113.3% over 1996 due primarily to the increased personnel expense necessary to support a higher rate of growth and acquisition activity. However, the increase in general and administrative expenses as a percentage of net revenues was less than one percentage point as the expenses were spread over a larger volume of revenue.

Interest expense for the year ended December 31, 1997 increased \$1.5 million over 1996 principally due to increased borrowings for acquisitions. In August 1996, the Company utilized the net proceeds from its IPO and borrowings under a credit facility to repay the majority of its outstanding debts. In September 1997, the Company entered into a new credit facility for an increased line of credit. In connection with repayments of debt in both years, the Company recognized an extraordinary loss of approximately \$498,000 and \$195,000, net of income tax benefits of approximately \$332,000 and \$159,000, for the write-off of the deferred loan costs associated with the early retirement of debts, for the years ended December 31, 1996 and 1997, respectively. The new credit facility reflects substantially improved terms and reduced interest rates compared to the previous arrangements.

During 1997, the Company issued approximately \$20 million of redeemable preferred stock to fund a portion of its acquisition program. Dividends on this preferred stock are 4% per annum. Preferred dividends of \$890,000 were subtracted from the \$4.5 million of net income before extraordinary item in computing earnings attributable to common stockholders resulting in a net income before extraordinary item of \$3.6 million for purposes of computing basic and diluted earnings per common share.

For 1997, the Company provided for income taxes on income before income taxes and extraordinary item at a combined state and federal tax rate of 45.3%. The provision for income taxes for 1997 includes a one-time charge in the amount of \$390,000 to revalue the historical deferred tax liability accounts because the Company's taxable income has grown at which the federal corporate tax rate increases from 34% to 35%. Amortization of names and reputations related to stock acquisitions, which is nondeductible, is the primary cause of the Company's effective rate exceeding 34%. Prior to 1997, the Company experienced net operating losses and the tax benefits associated with these net operating loss carryforwards were reserved. The Company continues to analyze the benefits associated with these losses and adjusts the valuation allowance as appropriate.

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

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

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

*Not meaningful.

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

Total gross profit for the year ended December 31, 1996 increased \$3.2 million or 79.6% over 1995. The higher total gross profit reflected an increase of \$3.1 million from acquired operations and an increase of \$30,000 or 0.9% from existing operations. Gross profit for existing operations increased due to the efficiencies gained by consolidation and the increasing effectiveness of the Company's merchandising strategy, which was partially offset by lower revenues. Total gross margin increased from 16.5% for 1995 to 17.8% for 1996 due to these factors. As a result of the acceleration of the Company's acquisition program in 1996, the profit contribution from acquired properties exceeded that of existing operations even though most were not owned for the entire year. The acquisition and integration of these new properties received the majority of the corporate operations group's management focus during the year. During the fourth quarter, significant additional management resources were added to this group to provide assistance in increasing revenue and profit margins from existing ongoing operations and to more rapidly achieve targeted margins for acquired businesses.

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

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

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

For 1996, the Company provided for income taxes (benefits) at a combined state and federal tax rate of 40%.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled \$6.1 million at December 31, 1997, representing an increase of \$4.4 million from December 31, 1996. For the year ended December 31, 1997, cash provided by operations was \$9.7 million as compared to \$314,000 for the year ended December 31, 1996. The increase in cash provided by operations was due in part to the net income in 1997 compared to the net loss for 1996. Cash used in investing activities was \$75 million for the year ended December 31, 1997 compared to \$46 million in 1996, due primarily to the significant increase in acquisitions and construction of funeral facilities. In 1997, cash flow provided by financing activities amounted to approximately \$70 million, primarily due to proceeds from long-term debt which were used to fund acquisitions. In 1996, cash flow provided by financing activities amounted to \$40 million primarily due to the proceeds from the IPO.

Historically, the Company has financed its acquisitions with proceeds from debt and the issuance of common and preferred stock. The Company issued 977,736 shares of Class A Common Stock and approximately 20,000,000 shares of Series F Preferred Stock and paid \$66 million in cash to fund acquisitions in 1997. As of December 31, 1997, the Company has 1,682,500 shares of Series D Preferred Stock and 12,278,285 shares of Series F Preferred Stock issued and outstanding. The Series D Preferred Stock is convertible into Class B Common Stock and the Series F Preferred Stock is convertible into Class A Common Stock. The holders of Series D Preferred Stock are entitled to receive cash dividends at an annual rate of \$.06-\$.07 per share depending upon when such shares were issued. Commencing on the second anniversary of the completion of the IPO (August 8, 1998), the Company may, at its option, redeem all or any portion of the shares of Series D Preferred Stock then outstanding at a redemption price of \$1.00 per share, together with all accrued and unpaid dividends. Such redemption is subject to the right of each holder of Series D Preferred Stock to convert such holder's shares into shares of Class B Common Stock. On December 31, 2001, the Company must redeem all shares of Series D Preferred Stock then outstanding at a redemption price of \$1.00 per share, together with all accrued and unpaid dividends.

In conjunction with the closing of the IPO, the Company entered into a credit facility (the "Former Credit Facility") which provided for a \$75 million revolving line of credit with both LIBOR and base rate interest options. In August 1996, the Company paid all of its outstanding indebtedness with the proceeds from the issuance of its Class A Common Stock in connection with the Company's IPO (see Note 7) and utilization of the Former Credit Facility. The Former Credit facility was unsecured with a term of three years and contained customary restrictive covenants, including a restriction on the payment of dividends on common stock, and required the Company to maintain certain financial ratios. During September 1997, the Company entered into a new credit facility (the "New Credit Facility") for a \$150 million revolving line of credit. The New Credit Facility has a five-year term, is unsecured and contains customary restrictive covenants, including a restriction on the payment of dividends on common stock and requires the Company to maintain certain financial ratios. Interest under the New Credit Facility is provided at both LIBOR and prime rate options. In

connection with repayment of debt in August 1996 and the retirement of debt issued with the New Credit Facility in September 1997, the Company recognized an extraordinary loss of approximately \$498,000 and \$195,000, net of income tax benefit of approximately \$332,000 and \$159,000 for the write-off of the deferred loan costs associated with the early retirement of debt for the years ended December 31, 1996 and 1997, respectively. At February 27, 1998 approximately \$115 million was outstanding under the New Credit Facility.

The holders of the Series F Preferred Stock are entitled to receive cash dividends at the annual rate initially of \$.04 per share, with the annual rate increasing by 5% per year commencing January 1, 1998 until January 1, 2001, at which time the annual rate becomes fixed at \$.0486 per share. On December 31, 2007, the Company must redeem all shares of Series F Preferred Stock, as discussed above, then outstanding at a redemption price of \$1.00 per share, together with all accrued and unpaid dividends. The Company does not have the option to redeem any Series F Preferred Stock prior to December 31, 2007. The Series F Preferred Stock is convertible at each holder's option into an aggregate of 722,250 shares of Class A Common Stock based on the exercise price in effect at March 12, 1998.

The Company expects to continue to aggressively pursue additional acquisitions of funeral homes and cemeteries to take advantage of the trend toward consolidation occurring in the industry which will require significant levels of funding from various sources. In addition, the Company currently expects to incur less than \$10 million of capital expenditures during 1998, primarily for upgrading funeral home facilities. The Company believes that cash flow from operations, borrowings under the New Credit Facility and its ability to issue additional debt and equity securities should be sufficient to fund acquisitions and its anticipated capital expenditures and other operating requirements for 1998. In March 1997, the Company filed a shelf registration statement relating to 2,000,000 shares of Class A Common Stock to be issued to fund acquisitions. As of March 12, 1998, approximately 1,500,000 shares remained available for issuance under this shelf registration. Because future cash flows and the availability of financing are subject to a number of variables, such as the number and size of acquisitions made by the Company, there can be no assurance that the Company's capital resources will be sufficient to fund its capital needs. Additional debt and equity financing may be required to maintain the Company's acquisition program. The availability and terms of these capital sources will depend on prevailing market conditions and interest rates and the then existing financial condition of the Company.

SEASONALITY

Although the death care business is relatively stable and fairly predictable, the Company's business can be affected by seasonal fluctuations in the death rate. Generally, death rates are higher during the winter months. In addition, the quarterly results of the Company may fluctuate depending on the magnitude and timing of acquisitions.

INFLATION

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

YEAR 2000

The Company's Information Systems management group is constantly reviewing the management and accounting software packages for internal accounting and information requirements to meet with the continued growth of the Company. In addition, the Company's staff has comprehensively considered existing systems and equipment that need to be changed as a result of the Year 2000 or so-called "Millennium Bug". The Company's staff has determined that some computer software will require upgrading. Based on current estimates, the costs related to these upgrades are immaterial. The Company is in contact with its vendors and customers and no major problem has been discovered to date.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated by reference to the Registrant's definitive proxy statement relating to its 1998 annual meeting of shareholders, which proxy statement will be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act") within 120 days after the end of the last fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to the Registrant's definitive proxy statement relating to its 1998 annual meeting of shareholders, which proxy statement will be filed pursuant to Regulation 14A of the Exchange Act within 120 days after the end of the last fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated by reference to the Registrant's definitive proxy statement relating to its 1998 annual meeting of shareholders, which proxy statement will be filed pursuant to Regulation 14A of the Exchange Act within 120 days after the end of the last fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated by reference to the Registrant's definitive proxy statement relating to its 1998 annual meeting of shareholders, which proxy statement will be filed pursuant to Regulation 14A of the Exchange Act within 120 days after the end of the last fiscal year.

PART IV

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

(A) 1 FINANCIAL STATEMENTS

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

	PAGE
Report of Independent Public Accountants.....	25
Consolidated Balance Sheets as of December 31, 1996 and 1997.....	26
Consolidated Statements of Operations for the Years Ended December 31, 1995, 1996 and 1997.....	27
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 1995, 1996 and 1997.....	28
Consolidated Statements of Cash Flows for the Years Ended December 31, 1995 1996 and 1997.....	29
Notes to Consolidated Financial Statements.....	30

(A) 2 FINANCIAL STATEMENT SCHEDULES

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

	PAGE
Report of Independent Public Accountants on Financial Statement Schedule.....	44
Financial Statement Schedule II -- Valuation and Qualifying Accounts.....	45

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

(A) 3 EXHIBITS

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

EXHIBIT NO.	DESCRIPTION
3.1 --	Amended and Restated Certificate of Incorporation, as amended, of the Company. Incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996.
3.2 --	Certificate of Amendment dated May 9, 1996. Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997.
3.3 --	Certificate of Decrease, reducing the authorized Series D Preferred Stock. Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997.
3.4 --	Certificate of Decrease, reducing the authorized Series F Preferred Stock. Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997.
3.5 --	Amended and Restated Bylaws of the Company. Incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
10.1 --	Loan Agreement between the Company and NationsBank of Texas, N.A. dated September 9, 1997. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 1997.
10.2 --	Agreement and Plan of Merger dated March 8, 1996 among Carriage Funeral Services, Inc., Hennessy-Bagnoli Funeral Home, Inc., Hennessy Funeral Home, Inc., Terrance P. Hennessy and Lawrence Bagnoli. Incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
10.3 --	Real Property Purchase Agreement dated the Closing Date among Hennessy-Bagnoli Funeral Home, Inc., Hennessy and Patricia Hennessy, and Bagnoli and Brenda Bagnoli. Incorporated herein by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
10.4 --	Stock Purchase Agreement dated January 4, 1996 among Carriage Funeral Holdings, Inc., The Lusk Funeral Home, Incorporated and Gerald T. McFarland, Jr. Incorporated herein by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
10.5 --	Stock Purchase Agreement dated February 29, 1996 among Carriage Funeral Holdings, Inc., James E. Drake Funeral Home, Inc., and James E. Drake and Patricia A. Drake. Incorporated herein by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
10.6 --	Asset Purchase Agreement dated April 10, 1996 between CFS Funeral Services, Inc. and SCI Texas Funeral Services, Inc. Incorporated herein by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
10.7 --	Asset Purchase Agreement dated April 10, 1996 between CFS Funeral Services, Inc. and SCI Funeral Services of Florida, Inc. Incorporated herein by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
10.8 --	Asset Purchase Agreement dated April 10, 1996 between CFS Funeral Services, Inc. and Fort Myers Memorial Gardens, Inc. Incorporated herein by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
10.9 --	Asset Purchase Agreement dated April 10, 1996 between CFS Funeral Services, Inc. and SCI Funeral Services of Florida, Inc. Incorporated herein by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
10.10 --	Stock and Real Property Purchase Agreement dated March 29, 1996 among Carriage Funeral Holdings, Inc., Dwayne R. Spence Funeral Home, Inc., Dwayne R. Spence, Patricia Spence and James H. Sheridan. Incorporated herein by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (File No. 333-05545).

- 10.11 -- Merger Agreement dated March 22, 1996 among Carriage Funeral Services, Inc., Carriage Funeral Services of Idaho, Inc., Merchant Funeral Home, Inc., Coeur d'Alene Memorial Gardens, Inc., Lewis Clark Memorial Park, Inc., Robert D. Larrabee, I. Renee Larrabee and Larrabee Land Company, Inc. Incorporated herein by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
- 10.12 -- Real Property Purchase Agreement dated March 22, 1996 among Carriage Funeral Services, Inc. and Larrabee Investments, L.L.C. Incorporated herein by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
- 10.13 -- Merger Agreement dated July 3, 1996 among Carriage Services, Inc., CSI Funeral Services of Connecticut, Inc., C. Funk & Son Funeral Home, Incorporated and Ronald F. Duhaime and Christopher J. Duhaime. Incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
- 10.14 -- Merger Agreement dated July 3, 1996 among Carriage Services, Inc., CFS Funeral Services of Connecticut, Inc., O'Brien Funeral Home, Incorporated and Thomas P. O'Brien. Incorporated herein by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
- 10.15 -- Merger Agreement dated June 26, 1996 among Carriage Services, Inc., Carriage Funeral Services of South Carolina, Inc., Forest Lawn of Chesnee, Inc. and shareholders. Incorporated herein by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
- 10.16 -- Merger Agreement dated October 17, 1996 among Carriage Services, Inc., Carriage Funeral Services of California, Inc., CNM and the shareholders of CNM. Incorporated herein by reference to Exhibit 10.22 to the Company's Current Report on Form 8-K/A dated January 7, 1997.
- *10.17 -- Asset Purchase Agreement dated November 13, 1997 among Carriage Funeral Holdings, Inc., Sidun Funeral Group, Inc. and Charles D. Sidun.
- *10.18 -- Merger Agreement dated November 19, 1997 among Carriage Services, Inc., Carriage Services of Florida, Inc., Forest Lawn/Evergreen Management Corp., Greg M. Brudnicki and Charles E. Kent.
- *10.19 -- Asset Purchase Agreement dated November 19, 1997 among Carriage Funeral Holdings, Inc., Kent-Thornton Funeral Home, Inc., Greg Brudnicki, Charles Kent, Ricky Kent and Jane Thornton.

- +10.20 -- Employment Agreement with Melvin C. Payne. Incorporated herein by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
- +10.21 -- Employment Agreement with Mark W. Duffey. Incorporated herein by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
- +10.22 -- Employment Agreement with Russell W. Allen. Incorporated herein by reference to Exhibit 10.25 to the Company's Registration Statement on Form S-1 (File No. 333-05545).
- +10.23 -- Employment Agreement with Gary O'Sullivan. Incorporated herein by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996.
- +10.24 -- Employment Agreement with Thomas C. Livengood. Incorporated herein by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996.
- +10.25 -- Amended and Restated 1995 Stock Incentive Plan. Incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996.
- +10.26 -- Amended and Restated 1996 Stock Incentive Plan. Incorporated herein by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996.

- +10.27 -- Amended and Restated 1996 Directors' Stock Option Plan. Incorporated herein by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1996.
- *11.1 -- Statement regarding computation of earnings per share.
- *21.1 -- Subsidiaries of the Company
- *27.1 -- Financial Data Schedule

(*) Filed herewith.

(+) Management contract or compensation plan.

(B) REPORTS ON FORM 8-K

The Company filed a Current Report on Form 8-K on January 21, 1997 with respect to its merger with the CNM Group on January 7, 1997. The Company also filed a Current Report on Form 8-K/A on March 14, 1997 to include in the Form 8-K filed on January 21, 1997 the financial statements and pro forma financial information required by item 7.

The Company filed a Current Report on Form 8-K on August 18, 1997 with respect to its acquisition of substantially all of the operating assets of McNary - Moore Funeral Service on August 1, 1997. The Company also filed a Current Report on Form 8-K/A on October 14, 1997 to include in the Form 8-K filed on August 18, 1997 the financial statements and pro forma financial information required by item 7.

The Company filed a Current Report on Form 8-K on October 10, 1997 with respect to its merger with Cemetery Enterprises, Inc. on September 25, 1997.

The Company filed a Current Report on Form 8-K on November 26, 1997 with respect to its acquisition of substantially all of the operating assets of Sidun Funeral Group Inc. on November 13, 1997 and Kent-Thornton Funeral Home, Inc. on November 20, 1997, and its merger with Forest Lawn/Evergreen Management Corp. on November 20, 1997. The Company also filed a Current Report on Form 8-K/A on March 25, 1998 to include in the Form 8-K filed on November 26, 1997 the financial statements and pro forma financial information required by item 7.

The Company filed a Current Report on Form 8-K on December 31, 1997 with respect to its acquisition of all of the outstanding shares of common stock of Johnson Mortuary and Crematory, Inc. on December 17, 1997. The Company also filed a Current Report on Form 8-K/A on March 25, 1998 to include in the Form 8-K filed on December 31, 1997 the financial statements and pro forma financial information required by item 7.

The Company filed a Current Report on Form 8-K on March 23, 1998 with respect to its acquisition of all of the outstanding shares of common stock of Redgate Funeral Service Corporation on June 17, 1997.

The Company filed a Current Report on Form 8-K on March 25, 1998 with respect to its merger with Barnett-Larkin-Brown Funeral Homes, Inc. on March 28, 1997.

The Company filed a Current Report on Form 8-K on March 25, 1998 with respect to its acquisition of substantially all of the operating assets of Allen J. Harden Funeral Home, Inc. on June 20, 1997.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED ON MARCH 17, 1998.

CARRIAGE SERVICES, INC.

BY: /S/ MELVIN C. PAYNE
MELVIN C. PAYNE
CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER

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

SIGNATURE	TITLE	DATE
/S/ MELVIN C. PAYNE MELVIN C. PAYNE	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 26, 1998
/S/ MARK W. DUFFEY MARK W. DUFFEY	President and Director	March 26, 1998
/S/ THOMAS C. LIVENGOOD THOMAS C. LIVENGOOD	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	March 26, 1998
/S/ C. BYRON SNYDER C. BYRON SNYDER	Director	March 26, 1998
/S/ ROBERT D. LARRABEE ROBERT D. LARRABEE	Director	March 26, 1998
/S/ BARRY K. FINGERHUT BARRY K. FINGERHUT	Director	March 26, 1998
/S/ STUART W. STEDMAN STUART W. STEDMAN	Director	March 26, 1998
/S/ RONALD A. ERICKSON RONALD A. ERICKSON	Director	March 26, 1998
/S/ MARK F. WILSON MARK F. WILSON	Director	March 26, 1998
/S/ GREG M. BRUDNICKI GREG M. BRUDNICKI	Director	March 26, 1998

CARRIAGE SERVICES, INC.
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To The Stockholders' and Board of Directors of Carriage Services, Inc.:

We have audited the accompanying consolidated balance sheets of Carriage Services, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1996 and 1997 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Carriage Services, Inc., and subsidiaries as of December 31, 1996 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

ARTHUR ANDERSON LLP

Houston, Texas
February 10, 1998

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

ASSETS	December 31,	
	1996	1997
Current assets:		
Cash and cash equivalents	\$ 1,712	\$ 6,126
Accounts receivable-		
Trade, net of allowance for doubtful accounts		
of \$530 in 1996 and		
\$1,291 in 1997	5,665	11,617
Other	673	1,295
	6,338	12,912
Inventories and other current assets	3,350	5,691
	11,400	24,729
Total current assets		
Property, plant and equipment, at cost:		
Land	9,640	21,789
Buildings and improvements	31,750	56,153
Furniture and equipment	8,817	15,046
	50,207	92,988
Less-accumulated depreciation	(4,095)	(7,123)
	46,112	85,865
Cemetery property, at cost	4,061	32,154
Names and reputations, net of accumulated amortization		
of \$2,007 in 1996 and \$4,480 in 1997	62,568	118,099
Deferred charges and other non-current assets	7,167	17,093
	\$ 131,308	\$ 277,940
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 2,192	\$ 9,022
Accrued liabilities	3,033	7,545
Current portion of long-term debt and obligations		
under capital leases	1,086	2,339
	6,311	18,906
Total current liabilities		
Preneed liabilities, net	3,664	7,403
Long-term debt, net of current portion	42,733	121,553
Obligations under capital leases, net of current portion		
Deferred income taxes	557	4,449
	3,749	13,113
	57,014	165,424
Total liabilities		
Commitments and contingencies		
Redeemable preferred stock	17,251	13,951
Stockholders' equity:		
Class A Common Stock, \$.01 par value; 40,000,000		
shares authorized; 3,990,000 and 6,454,000 issued		
and outstanding in 1996 and 1997, respectively	40	64
Class B Common Stock; \$.01 par value; 10,000,000		
shares authorized; 4,502,000 and 4,691,000 issued and		
outstanding in 1996 and 1997, respectively	45	47
Contributed capital	63,966	102,056
	(7,008)	(3,602)
Retained deficit		
Total stockholders' equity	57,043	98,565
	\$ 131,308	\$ 277,940
	=====	=====

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

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

	FOR THE YEARS ENDED DECEMBER 31,		
	1995	1996	1997
Revenues, net			
Funeral	\$ 22,661	\$ 37,445	\$ 64,888
Cemetery	1,576	2,903	12,533
	24,237	40,348	77,421
Costs and expenses			
Funeral	18,921	30,641	48,404
Cemetery	1,326	2,541	9,634
	20,247	33,182	58,038
Gross profit	3,990	7,166	19,383
General and administrative expenses	2,106	2,474	5,277
Operating income	1,884	4,692	14,106
Interest expense, net	3,684	4,347	5,889
Income (loss) before income taxes and extraordinary item	(1,800)	345	8,217
Provision for income taxes	694	138	3,726
Net income (loss) before extraordinary item	(2,494)	207	4,491
Extraordinary item--loss on early extinguishment of debt, net of income tax benefit of \$332 in 1996 and \$159 in 1997.....	--	(498)	(195)
Net income (loss)	(2,494)	(291)	4,296
Preferred stock dividend requirements	--	622	890
Net income (loss) available to common stockholders	\$ (2,494)	\$ (913)	\$ 3,406
Basic earnings (loss) per share:			
Net income (loss) before extraordinary item	\$ (.99)	\$ (.09)	\$.35
Extraordinary item	--	(.10)	(.02)
Net Income (loss)	\$ (.99)	\$ (.19)	\$.33
Diluted earnings (loss) per share:			
Net income (loss) before extraordinary item	\$ (.99)	\$ (.09)	\$.34
Extraordinary item	--	(.10)	(.02)
Net Income (loss)	\$ (.99)	\$ (.19)	\$.32
Weighted average number of common and common equivalent shares outstanding			
Basic	2,520	4,869	10,226
Diluted	2,520	4,869	10,485

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

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

	No. of Shares	Preferred Stock	No. of Shares	Common Stock	Contribute Capital (Deficit)	Net Unrealized Gain (loss)	Retained Earnings (Deficit)	Total
	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE - DECEMBER 31, 1994	7,160	\$ 72	2,520	\$ 25	\$ 6,992	\$(59)	(3,601)	3,429
Net loss - 1995	--	--	--	--	--	--	(2,494)	(2,494)
Issuance of preferred stock	8,500	85	--	--	8,108	--	--	8,193
Unrealized net gain - available for sale securities	--	--	--	--	--	23	--	23
BALANCE - DECEMBER 31, 1995	15,660	157	2,520	25	15,100	(36)	(6,095)	9,151
Net loss - 1996	--	--	--	--	--	--	(291)	(291)
Issuance of preferred stock	555	5	--	--	540	--	--	545
Issuance of common stock	--	--	3,947	40	47,942	--	--	47,982
Conversion of preferred stock to common stock	(16,045)	(160)	1,980	20	140	--	--	0
Conversion of redeemable preferred stock to common stock	--	--	39	--	522	--	--	522
Unrealized net gain - available for sale securities	--	--	--	--	--	36	--	36
Purchase treasury stock	(170)	(2)	--	--	(339)	--	--	(341)
Exercise of stock options	--	--	6	--	61	--	--	61
Preferred dividends	--	--	--	--	--	--	(622)	(622)
BALANCE - DECEMBER 31, 1996	--	--	8,492	85	63,966	--	(7,008)	57,043
Net income - 1997	--	--	--	--	--	--	4,296	4,296
Issuance of common stock	--	--	978	10	14,714	--	--	14,724
Conversion of redeemable preferred stock to common stock	--	--	1,658	16	23,276	--	--	23,292
Purchase of treasury stock	--	--	(3)	--	(60)	--	--	(60)
Exercise of stock options	--	--	20	--	160	--	--	160
Preferred dividends	--	--	--	--	--	--	(890)	(890)
BALANCE DECEMBER 31, 1997	--	\$ --	11,145	\$111	\$ 102,056	\$ 0	(3,602)	\$ 98,565
	=====	=====	=====	=====	=====	=====	=====	=====

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

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

FOR THE YEARS ENDED DECEMBER 31,

	1995	1996	1997
Cash flows from operating activities:			
Net income (loss)	\$ (2,494)	\$ (291)	\$ 4,296
Adjustments to reconcile net income (loss) to net cash provided by operating activities --			
Depreciation and amortization	1,948	3,629	7,809
Provision for losses on accounts receivable	488	683	1,025
Loss on early extinguishment of debt, net of income taxes	--	498	195
Deferred income taxes	659	54	2,230
Changes in assets and liabilities net of effects from acquisitions:			
Increase in accounts receivable	(1,125)	(3,440)	(4,747)
Decrease (increase) in inventories and other current assets	115	(465)	(1,203)
Increase in other deferred charges	(144)	(1,146)	(1,884)
Increase (decrease) in accounts payable	45	1,151	1,168
Increase (decrease) in accrued liabilities	1,461	(403)	422
Increase (decrease) in preneed liabilities	44	44	371
Net cash provided by operating activities	997	314	9,661
Cash flows from investing activities:			
Acquisitions, net of cash acquired	(12,191)	(42,707)	(65,607)
Disposition of businesses formerly owned	--	393	--
Purchase of marketable securities available for sale	(1,795)	--	--
Disposal of marketable securities available for sale	5,312	976	--
Purchase of property, plant and equipment	(3,019)	(4,630)	(9,163)
Net cash used in investing activities	(11,693)	(45,968)	(74,770)
Cash flows from financing activities:			
Proceeds from long-term debt	11,563	59,849	79,300
Payments on long-term debt and obligations under capital leases	(2,273)	(65,925)	(9,196)
Proceeds from sale of preferred stock	8,192	--	--
Proceeds from issuance of common stock	--	47,694	566
Preferred stock dividends	--	(622)	(890)
Exercise of stock options	--	61	160
Purchase of treasury stock	--	(341)	(60)
Payment of deferred debt charges	(49)	(923)	(357)
Net cash provided by financing activities	17,433	39,793	69,523
Net increase (decrease) in cash and cash equivalents	6,737	(5,861)	4,414
Cash and cash equivalents at beginning of year	836	7,573	1,712
Cash and cash equivalents at end of year	\$ 7,573	\$ 1,712	\$ 6,126
Supplemental disclosure of cash flow information:			
Interest paid through issuance of new debt	\$ 644	\$ --	\$ --
Retirement of debt through issuance of stock	\$ 500	\$ --	\$ --
Cash paid for interest	\$ 3,127	\$ 4,466	\$ 5,477
Cash paid for income taxes	\$ --	\$ --	\$ 1,385
Retirement of debt through disposition of business	\$ --	\$ 2,642	\$ --
Non-cash consideration for acquisitions	\$ --	\$ 25,474	\$ 33,412

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

CARRIAGE SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

BUSINESS

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

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The financial statements include the consolidated financial statements of Carriage Services, Inc. and its subsidiaries. In consolidation, all significant intercompany balances and transactions have been eliminated. Certain prior year amounts in the consolidated financial statements have been reclassified to conform with current year presentation.

FUNERAL AND CEMETERY OPERATIONS

The Company records the sale of funeral merchandise and services upon performance of the funeral service. The Company records the sale of the right of cemetery interment or mausoleum entombment and related merchandise at the time of sale. The cost for cemetery merchandise and services sold, but not yet provided, is accrued as an expense at the same time the cemetery revenue is recognized. Allowances for customer cancellations, refunds and bad debts are provided at the date of sale based on the historical experience of the Company. Accounts receivable-trade, net consists of approximately \$4,977,000 and \$7,245,000 of funeral receivables and approximately \$688,000 and \$4,372,000 of current cemetery receivables at December 31, 1996 and 1997, respectively. Non-current cemetery receivables, those payable after one year, are included in Deferred Charges and Other Non-current Assets on the Consolidated Balance Sheets.

PRENEED FUNERAL ARRANGEMENTS

Preneed funeral sales are effected by deposits to a trust or purchase of a third-party insurance product. Since the Company does not have access to these funds, the sale is not recorded until the service is performed, nor generally, are the related assets and liabilities reflected on the Consolidated Balance Sheets. The trust income earned and the increases in insurance benefits on the insurance products are also deferred until the service is performed in order to offset inflation in cost to provide the service in the future. The preneed funeral trust assets were approximately \$36,523,000 and \$52,931,000 at December 31, 1996 and 1997, respectively, which in the opinion of management, exceed the future obligations under such arrangements. The type of instruments that the trusts may invest in are regulated by state agencies.

CARRIAGE SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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

	HISTORICAL COST BASIS	UNREALIZED GAIN (LOSS)	FAIR VALUE
	-----	----- (IN THOUSANDS)	-----
As of December 31, 1996 --			
Cash and cash equivalents	\$ 16,022	\$ --	\$ 16,022
Fixed income investment contracts	8,434	--	8,434
Mutual funds, corporate bonds and stocks	11,965	102	12,067
	-----	-----	-----
Total	\$ 36,421	\$ 102	\$ 36,523
	-----	-----	-----
As of December 31, 1997			
Cash and cash equivalents	\$ 23,891	\$ --	\$ 23,891
Fixed income investment contracts	10,638	--	10,638
Mutual funds, corporate bonds and stocks	17,960	442	18,402
	-----	-----	-----
Total	\$ 52,489	\$ 442	\$ 52,931
	-----	-----	-----

CEMETERY MERCHANDISE AND SERVICE TRUST

The Company is also generally required, by certain states, to deposit a specified amount into a merchandise and service trust fund for cemetery merchandise and service contracts sold on a preneed basis. The principal and accumulated earnings of the trust may be withdrawn by the Company upon maturity (generally, the death of the purchaser) or cancellation of the contracts. Trust fund investment income is recognized in current revenues as trust earnings accrue, net of current period inflation costs recognized related to the merchandise that has not yet been purchased. Merchandise and service trust fund balances, in the aggregate, were approximately \$1,134,000 and \$9,567,000 at December 31, 1996 and 1997, respectively, and are included in Preneed Liabilities, net on the accompanying Consolidated Balance Sheets.

PERPETUAL AND MEMORIAL CARE TRUST

In accordance with respective state laws, the Company is required to deposit a specified amount into perpetual and memorial care trust funds for each interment/entombment right and memorial sold. Income from the trust fund is used to provide care and maintenance for the cemeteries and mausoleums and is periodically distributed to the Company and recognized as revenue upon distribution. The perpetual and memorial care trust assets were approximately \$2,002,000 and \$8,408,000 at December 31, 1996 and 1997, respectively, which, in the opinion of management, will cover future obligations to provide care and maintenance for the Company's cemeteries and mausoleums. The Company does not have the right to withdraw any of the principal balances of these funds and, accordingly, these trust fund balances are not reflected in the accompanying Consolidated Balance Sheets.

DEFERRED OBTAINING COSTS

Deferred obtaining costs consist of sales commissions and other direct marketing costs applicable to preneed funeral sales, net of insurance commissions received. These costs are deferred and amortized in funeral costs and expenses over the expected timing of the performance of the services covered by the preneed funeral contracts.

CASH AND CASH EQUIVALENTS

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

MARKETABLE SECURITIES

The Company accounts for marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, and all of the Company's investment securities are classified as available for sale securities. At December 31, 1996 and 1997, the Company had no gross unrealized gains (losses). The Company does not use derivative financial instruments or participate in hedging activities.

INVENTORY

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

NAMES AND REPUTATIONS

The excess of the purchase price over the fair value of net identifiable assets acquired, as determined by management in transactions accounted for as purchases, is recorded as Names and Reputations. Such amounts are amortized over 40 years. Many of the Company's acquired funeral homes have provided high quality service to families for generations. The resulting loyalty often represents a substantial portion of the value of a funeral business. The Company reviews the carrying value of Names and Reputations at least quarterly on a location-by-location basis to determine if facts and circumstances exist which would suggest that this intangible asset may be impaired or that the amortization period needs to be modified. If indicators are present which indicate impairment is probable, the Company will prepare a projection of the undiscounted cash flows of the location and determine if the intangible assets are recoverable based on these undiscounted cash flows. If impairment is indicated, then an adjustment will be made to reduce the carrying amount of the intangible asset to its fair value. At December 31, 1997, no impairment was deemed to have occurred.

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. The costs of ordinary maintenance and repairs are charged to operations as incurred, while renewals and betterments are capitalized. Capitalized interest was \$162,000 and \$ 264,000 in 1996 and 1997, respectively. Depreciation of property, plant and equipment is computed based on the straight-line method over the following estimated useful lives of the assets:

	YEARS

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

INCOME TAXES

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

EARNINGS PER COMMON SHARE

In 1997, the Financial Accounting Standards Board issued Statement No. 128, EARNINGS PER SHARE, which replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities.

Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods presented have been restated to conform to the Statement 128 requirements.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that carrying value approximates fair value for cash and cash equivalents and marketable equity securities which are designated as available-for-sale. Additionally, its floating rate Credit Facility approximates its fair value. Management also believes that its redeemable preferred stock is stated at fair value.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BUSINESS SEGMENTS

In June 1997, the Financial Accounting Standards Board issued Statement No. 131 ("SFAS No. 131"), Disclosures About Segments of an Enterprise and Related Information. SFAS 131, effective for years beginning after December 15, 1997, requires segment information to be reported on a basis consistent with that used internally for evaluating segment performance and deciding how to allocate resources to segments. The Company will adopt SFAS No. 131 in 1998 and is evaluating the way segment information is reported.

2. ACQUISITIONS:

During 1997, the Company acquired 44 funeral homes and 10 cemeteries through the purchase of stock and assets. In 1996, the Company acquired 38 funeral homes and 7 cemeteries through the purchase of stock and assets. These transactions have been accounted for utilizing the purchase method of accounting, and the results of operations of the acquired businesses have been included in the results of the Company from the respective dates of acquisition.

In accordance with APB Opinion 16, purchase prices were allocated to the net assets acquired based on management's estimate of the fair value of the acquired assets and liabilities at the date of acquisition. Many of the Company's acquired funeral homes have provided high quality service to families for generations. The resulting loyalty often represents a substantial portion of the value of a funeral business. As a result, the excess of the consideration paid over the fair value of net tangible and other identifiable intangible assets is allocated to Names and Reputations. Future adjustments to the allocation of the purchase price may be made during the 12 months following the date of acquisition due to resolution of uncertainties existing at the acquisition date, which may include obtaining additional information regarding asset and liability valuations.

The effect of the above acquisitions on the Consolidated Balance Sheets at December 31, 1996 and 1997 was as follows:

	1996	1997
	-----	-----
	(IN THOUSANDS)	
Current Assets	\$ 3,532	\$ 11,909
Cemetery Property	3,610	28,276
Property, Plant and Equipment	22,574	34,830
Deferred Charges and Other Non-current Assets	1,542	1,597
Names and Reputations	43,139	55,013
Current Liabilities	(1,025)	(1,631)
Debt	--	(1,072)
Other Liabilities	(5,191)	(10,662)
	-----	-----
	68,181	118,260
Consideration:		
Redeemable preferred stock issued	(17,775)	(20,000)
Debt	(6,582)	(18,210)
Preferred stock issued	(555)	--
Cash acquired in acquisitions	(274)	(556)
Common Stock issued	(288)	(13,887)
	-----	-----
Cash used for acquisitions	\$ 42,707	\$ 65,607
	=====	=====

The following table reflects, on an unaudited pro forma basis, the combined operations of the Company and the businesses acquired during 1996 and 1997 as if such acquisitions had taken place at the beginning of 1996. Appropriate adjustments have been made to reflect the accounting basis used in recording these acquisitions. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have resulted had the combination been in effect on the date indicated, that have resulted since the respective dates of acquisition or that may result in the future.

	1996	1997
	-----	-----
	(UNAUDITED AND IN THOUSANDS)	
Revenues, net	\$ 95,169	\$98,672
Income (loss) before income taxes and extraordinary item	(1,686)	7,803
Net income (loss) available to common stockholders	(2,157)	3,207
Earnings (loss) per share		
Basic	(.44)	.31
Diluted	(.44)	.31

3. DEFERRED CHARGES AND OTHER NON-CURRENT ASSETS:

Deferred charges and other non-current assets at December 31, 1996 and 1997 were as follows (in thousands):

	1996	1997
	-----	-----
Agreements not to compete, net of accumulated amortization of \$1,722 and \$2,233 respectively	\$ 3,297	\$ 4,034
Deferred debt expense, net of accumulated amortization of \$78 and \$23, respectively	511	324
Non-current cemetery and notes receivable	2,114	9,807
Deferred obtaining costs, net of accumulated amortization of \$44 and \$253, respectively	1,245	2,928
	-----	-----
	\$ 7,167	\$17,093
	=====	=====

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

4. LONG-TERM DEBT:

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

	1996	1997
	-----	-----
Credit Facility, unsecured floating rate \$150 million line, interest is due on a quarterly basis for prime borrowings and on the maturity dates of the eurodollar borrowings at the applicable eurodollar rate plus .50% to 1.25% (weighted average interest rate was 6.8772% for the quarter ended December 31, 1997), matures in September, 2002	\$ --	\$ 107,500
Credit Facility, unsecured floating rate \$75 million line, interest was due on a quarterly basis at prime to prime plus .25% or at the applicable eurodollar rate plus .75% to 2.0%	36,500	--
Acquisition debt	6,395	10,817
Other	574	5,219
Less-Current portion	(736)	(1,983)
	-----	-----
	\$ 42,733	\$ 121,553
	=====	=====

In conjunction with the closing of the initial public offering (the "IPO") in August 1996, the Company entered into a Credit Facility (the "Former Credit Facility") which provided for a \$75 million revolving line of credit with both LIBOR and base rate interest options. This Former Credit Facility was unsecured and was for a term of three years. During September 1997, the Company entered into a new credit facility (the "New Credit Facility") for a \$150 million revolving line of credit. The New Credit Facility has a five year term, is unsecured and contains customary restrictive covenants, including a restriction on the payment of dividends on common stock and requires the Company to maintain certain financial ratios. The Company was in compliance with all covenants at December 31, 1997. In August 1996, the Company paid all of its outstanding indebtedness with the proceeds from the issuance of its Class A Common Stock in connection with the Company's IPO (see Note 7) and utilization of the Former Credit Facility. In connection with repayment of debt in August 1996 and the retirement of debt issued by the Former Credit Facility in September 1997, the Company recognized an extraordinary loss of approximately \$498,000 and \$195,000, net of income tax benefit of approximately \$332,000 and \$159,000 for the write-off of the deferred loan costs associated with the early retirement of debt for the years ended December 31, 1996 and 1997, respectively.

Acquisition debt consists of deferred purchase prices, payable to sellers. The deferred purchase price notes bearing interest at 0%, discounted at imputed interest rates ranging from 6% to 8%, with maturities from 3 to 15 years.

The aggregate maturities of long-term debt for the year ended December 31, 1998 and for the subsequent four years, are approximately \$1,983,000, \$2,021,000, \$1,196,000, \$1,193,000, and \$108,744,000, respectively and \$8,399,000 thereafter.

5. COMMITMENTS AND CONTINGENCIES:

LEASES

The Company leases certain office facilities, vehicles and equipment under operating leases for terms ranging from one to fifteen years. Certain of these leases provide for an annual adjustment. Rent expense was approximately \$951,000, \$924,000 and \$1,997,000 for 1995, 1996 and 1997, respectively.

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

At December 31, 1997 minimum lease payments were as follows:

	MINIMUM LEASE PAYMENTS	
	OPERATING LEASES	CAPITAL LEASES
	-----	-----
	(IN THOUSANDS)	
Years ended December 31,		
1998	\$ 1,792	\$ 679
1999	1,557	2,632
2000	1,099	230
2001	799	207
2002	1,449	198
Thereafter	2,181	2,716
	-----	-----
Total minimum lease payments	\$ 8,877	\$ 6,662
	=====	
Less: amount representing interest		1,857
Less: current portion of obligations under capital leases		356

Long-term obligations under capital leases		\$ 4,449
		=====

AGREEMENTS AND EMPLOYEE BENEFITS

The Company has entered into various employment agreements and agreements not to compete with key employees and former owners of businesses acquired. Payments for such agreements are not made in advance. These agreements are generally for one to ten years and provide for future payments annually, quarterly or monthly. The aggregate payments due under these agreements for the subsequent five years, are approximately \$1,356,000, \$1,342,000, \$1,101,000, \$924,000 and \$845,000, respectively and \$2,576,000 thereafter. In conformity with industry practice, these agreements are not included in the accompanying Consolidated Balance Sheets.

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

LITIGATION

Certain of the funeral homes located in California that were acquired by the Company in early 1997, along with other death care providers, are defendants in litigation in the state of California alleging that a flight service contracted to dispose of cremains failed to properly carry out its duties. While the litigation is in the early stages, management, with the advice of legal counsel, believes that there are adequate insurance coverages, indemnities and reserves such that the results of this litigation will not have a material effect on the Company's consolidated financial position or result of operations. Additionally, the Company is, from time to time, subject to routine litigation arising in the normal course of its business. Management, with the advice of legal counsel, similarly believes that the results of any such routine litigation or other pending legal proceedings will not have a material effect on the Company's consolidated financial position or results of operations.

6. INCOME TAXES:

The provision for income taxes for 1995, 1996 and 1997 consisted of:

	1995	1996	1997
	----	----	-----
Current:		(IN THOUSANDS)	
U. S. Federal	\$--	\$--	\$1,275
State	35	84	759
	----	----	-----
Total current provision	35	84	2,034
	----	----	-----
Deferred:			
U. S. Federal	585	48	1,564
State	74	6	128
	----	----	-----
Total deferred provision	659	54	1,692
	----	----	-----
Total income tax provision	\$694	\$138	\$3,726
	=====	=====	=====

A reconciliation of taxes to the U.S. federal statutory rate to those reflected in the Consolidated Statements of Operations for 1995, 1996 and 1997 is as follows:

	1995	1996	1997
	-----	-----	-----
Federal statutory rate	(34.0)%	34.0%	34.0%
Effect of state income taxes, net of federal benefit at 34%	(6.0)	4.0	5.3
Effect of nondeductible expenses and other, net	3.9	57.3	15.9
Effect of valuation allowance	74.7	(55.3)	(14.5)
Effect of change in statutory rate	--	--	4.6
	-----	-----	-----
	38.6%	40.0%	45.3%
	=====	=====	=====

The tax effects of temporary differences that give rise to significant deferred tax assets and liabilities at December 31, 1996 and 1997 were as follows:

	1996	1997
	-----	-----
Deferred tax assets:		(IN THOUSANDS)
Net operating loss carryforwards	\$ 2,369	\$ 510
Reserves not currently deductible	200	509
Accrued liabilities and other	104	701
Amortization of non-compete agreements	387	816
	-----	-----
	3,060	2,536
Valuation allowance	(1,442)	(268)
	-----	-----
Total deferred tax assets	\$ 1,618	\$ 2,268
	=====	=====
Deferred tax liability:		
Amortization and depreciation	\$ (4,893)	\$(12,814)
Preneed assets, net	(170)	(1,670)
	-----	-----
Total deferred tax liabilities	\$ (5,063)	\$(14,484)
	-----	-----
Net deferred tax liability	\$ (3,445)	\$(12,216)
	=====	=====
Current net deferred asset	\$ 304	\$ 897
Non-current net deferred liability	(3,749)	(13,113)
	-----	-----
	\$ (3,445)	\$(12,216)
	=====	=====

The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets for which realization is uncertain. The Company reviews the valuation allowance at the end of each quarter and makes adjustments

if it is determined that it is more likely than not that the NOL's will be realized. At December 31, 1997, the Company has approximately \$584,000 of federal net operating loss ("NOL") carryforwards which will expire between 2009 and 2011, if not utilized, and \$3,826,000 of state NOL carryforwards which will expire between the years 2000 and 2012, if not utilized. As a result of the IPO (see Note 7), there may be a limitation placed on the Company's utilization of its NOL's by Section 382 of the Internal Revenue Code in any one particular tax year. Deferred tax liabilities were recorded with respect to purchase accounting transactions during the year ended December 31, 1997 in the approximate amount of \$7,218,000.

7. STOCKHOLDERS' EQUITY:

INITIAL PUBLIC OFFERING

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

PREFERRED STOCK

Prior to the IPO, the Company had three classes of preferred stock outstanding, Series A, B and C. These preferred stocks automatically converted into shares of Class B Common Stock at the effective date of the IPO (August 8, 1996).

TREASURY STOCK

The Company purchased 3,292 shares of Class B Common Stock for \$60,000 and 170,000 shares of Series B Preferred Stock for \$341,000, during 1997 and 1996, respectively. Such shares have been canceled.

STOCK OPTION PLANS

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

Options granted under the 1995 Plan have a ten year term. All options granted under the 1995 Plan prior to the IPO vest immediately, while substantially all of those issued in conjunction with and after the IPO vest over a four year period at 25% per year. Options issued under this plan prior to the Company's IPO are satisfied with shares of Class B Common Stock, but options issued after that date are satisfied with shares of Class A Common Stock. A total of 700,000 shares are reserved for issuance under the 1995 Plan of which 408,449 shares were outstanding at December 31, 1997.

Options granted under the 1996 Plan and the Directors' Plan have ten year terms and vest 8.33% per year on the first through fourth anniversary dates of the grant date and 16.66% per year on the fifth through eighth anniversary dates of the grant date; provided, however, the options scheduled to vest in years 5-8 from the grant date (i.e., 66 2/3 of the total grant) vest immediately if the average of the daily high and low prices of the Class A Common Stock for 20 consecutive trading days exceeds \$27.99 prior to the fourth anniversary of the grant date. A total of 600,000 shares of Class A Common Stock are reserved for issuance under the 1996 Plan and 200,000 shares of Class A Common Stock are reserved for issuance under the Directors' Plan. A total of 560,000 and 130,000 shares were outstanding under the 1996 Plan and Directors' Plan, respectively

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

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net income (loss) available to common stockholders			
As reported	\$ (2,494)	\$ (913)	\$ 3,406
Pro forma	(2,721)	(1,122)	2,353
Net income (Loss) per share available to common stockholders:			
Basic			
As reported	(.99)	(.19)	.33
Pro forma	(1.08)	(.23)	.23
Diluted			
As reported	(.99)	(.19)	.32
Pro forma	(1.08)	(.23)	.22

Each of the plans is administered by a stock option committee appointed by the Board of Directors. The plans allow for options to be granted as non-qualified options, incentive stock options, reload options, alternative appreciation rights and stock bonus options. As of December 31, 1997, only non-qualified options and incentive stock options have been issued. The options are granted with an exercise price equal to the then fair market value of the Company's Common Stock as determined by the Board of Directors.

A summary of the status of the plans at December 31, 1996 and 1997 and changes during the year ended is presented in the table and narrative below:

	YEAR ENDED DECEMBER 31,			
	1996		1997	
	SHARES (000)	WTD AVG. EX PRICE	SHARES (000)	WTD AVG. EX PRICE
Outstanding at beginning of period	50	9.80	850	\$ 13.74
Granted	818	13.9	338	20.18
Exercised	(5)	10.43	(23)	11.35
Canceled	(13)	10.11	(65)	16.80
Outstanding at end of year	850	13.74	1,100	15.40
Exercisable at end of year	74	10.34	146	12.41
Weighted average fair value of options granted	\$ 8.00	--	\$ 8.52	--

All of the options outstanding at December 31, 1997 have exercise prices between \$8.00 and \$24.75, with a weighted average exercise price of \$15.40 and a weighted average remaining contractual life of 8.8 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1996 and 1997, respectively: risk-free interest rates of 6.67% and 6.45%; expected dividend yields of zero percent and zero percent; expected lives of ten years and five years; expected volatility of 30.45% and 35.90%.

REVERSE STOCK SPLIT

On July 18, 1996, the Company's Board of Directors and stockholders approved an amendment to the Company's Certificate of Incorporation which authorized a one for two reverse stock split. The Consolidated Financial Statements

were restated in 1996 as if the reverse stock split had occurred at the beginning of the earliest period presented. For each two shares of Class B Common Stock at \$.01 par, the stockholder received one share of Class B Common Stock at \$.01 par. Upon completion of the IPO, the Series A, B and C Preferred Stocks automatically converted into Class B Common Stock. The number of shares held by each Series A, B and C Preferred stockholder remained the same; however, the conversion prices for Class B Common Stock on those preferred shares doubled in conjunction with the above-mentioned reverse stock split. In addition, the exercise prices on outstanding stock options also doubled related to this reverse stock split, and the number of shares of Class B Common Stock covered by such options decreased by 50%.

8. REDEEMABLE PREFERRED STOCK:

The Company has 20,000,000 authorized shares of Series D Preferred Stock with a par value of \$.01 per share, of which approximately 17,253,000 and 1,682,500 shares were issued and outstanding at December 31, 1996 and 1997, respectively. As of December 31, 1997, these shares can be converted into Class A Common Stock at the rate of \$15.50 per share. The holders of Series D Preferred Stock are entitled to receive preferential dividends at an annual rate ranging from \$0.06 to \$0.07 per share, payable quarterly. Dividends are payable quarterly as long as the stock is outstanding. The Series D Preferred Stock is redeemable, in whole or in part, at the option of the Company, at any time during the period commencing with the second anniversary of the Company's IPO (August 8, 1998) and ending December 31, 2001. On December 31, 2001, the Company must redeem all shares of Series D Preferred Stock then outstanding at a redemption price of \$1.00 per share, together with all accrued and unpaid dividends.

Concurrent with every issuance of Series D Preferred Stock, irrevocable standby letters of credit, issued by a financial institution and guaranteed by the Company, were given to the holders (or designated beneficiaries) and can be drawn upon if certain events occur, including the following: the Company has failed to pay preferred stock dividends, the Company has failed to redeem the preferred stock shares on the designated mandatory redemption date or a liquidation, dissolution or winding up of affairs of the Company occurs. As of December 31, 1997, letters of credit of approximately \$1,740,000 were outstanding relative to Series D Preferred Stock.

During the first quarter of 1997, the Company issued approximately 20,000,000 shares of Series F Preferred Stock with a par value of \$.01 per share to fund a portion of the acquisitions, of which 12,278,285 were outstanding at December 31, 1997. These shares are convertible into Class A Common Stock at the rate of \$16.00 per share as of December 31, 1997, and increasing to \$17.00 per share on January 1, 1998. The holders of the Series F Preferred Stock are entitled to receive preferential dividends at the amount of \$.04 payable quarterly, increasing to five percent per year for the period January 1, 1998 until January 1, 2001, at which time the annual rate becomes fixed at \$.0486 per share. On December 31, 2007, the Company must redeem all shares of Series F Preferred Stock then outstanding at a redemption price of \$1.00 per share, together with all accrued and unpaid dividends.

9. EARNINGS PER SHARE:

The following table sets forth the computation of the basic and diluted earnings (loss) per share for 1995, 1996 and 1997:

	1995	1996	1997
	-----	-----	-----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Numerator:			
Net income (loss) before extraordinary item	\$(2,494)	\$ 207	\$ 4,491
Extraordinary item	--	(498)	(195)
	-----	-----	-----
Net income (loss)	(2,494)	(291)	4,296
Preferred stock dividends	--	(622)	(890)
	-----	-----	-----
Numerator for basic earnings per share - net income (loss) available to common stockholders	(2,494)	(913)	3,406
Effect of dilutive securities: Preferred stock dividends	--	--	--
	-----	-----	-----
Numerator for diluted earnings per share - net income available to common stockholders after assumed conversions	\$(2,494)	\$ (913)	\$ 3,406
Denominator:			
Denominator for basic earnings per share - weighted-average shares	2,520	4,869	10,226
Effect of dilutive securities: Stock options	--	--	259
	-----	-----	-----
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	2,520	4,869	10,485
Basic earnings per share:			
Net income (loss) before extraordinary item	\$ (.99)	\$ (.09)	\$.35
Extraordinary item	--	(.10)	(.02)
	-----	-----	-----
Net income (loss)	\$ (.99)	\$ (.19)	\$.33
	=====	=====	=====
Diluted earnings per share:			
Net income (loss) before extraordinary item	\$ (.99)	\$ (.09)	\$.34
Extraordinary item	--	(.10)	(.02)
	-----	-----	-----
Net income (loss)	\$ (.99)	\$ (.19)	\$.32
	=====	=====	=====

10. MAJOR SEGMENTS OF BUSINESS

The Company conducts funeral and cemetery operations only in the United States.

(IN THOUSANDS, EXCEPT NUMBER OF
OPERATING LOCATIONS)

	Funeral	Cemetery	Corporate	Consolidated
Revenues:				
1997	\$ 64,888	\$ 12,533	\$ --	\$ 77,421
1996	37,445	2,903	--	40,348
1995	22,661	1,576	--	24,237
Income from operations:				
1997	\$ 16,484	\$ 2,899	\$ (5,277)	\$ 14,106
1996	6,804	362	(2,474)	4,692
1995	3,740	250	(2,106)	1,884
Identifiable assets:				
1997	208,833	57,020	12,087	277,940
1996	117,061	9,285	4,962	131,308
1995	48,847	2,169	10,730	61,746
Depreciation and amortization:				
1997	5,195	1,454	1,160	7,809
1996	2,863	129	637	3,629
1995	1,609	72	267	1,948
Capital expenditures: (a)				
1997	34,858	34,653	2,758	72,269
1996	24,737	5,073	1,004	30,814
1995	4,530	100	1,116	5,746
Number of operating locations at year end:				
1997	120	20	--	140
1996	76	10	--	86
1995	41	3	--	44

(a) Includes \$2,727, \$26,184 and \$63,106 for the three years ended December 31, 1997, respectively, for purchases of property, plant and equipment and cemetery property of acquired businesses.

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

The table below sets forth consolidated operating results by fiscal quarter for the years ended December 31, 1996 and 1997 (in thousands, except per share data):

	FIRST -----	SECOND -----	THIRD -----	FOURTH -----
(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)				
1996 (A)				
Revenues, net	\$ 7,635	\$ 9,290	\$ 10,145	\$13,278
Gross profit	1,670	1,719	994	2,783
Net income (loss) before extraordinary item	(193)	(468)	(414)	1,282
Extraordinary item	--	--	(498)	--
Preferred stock dividend requirements	10	91	250	271
Net income (loss)	(203)	(559)	(1,162)	1,011
Basic earnings (loss) per common share				
Continuing operations	(.08)	(.22)	(.11)	.12
Extraordinary item	--	--	(.09)	--
Net income (loss)	\$ (.08)	\$ (.22)	\$ (.20)	\$.12
Diluted earnings (loss) per common share				
Continuing operations	\$ (.08)	\$ (.22)	\$ (.11)	\$.12
Extraordinary item	--	--	(.09)	--
Net income (loss)	\$ (.08)	\$ (.22)	\$ (.20)	\$.12
1997 (A)				
Revenues, net	\$ 17,989	\$ 19,061	\$ 18,245	\$22,126
Gross profit	5,143	5,003	3,557	5,680
Net income before extraordinary item	1,825	1,489	347	830(b)
Extraordinary item	--	--	(195)	--
Preferred stock dividend requirements	363	174	176	177
Net income (loss)	1,462	1,315	(24)	653(b)
Basic earnings per common share:				
Continuing operations	\$.16	\$.13	\$ 0.02	\$.06(b)
Extraordinary item	--	--	(0.02)	--
Net income	\$.16	\$.13	\$ --	\$.06(b)
Diluted earnings per common share:				
Continuing operations	\$.16	\$.12	\$ 0.02	\$.06(b)
Extraordinary item	--	--	(0.02)	--
Net income	\$.16	\$.12	\$ --	\$.06(b)

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

(b) Includes a one-time charge of \$390,000 (equivalent to \$.04 per share) to revalue historical deferred tax accounts from 34% to 35%.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

To Carriage Services, Inc.:

We have audited in accordance with generally accepted auditing standards, the Consolidated Financial Statements of Carriage Services, Inc. and subsidiaries included in this Form 10-K, and have issued our report thereon dated February 10, 1998. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Part IV, Item 14 (a)(2) for Carriage Services, Inc. and subsidiaries is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Houston, Texas
February 10, 1998

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

DESCRIPTION	BALANCE BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	DEDUCTION	BALANCE END OF YEAR
Year ended December 31, 1995:				
Allowance for bad debts and contract cancellations	\$205	\$ 488	\$388	\$ 305
Year ended December 31, 1996:				
Allowance for bad debts and contract cancellations	\$305	\$ 683	\$458	\$ 530
Year ended December 31, 1997:				
Allowance for bad debts and contract cancellations	\$530	\$1,025	\$264	\$1,291

THIS AGREEMENT, dated as of November __, 1997, among CARRIAGE FUNERAL HOLDINGS, INC., a Delaware corporation (the "Purchaser"), SIDUN FUNERAL GROUP, INC., an New Jersey corporation (the "Company"), and CHARLES D. SIDUN (the "Shareholder") (the Company and the Shareholder being sometimes hereafter referred to together as the "Sellers");

W I T N E S S E T H:

WHEREAS, the Company owns all of the operating assets, rights and properties, other than real property, associated with the operation of the John E. Day Funeral Home located at 85 Riverside Avenue in Red Bank, Monmouth County, New Jersey (the "Red Bank Home"), the two Bedle Funeral Homes located at 61 Broad Street in Keyport, Monmouth County, New Jersey (the "Keyport Home") and at 212 Main Street in Matawan, Monmouth County, New Jersey (the "Matawan Home"), and the Braun Funeral Home located at 106 Broad Street, Eatontown, Monmouth County, New Jersey (the "Eatontown Home"), and owns all of the assets, rights and properties, including real property, associated with the operation of the Family Arrangement Center located at 33 Allen Place in Red Bank, Monmouth County, New Jersey (the "Family Center") (the Red Bank Home, the Keyport Home, the Matawan Home, the Eatontown Home and the Family Center being hereafter collectively referred to as the "Homes");

WHEREAS, the Shareholder owns all of the issued and outstanding capital stock of the Company; and

WHEREAS, the parties desire that the Purchaser acquire substantially all of such assets, rights and properties of the Homes from the Company, and that the parties enter into certain related transactions, on the terms and subject to the conditions hereafter set forth;

NOW, THEREFORE, the parties agree as follows:

1. PURCHASE AND SALE OF ASSETS.

1.1. TRANSFER OF ASSETS BY THE COMPANY. Subject to the provisions of this Agreement, the Company agrees to sell, and the Purchaser agrees to purchase, at the Closing referred to in Section 2.1, substantially all of the properties, assets, rights and business of the Homes of every kind and description, tangible and intangible, real, personal or mixed, wherever located, as they shall exist at the time of the Closing (collectively, the "Assets"), including, but not limited to, all of

the following-described assets, rights and properties (but excluding those described in Section 1.2):

(i) inventories of caskets, vaults, urns, accessories, monuments and other goods and inventories;

(ii) notes and accounts receivable; and

(iii) machinery, equipment, motor vehicles (13), furniture, fixtures, supplies, tools and other fixed assets and property, plant and equipment, including those described on Schedule 3.10 hereto;

(iv) fee simple title to the real property on which the Family Center is situated (the "Family Center Tract");

(v) all cash balances in bank accounts and certificates of deposit and other investments to fund obligations under preneed contracts;

(vi) all pre-need contracts of the Homes and other agreements, leases and commitments described on Schedule 3.11, including (without limitation) the Redemption Agreement dated November 4, 1997 between the Company and Douglas Sidun (but excluding those contracts and commitments shown thereon, if any, as not being assumed by the Purchaser);

(vii) all rights to the names "Sidun Funeral Group", "John E. Day Funeral Home", "Bedle Funeral Home" and "Braun Funeral Home" and all derivatives thereof, and all trademarks, trade names, patents, processes, copyrights, know-how and similar intangible rights, and all goodwill associated therewith;

(viii) all permits, licenses, books, records, brochures and literature, rights in unemployment compensation, industrial accident and other similar funds, and prepaid items; and

(ix) all other assets, rights and properties owned or leased by the Company that are used in or necessary for the Homes at the time of Closing, excluding those described in Section 1.2.

At the Closing, the Company shall convey to the Purchaser the Assets free and clear of any and all liens, security interests, pledges, encumbrances, easements, rights-of-way or title restrictions of any kind (collectively, "Liens") except (in the case of the Family Center Tract only) for Permitted Encumbrances described on Schedule 3.5.

1.2. RETAINED ASSETS. Notwithstanding the foregoing, the following properties, assets, rights and interests (the "Retained Assets") are hereby excluded from the purchase and sale contemplated hereby and are therefore not included in the Assets:

(i) all cash on hand, in transit or on deposit, including bank account balances, certificates of deposit and marketable securities, excluding, however, account balances and certificates of deposit to fund preneed contracts;

(ii) any prepaid federal income taxes of the Company, and any rights to or claims for federal income tax refunds, in respect of the operation of the Homes prior to the Closing; and

(iii) the two motor vehicles, the accounts receivable due the Company from two existing employees and any life insurance policy on the life of the Shareholder or any of the other parties to the Employment Agreements referred to in Section 2.2(i), all as described on Schedule 1.2 hereto.

1.3. PURCHASE PRICE. The purchase price for the Assets shall be \$13,315,799.00 (the "Purchase Price"). Of the Purchase Price, (i) an amount sufficient to discharge indebtedness of the Company as determined by the Purchaser pursuant to Section 1.4 shall be paid to the holders of such indebtedness, (ii) the sum of \$2,000,000.00 (the "Deferred Purchase Price") shall be payable in forty-eight (48) equal quarterly installments of \$41,666.67

each, payable on or before the last day of each January, April, July and October during the twelve- year period following the Closing, commencing January 31, 1998 and continuing quarterly thereafter until paid in full, (iii) the sum of \$100,000.00 shall be withheld from the Purchase Price by the Purchaser, subject to disbursement under the circumstances and subject to the conditions described in Section 10.5, and (iv) the balance of the Purchase Price, after deducting the amounts in clauses (i) through (iii) above, shall be paid to the Company in cash at Closing by wire transfer to such account as the Sellers shall designate in writing at least three business days prior to the Closing. No interest shall accrue or be payable in respect to the Deferred Purchase Price. For federal income tax purposes, the parties agree that the Deferred Purchase Price shall be deemed to include an imputed rate of interest of seven percent (7.0%) per annum. The Deferred Purchase Price shall be subject to offset as provided in Section 10.4. The Purchase Price shall be subject to adjustment following the Closing as provided in Section 1.4. The Purchaser acknowledges that its obligations to pay Deferred Purchase Price will be assigned by the Company 50% to the Shareholder and 50% to Douglas Sidun following the Closing, and that upon the death of either such person such payments shall continue to be made to such person's estate, heirs and beneficiaries.

1.4. ADJUSTMENT TO PURCHASE PRICE. At least two business days prior to the Closing, the Sellers shall deliver to the Purchaser a written statement, certified by them to be accurate and complete, setting forth a description, and the outstanding balance as of the date of such statement, of all liabilities and obligations of the Company, including (but not limited to) indebtedness for borrowed money, indebtedness secured by Liens against any of the Assets, accounts and trade payable, accrued liabilities, federal, state and local taxes, any liabilities under suits, claims judgments or orders then pending, or any other

liability or obligation (collectively, "Unassumed Liabilities"), excluding only Assumed Liabilities described in Section 1.5. At Closing, the Purchaser shall pay out of the Purchase Price such portion thereof as shall be required to pay and discharge those Unassumed Liabilities as the Purchaser in its sole discretion deems appropriate, which at a minimum shall include liabilities secured by Liens against any of the Assets, and any and unsecured indebtedness for borrowed money, but may also include any of such other liabilities. Notwithstanding such payment, the Sellers shall remain responsible for paying any remaining Unassumed Liabilities. Payments under this Section 1.4 shall be deemed downward adjustments in the Purchase Price.

1.5. ASSUMPTION OF LIABILITIES. The Purchaser, upon the sale and purchase of the Assets, shall, subject to Section 1.6 below, assume and agree to pay or discharge only the following liabilities and obligations of the Company (collectively, the "Assumed Liabilities"):

(i) liabilities under those preneed contracts of the Homes that are included in the Assets, provided that as of the Closing such liabilities are covered by trust or insurance to the full extent required by the rules, regulations and procedures of New Jersey law; and

(ii) obligations arising after Closing under the agreements, leases and commitments of the Homes described in Schedule 3.11 (other than agreements, leases and commitments, if any, which are indicated on such Schedule as not to be assumed by the Purchaser).

The assumption by the Purchaser of the Assumed Liabilities shall not enlarge any rights or remedies of any third parties under any contracts or arrangements so assumed. Nothing herein shall prevent the Purchaser from contesting in good faith

any of the Assumed Liabilities. At Closing, the Purchaser shall deliver to the Company an instrument, dated the Closing Date and reasonably satisfactory in form and substance to it, pursuant to which the Purchaser will assume the Assumed Liabilities.

1.6. LIMITATIONS ON ASSUMPTION. Notwithstanding Section 1.5 above, the Purchaser will not assume and does not agree to pay or discharge any obligations or liabilities of the Company not specifically included in the Assumed Liabilities. In particular, without limiting the generality of the definition of "Unassumed Liabilities" under Section 1.4 above, the Purchaser shall not assume or agree to pay or discharge any of the following:

- (i) any notes or accounts payable;
- (ii) any trade payables of any kind, regardless of whether entered into in the ordinary course of business;
- (iii) any federal, state or local tax of any type, whether arising by reason of the sale of the Assets or by operation of the Homes prior to the Closing Date;
- (iv) any losses, costs, damages or expense based upon or arising from any claims, litigation, legal proceedings or other actions against the Company based upon any set of facts occurring prior to the Closing;
- (v) the liabilities and obligations under any warranties to customers with respect to goods or products sold or services provided by the Company prior to Closing;
- (vi) all personal injury, product liability claims, claims of environmental damage, claims of hazards to health, strict liability, toxic torts, enforcement proceedings, cleanup orders and other similar

actions or claims instituted by private parties or governmental agencies, with respect to the operation of the Homes prior to Closing; or

(vii) any other liability or obligation not specifically included within the Assumed Liabilities.

1.7. CERTAIN PRORATIONS. All normal and customarily proratable items, including without limitation, real estate and personal property taxes, rents under leases and utility bills, shall be prorated as of the Closing Date, the Company being charged and credited for all of same up to such date and the Purchaser being charged and credited for all of same on and after such date. Utility services will be transferred to the Purchaser's name on the Closing Date. If the actual amounts to be prorated are not known as of the Closing Date, the prorations shall be made on the basis of the best evidence then available, and thereafter, within thirty (30) days after actual figures are received, a cash settlement will be made between the Company and the Purchaser.

1.8. INSTRUMENTS OF TRANSFER. At the Closing, the Sellers shall deliver to the Purchaser such instruments of transfer, assignment and conveyance, including (without limitation) bills of sale, general warranty deeds, lease assignments and assignments of motor vehicle registrations, transferring title to the Assets to the Purchaser as may reasonably be requested by the Purchaser. Such instruments shall be reasonably satisfactory in form and substance to the Purchaser and shall vest in the Purchaser good and marketable title to all the Assets, free and clear of all Liens (except, in the case of the Family Center Tract, for Permitted Encumbrances).

1.9. DELIVERY OF RECORDS, CONTRACTS AND TRUST FUNDS. At the Closing, the Company will deliver to the Purchaser all of the leases, contracts, commitments and rights of the Homes constituting a

portion of the Assets, with such assignments thereof and consents to assignment as the Purchaser shall deem necessary to assure the Purchaser of their full benefit. Simultaneously with such deliveries, the Company shall take all requisite steps to put the Purchaser in actual possession and operating control of the Assets and all of the records, books and other data of the Homes. In addition, at the Closing, the Sellers and the Purchaser shall take all necessary or appropriate action to cause the transfer of the trust funds referred to in Section 3.11 including, without limitation, the obtaining of governmental and third party consents.

1.10. TAXES. Any sales or transfer taxes which may be payable in connection with the sale of the Assets under this Agreement shall be paid by the Sellers.

1.11. EMPLOYEE MATTERS. On the Closing Date, the Purchaser may (but shall not be required to) offer employment to each employee of the Homes listed on Schedule 3.19. Each such employee so offered employment who accepts shall, effective as of the Closing Date, cease to be an employee of the Company and shall thereupon become an employee of the Purchaser. The Sellers shall be responsible for satisfying all claims, if any, of such employees as to holiday, health benefits, workers compensation claims, termination and severance benefits, and any withdrawal liability and vested rights under any pension or profit sharing plans, all arising and accrued through the Closing Date, and in no event shall the Purchaser have any liability or responsibility in respect thereof. The Purchaser agrees that it will assume responsibility for such employees' accrued vacation, but only for five payroll days accrued as of January 1, 1998.

1.12. FURTHER ASSURANCES. The Sellers shall from time to time after the Closing, without further consideration, execute and deliver such instruments of transfer, conveyance and assignment

(in addition to those delivered pursuant to Section 1.8), and shall take such other action, as the Purchaser may reasonably request to more effectively transfer, convey and assign to and vest in the Purchaser, and to put the Purchaser in actual possession and control of, each of the Assets.

2. THE CLOSING.

2.1. TIME AND PLACE. The closing of the transactions contemplated under this Agreement (the AClosing@) shall occur at the offices of Schanker and Hochberg, 317 Madison Avenue, Suite 703, New York 10017, at 9:00 a.m. on November 13, 1997, or at such other date, time or place as may be mutually agreed upon by the parties, but in no event later than November 30, 1997. The date and time of the Closing is herein called the "Closing Date", and shall be deemed to have occurred as of the commencement of business on the Closing Date. All action to be taken at the Closing as hereinafter set forth, and all documents and instruments executed and delivered, and all payments made with respect thereto, shall be considered to have been taken, delivered or made simultaneously, and no such action or delivery or payment shall be considered as complete until all action incident to the Closing has been completed.

2.2. RELATED TRANSACTIONS. In addition to the purchase and sale of the Assets, the following transactions shall take place at the Closing:

(i) the Purchaser, on the one hand, and each of Douglas Sidun ("Douglas"), Ted Sidun ("Ted") and Drew Sidun ("Drew"), on the other, shall each execute and deliver to the other an Employment Agreement to be dated the Closing Date, substantially in the forms of Exhibits A-1, A-2 and A-3, respectively, hereto (collectively, the "Employment Agreements");

(ii) the Purchaser, as tenant, and CAT Real Estate Partnership, a New Jersey

general partnership ("CAT"), as landlord, shall each execute and deliver to the other a Lease Agreement to be dated the Closing Date, covering the real estate and improvements on which the Red Bank Home is situated, substantially in the form of Exhibit B hereto (the "Lease Agreement"); and

(iii) on the date of this Agreement, the Purchaser and (x) the Charles D. Sidun Charitable Remainder Trust ("CRT"), have entered into a Real Property Purchase Agreement (the AMatawan Real Property Agreement@) providing for, among other things, the sale by the CRT to the Purchaser of fee simple title to the real property and improvements on which the Matawan Home is situated, and (y) Charles have entered into a Real Property Purchase Agreement (the AKeyport/Eatontown Real Property Agreement@) providing for, among other things, the sale by Charles to the Purchaser of fee simple title to the real property and improvements on which the Keyport and Eatontown Homes are situated; and the Closing hereunder is subject to the closing substantially simultaneously therewith of such purchase and sale transactions under the Matawan Real Property Agreement and the Keyport/Eatontown Real Property Agreement (collectively, the "Real Property Agreements").

3. REPRESENTATIONS AND WARRANTIES OF THE SELLERS. The Sellers jointly and severally represent and warrant to and agree with the Purchaser that:

3.1. ORGANIZATION AND EXISTENCE. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey, and has all requisite corporate power to enter into and perform its obligations under this Agreement. The Company is the surviving corporation of the merger among John E. Day Funeral Home, Inc. ("Day"), Bedle Funeral Home, Inc. ("Bedle") and Braun Funeral Home, Inc.

("Braun"), all New Jersey corporations. For purposes hereof, any reference to the "Company" shall, with respect to any time or period prior to the effective time of such merger, include and incorporate each of Day, Bedle and Braun, as the context requires.

3.2. OWNERSHIP OF THE COMPANY. The Shareholder owns all of the issued and outstanding capital stock of the Company.

3.3. FINANCIAL STATEMENTS. The Sellers have delivered to the Purchaser (i) the unaudited (reviewed) combined balance sheets of Day, Bedle and Braun at December 31, 1995 and 1996 (such balance sheet at December 31, 1996 being hereafter referred to as the "Company Balance Sheet") and the related unaudited (reviewed) combined statements of income and retained earnings of Day, Bedle and Braun for the respective twelve-month periods of operations then ended, together with the notes thereto and the review report thereon of Sobel & Co., LLC dated January 17, 1997, and (ii) the unaudited (reviewed) combined balance sheets of Day, Bedle and Braun at December 31, 1994 and 1995 and the related unaudited (reviewed) combined statements of income and retained earnings of Day, Bedle and Braun for the respective twelve-month periods of operations then ended, together with the notes thereto and the review report thereon of Sobel & Co., LLC dated January 22, 1996. All of such financial statements are true and correct, have been prepared in accordance with the books and records of Day, Bedle and Braun (now of the Company), and present fairly the combined financial positions of Day, Bedle and Braun at the dates thereof and their combined results of operations for the periods then ended in accordance with generally accepted accounting principles consistently applied. The total assets of the "acquired person" (as that term is used in the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended), with respect to the transactions described herein, as reflected in the most recent regularly prepared balance sheet, is less than \$10

million. The Homes collectively performed at least the number of adult casketed funeral services for each of the periods as shown below:

LOCATION	TWELVE MONTHS ENDED DECEMBER 31,			SIX MONTHS
	1994	1995	1996	ENDED JUNE 30,
	1997			
Red Bank	310	371	403	214
Keyport	64	86	74	38
Matawan	40	39	45	19
Eatontown	99	108	108	46

3.4. TITLE TO AND STATUS OF ASSETS. All assets, rights and properties required in the operation of the Homes are owned or validly leased by the Company and (except for the real property covered by the Lease Agreement and the Real Property Agreements) are included within the Assets. The Company is in actual possession and control of all properties owned or leased by it which are required in the operation of the Homes, and has good and marketable title to all of the Assets, free and clear of all Liens (except for Permitted Liens against the Family Center Tract). The Family Center Tract, together with the real property covered by the Lease Agreement and the Real Property Agreements (collectively, the "Real Property"), constitute all interests in real property required in the operation of the Homes.

3.5. FAMILY CENTER TRACT.

(a) DESCRIPTION AND TITLE. Schedule 3.5 sets forth a legal description of the Family Center Tract. No person other than the Company has any ownership, leasehold or other interest of any kind in the Family Center Tract. The Family Center Tract is the only interest in real property

required for the conduct of the business of the Family Center as presently conducted. No improvements located on the Family Center Tract, nor the operation or maintenance thereof as now operated or maintained, contravenes any zoning ordinance or other administrative regulation or violates any restrictive covenant or any provision of law, the effect of which would interfere with or prevent their continued use for the purposes for which they are now being used. There is not pending nor, to the knowledge of the Sellers, threatened any proceeding for the taking or condemnation of the Family Center Tract or any portion thereof. All improvements located on the Family Center Tract are in a reasonable state of maintenance and repair, ordinary wear and tear excepted. The Company has good and marketable fee simple title to the Family Center Tract, free and clear of all Liens, other than easements and other similar Liens described on Schedule 3.5 ("Permitted Encumbrances").

(b) FIRPTA. No Seller is a "foreign person" (as defined in Section 1445(f)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations issued thereunder), and the Company shall deliver at Closing a non-foreign affidavit in recordable form containing such information as shall be required by Code Section 1445(b)(2) and the regulations issued thereunder.

(c) BILLS PAID. All bills and other payments due with respect to the ownership, operation, and maintenance of the Family Center Tract have been (and on the Closing Date will be) paid, and no Liens or other claims for the same have been filed or asserted against any part of the Family Center Tract.

3.6. ABSENCE OF CHANGES OR EVENTS. Since the date of the Company Balance Sheet, there has not been:

(i) any adverse change in the financial condition, operations, properties or prospects of any Home;

(ii) any material damage, destruction or losses against any Home or any of its properties;

(iii) any claim or liability for any material damages for any actual or alleged negligence or other tort or breach of contract against or affecting the Company;

(iv) any declaration or payment of any bonus or other extraordinary compensation to any employee of the Company;

(v) any hiring, firing, reassignment or other change in any key personnel of the Company;

(vi) any sale, transfer or other disposition of, or agreement to sell, transfer or otherwise dispose of, any of the inventories or other assets or properties of the Company, except in the ordinary course of business;

(vii) any labor strike or labor dispute, or the entering into of any collective bargaining agreement, with respect to employees of the Company;

(viii) any new competitor that has, to the knowledge of the Shareholder, built, commenced to build or announced intentions to build a funeral home or mortuary in direct competition with any Home; or

(ix) any other transaction or event entered into or affecting the Company other than in the ordinary course of business.

3.7. ABSENCE OF UNDISCLOSED LIABILITIES. Except as set forth in the Company Balance Sheet and in this Agreement, the Company has no, and none of its assets or properties are subject to any, liabilities or obligations, other than unsecured

trade accounts payable and accrued expenses arising in the ordinary course of business since the date of the Company Balance Sheet.

3.8. TAX MATTERS. All federal, state, county, local and other taxes due and payable on or before the date of this Agreement in respect of the Company and the ownership of the Assets, have been paid. All tax returns and reports required to be filed for all such taxes have been filed with all taxing authorities, and all such tax returns and reports are true and correct. True and correct copies of the federal, state and local income tax returns filed by the Company for each of its last three taxable years have been furnished to the Purchaser. No assessments of deficiencies have been made against the Company which are presently pending or outstanding, and no state or facts exist which would constitute grounds for any such assessment. No agreements, waivers or extensions of time are in effect for the assessment of deficiencies in respect of the Company or any of the Assets. Following the Closing, the Sellers shall be responsible for accurately and completely preparing, signing and filing all tax returns and paying all taxes in respect of the assets and operations of the Company through the Closing Date and for the sale of the Assets.

3.9. INVENTORY; ACCOUNTS RECEIVABLE. All inventories reflected in the Company Balance Sheet are, and all inventories of the Company on the Closing Date will be, (i) accounted for at the lower of cost or market on a first-in, first-out basis in accordance with generally accepted accounting principles consistently applied, and (ii) saleable or usable in the ordinary course of business at usual and customary prices, subject to normal returns and markdowns consistent with past practice. All accounts receivable of the Company are valid and legally enforceable obligations of the account parties and are not subject to any claim of offset or deduction against the Company. At the Closing, the Sellers will deliver to the Purchaser lists, certified by them to be complete

and correct, of all of the inventory and accounts receivable of the Homes.

3.10. FIXED ASSETS. Schedule 3.10 lists all motor vehicles and other material items of equipment, fixtures, furniture and other fixed assets used in the operation of the Homes, all of which are included in the Assets. All such items are in good and operating condition and repair, ordinary wear and tear excepted.

3.11. CONTRACTS AND COMMITMENTS. Schedule 3.11 sets forth a complete description of:

(i) all documents evidencing any money borrowed by the Company or the creation or existence of any Lien against any of the Assets, and all documents relating to any debt secured in whole or in part by any such Liens;

(ii) all collective bargaining agreements, employment contracts, noncompetition agreements and other agreements relating to the employment of any employees of the Company, or with any former employees or owners of any of the Homes;

(iii) all joint venture agreements and all other agreements involving the sharing of profits, involving the Company or any Home;

(iv) all (i) contracts or commitments for capital expenditures for the Company involving obligations aggregating in excess of \$5,000, (ii) leases under which personal property is leased by the Company and which are not cancelable by either party thereto without penalty upon notice of 30 days or less or pursuant to which rentals exceed \$1,000 per annum or \$5,000 in the aggregate, or (iii) contracts and agreements of the Company which do not terminate or are not terminable by the Company upon notice of 30 days or less or which involves an obligation on its part in excess of \$1,000 per annum or \$5,000 in the

aggregate; and

(v) all other contracts and commitments of the Company entered into outside the ordinary course of business.

Each contract and other document required to be described in Schedule 3.11 is valid and in full force and effect and neither the Company, nor, to the knowledge of the Sellers, none of the other parties thereto, are in default thereunder. A true and correct copy of each document listed on Schedule 3.11 has been delivered to the Purchaser by the Sellers.

3.12. PRE-NEED CONTRACTS AND TRUST ACCOUNTS. Schedule 3.12 accurately lists, as of the date of this Agreement, (i) all preneed contracts of the Homes unfulfilled as of such date, including contracts for the sale of funeral merchandise and services, and (ii) all trust accounts and insurance products funding such preneed contracts, indicating the location of each and the balance thereof. All preneed contracts required to be listed on Schedule 3.12 (x) have been entered into in the normal course of business at regular retail prices, or pursuant to a sales promotion program, solely for use by the named customers and members of their families on terms not more favorable than shown on the specimen contracts which have been delivered to the Purchaser, (y) are subject to the rules and regulations of the Homes as now in force (copies of which have been delivered to the Purchaser), and (z) on the date hereof are in full force and effect, subject to no offsets, claims or waivers, and neither the Company nor, except as disclosed on Schedule 3.12, such customer is in default thereunder. All funds received by the Company under preneed contracts have been deposited in the appropriate accounts and administered and reported in accordance with the terms thereof and as required by applicable laws, regulations and procedures required in the State of New Jersey. The aggregate market value of such preneed accounts, trusts and

other deposits is equal to or greater than the aggregate preneed liability related thereto (liability measured by the actual cost of providing services and merchandise as of the Closing Date). The services heretofore provided by the Homes have been rendered in a professional and competent manner consistent with prevailing professional standards, practices and customs.

3.13. INTANGIBLE RIGHTS. There are no patents, patent applications, patent licenses, trademarks, trademark applications or trademark or trademark licenses (collectively, "Intangible Rights") used in the operation of the Homes, except as described on Schedule 3.13. The Company is not charged with infringement of any Intangible Rights, nor do the Sellers know of any such infringement, whether or not claimed by any person.

3.14. INSURANCE AND CLAIMS. The Company maintains such policies of insurance in such amounts, and which insure against such losses and risks, as are generally maintained for comparable businesses and properties. Valid policies for such insurance will be outstanding and duly in force at all times prior to the Closing.

3.15. LICENSES, PERMITS, ETC. Schedule 3.15 lists all licenses, franchises, permits, certificates, consents, rights and privileges that are necessary or appropriate for the operation of the Homes. All such items are in full force and effect.

3.16. LITIGATION. There are no claims, actions, suits, proceedings or investigations pending or, to the Sellers' knowledge, threatened against or affecting the Company or any of the Assets, at law or in equity or before or by any court or federal, state, municipal or other governmental department, commission, board, agency or instrumentality. The Company is not subject to any continuing court or administrative order, writ, injunction or decree, nor is the Company in default with respect to any order, writ, injunction or

decree issued by any court or foreign, federal, state, municipal or other governmental department, commission, board, agency or instrumentality.

3.17. COMPLIANCE WITH LAWS. The Company has operated and is operating each Home in compliance with all federal, state, municipal and other statutes, rules, ordinances and regulations applicable to the operation of the Homes and the Assets (including without limitation all environmental protection and occupational safety and health rules, regulations and laws, and laws and regulations applicable to preneed contracts and trust accounts, including the so-called "FTC Funeral Rule").

3.18. ENVIRONMENTAL MATTERS. The following representations and warranties are made by the Sellers as set forth below, without qualification, with respect to the ownership and operation of the Company, its predecessors, the Assets and the Real Property since (i) October 1, 1986, as to the Red Bank Home, (ii) July 6, 1990, as to the Eatontown Home, (iii) March 25, 1989, as to the Keyport and Matawan Homes, and (iv) July 14, 1994 as to the Family Center, and to the best knowledge of the Sellers with respect to such ownership and operation prior to such dates (in each case, as applicable):

(a) The Company has complied and is in compliance with all Environmental Laws (as hereinafter defined).

(b) Without limiting the generality of the foregoing, the Company has obtained, and has complied and is in compliance with, all permits, licenses and other authorizations that may be required pursuant to Environmental Laws for the occupation of the Real Property and the operation of the business of the Company.

(c) The Company has not received any notice, report or other information regarding any liabilities (whether accrued, absolute, contingent,

unliquidated or otherwise) or investigatory, remedial or corrective obligations, relating to its business or any of the Real Property arising under Environmental Laws.

(d) Except as set forth on Schedule 3.18, none of the following exists on any portion of the Real Property:

- (i) Underground storage tanks or surface impoundments;
- (ii) Asbestos-containing material in any form or condition; or
- (iii) Materials or equipment containing polychlorinated biphenyls.

(e) The Company has treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled, or Released any substance, including without limitation any Hazardous Materials, or owned or operated any facility or property, so as to give rise to liabilities for response costs, natural resource damages or attorneys fees pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended, or similar state Environmental Laws.

(f) Neither this Agreement nor the consummation of the transaction that is the subject of this Agreement will result in any obligations for site investigation or cleanup, or notification to or consent of any governmental authority or third parties, pursuant to any so-called "transaction-triggered" or "responsible property transfer" Environmental Laws.

(g) Without limiting the foregoing, no facts, events or conditions relating to the past or present facilities, properties or operations of the Company will prevent, hinder or limit continued compliance with Environmental Laws, give rise to any investigatory, remedial or

corrective obligations pursuant to Environmental Laws, or give rise to any other liabilities (whether accrued absolute, contingent, unliquidated or otherwise) pursuant to Environmental Laws, including without limitation any relating to onsite or offsite Releases or threatened Releases of Hazardous Materials, substances or wastes, personal injury, property damage or natural resource damage.

(h) The Company's SIC (Standard Industrial Classification) number as designated in the Standard Classification Manual prepared by the Office of Management and Budget, is 7261, and the Company does not constitute an "Industrial Establishment" subject to the requirements of the Industrial Site Recovery Act (previously known as the Environmental Cleanup Responsibility Act), N.J.S.A. 13:1K-6 ET SEQ. ("ISRA"), and consummation of the transactions hereunder or pursuant to the Real Property Agreements and the Lease Agreement shall require notice to or consent of any person or governmental entity under ISRA.

(i) For purposes of this Section 3.17:

"Environmental Laws" means all laws concerning pollution or protection of the environment (including without limitation all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, Release, threatened Release, control or cleanup of any Hazardous Materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise or radiation).

"Hazardous Materials" means any hazardous, toxic, dangerous or other waste, substance or material defined as such in, regulated by or for purposes of any Environmental Law.

"Release" has the meaning set forth in CERCLA.

3.19. EMPLOYEES. Schedule 3.19 correctly and completely lists the names and annual or hourly rates of salary and other compensation of all the employees and agents of the Company. Schedule 3.19 also sets forth the date of the last salary increase for each employee listed thereon, and the outstanding balances of all loans and advances made by the Company to any such employee or agent. There are not pending or threatened against the Company any general labor disputes, strikes or concerted work stoppages, and there are no discussions, negotiations, demands or proposals that are pending or have been conducted or made with or by any labor union or association with respect to any employees of the Company. No Seller is aware of the existence of any serious health condition of any key management personnel of any Home that might impair any such person's ability to carry on the essential functions of his or her position into the foreseeable future after the Closing. The Sellers believe that the relations between the Company and its employees are good.

3.20. EMPLOYEE BENEFIT PLANS. Schedule 3.20 lists all plans, contracts, commitments, programs and policies (including, without limitation, pension, profit sharing, thrift, bonus, deferred compensation, severance, retirement, disability, medical, life, dental and accidental insurance, vacation, sick leave, death benefit and other similar employee benefit plans and policies) providing benefits to any employee or former employee of the Company (collectively, the "Plans"). The Sellers have delivered to the Purchaser true and correct copies of all documents embodying the Plans. All obligations of the Company under the Plans have been fully paid, fully funded or adequate accruals therefor have been made on the Company Balance Sheet. All necessary governmental approvals have been obtained for all Plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA") and have been qualified under Section 401 of the Code, and each trust established for any Plan is exempt from

federal income taxation pursuant to Section 501(a) of the Code. With respect to any such Plan maintained by the Company, there has been no (i) "reportable event" as defined in Section 4043 of ERISA, (ii) event described in Section 4062(e) or 4063(a) of ERISA, or (iii) in the case of any defined benefit plan, termination or partial termination. The profit sharing plan described on Schedule 3.20 has been established and maintained in accordance with the applicable disclosure and reporting requirements of the Internal Revenue Service and the U.S. Department of Labor, and to the Shareholder's knowledge at the Closing the Company will have no funding or other obligations thereunder.

3.21. BOOKS AND RECORDS. All books and records of the Company are true, correct and complete, have been maintained in accordance with good business practice and in accordance with all laws, regulations and other requirements applicable to the Homes.

3.22. FINDERS. Neither Seller is a party to or in any way obligated under any contract or other agreement, and there are no outstanding claims against any of them, for the payment of any broker's or finder's fee in connection with the origin, negotiation, execution or performance of this Agreement.

3.23. AUTHORITY OF THE COMPANY. The execution, delivery and performance of this Agreement by the Company have been duly authorized by its Board of Directors. This Agreement is legally binding and enforceable against the Company in accordance with its terms. Neither the execution, delivery nor performance of this Agreement by the Company will result in a violation or breach of, nor constitute a default or accelerate the performance required under, the Certificate of Incorporation or bylaws of the Company or any indenture, mortgage, deed of trust or other contract or agreement to which the Company is a party or by which it or its properties are

bound, or violate any order, writ, injunction or decree of any court, administrative agency or governmental body.

3.24. AUTHORITY OF THE SHAREHOLDER. The Share-holder has full authority to enter into this Agreement and the Documents (as hereafter defined) to which he is a party, and to perform his obligations hereunder and thereunder, and neither the execution, delivery nor performance by the Shareholder of this Agreement or such Documents will result in a violation or breach of any term or provision of, nor constitute a default under, any contract, agreement or other commitment to which the Shareholder is a party or by which the Shareholder or the Assets are bound, or violate any order, writ, injunction or decree of any court, administrative agency or governmental body. This Agreement is, and such Documents upon their execution and delivery as herein provided will be, valid and binding obligations of the Shareholder enforceable against the Shareholder in accordance with their respective terms. For purposes of this Agreement, the term "Documents" shall mean, as to any party hereto, any and all agreements, certificates and other instruments expressly contemplated in this Agreement or any exhibit hereto to be executed or delivered by or on behalf of such party at or in connection with the Closing hereunder.

3.25. FULL DISCLOSURE. The representations and warranties made by the Sellers hereunder or in any Schedules or certificates furnished to the Purchaser pursuant hereto do not and will not contain any untrue statement of a fact or omit to state a fact required to be stated herein or therein or necessary to make the representations or warranties herein or therein, in light of the circumstances in which they are made, not misleading.

3.26. SCHEDULES. The Schedules referred to in this Section 3 have been prepared as of the date hereof in a separate binder or volume

contemporaneously with the execution of this Agreement, and have been signed for identification by the Sellers.

4. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER. The Purchaser represents and warrants to and agrees with the Sellers that:

4.1. ORGANIZATION AND EXISTENCE. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power to enter into and perform its obligations under this Agreement and the Documents to which it is a party.

4.2. AUTHORITY. The execution, delivery and performance by the Purchaser of this Agreement and the Documents contemplated in this Agreement to be executed and delivered by it have been duly authorized by its Board of Directors. This Agreement is, and upon their execution and delivery as herein provided such other Documents will be, valid and binding upon the Purchaser and enforceable against it in accordance with their respective terms. Neither the execution, delivery or performance by the Purchaser of this Agreement or any such other document will conflict with or result in a violation or breach of any term or provision of, nor constitute a default under, the Certificate of Incorporation or Bylaws of the Purchaser, or under any indenture, mortgage, deed of trust or other contract or agreement to which the Purchaser is a party or by which it or its properties are bound, except for such contracts and commitments for which all necessary consents will have been duly and validly obtained by the time of Closing, or violate any order, writ, injunction or decree of any court, administrative agency or governmental body.

4.3. FINDERS. Except as described in Section 13.1, the Purchaser is not a party to or in any way obligated under any contract or other agreement, and there are no outstanding claims against it, for the payment of any broker's or finder's fee in

connection with the origin, negotiation, execution or performance of this Agreement.

4.4. FULL DISCLOSURE. The representations and warranties made by the Purchaser hereunder or in any certificates furnished to the Sellers pursuant hereto do not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein or therein or necessary to make the representations or warranties herein or therein, in light of the circumstances in which they are made, not misleading.

5. COVENANTS OF THE SELLERS PENDING CLOSING. The Sellers jointly and severally covenant with the Purchaser that:

5.1. CONDUCT OF BUSINESS. From the date of this Agreement to the Closing Date, each Home will be operated only in the ordinary course, and, in particular, without the prior written consent of the Purchaser, the Company will not (and the Shareholder will not cause or permit the Company to):

- (i) cancel or permit any insurance to lapse or terminate, unless renewed or replaced by like coverage;

- (ii) commit any act or permit the occurrence of any event or the existence of any condition of the type described in Section 3.5;

- (iii) enter into any contract, agreement or other commitment of the type described in Section 3.10;

- (iv) hire, fire, reassign or make any other change in key personnel of the Company, or increase the rate of compensation of or declare or pay any bonuses to any employee in excess of that listed on Schedule 3.19; or

(v) take any other action which would cause any of the representations and warranties made in Section 3 hereof not to be true and correct in all material respects on and as of the Closing Date with the same force and effect as if the same had been made on and as of the Closing Date.

5.2. ACCESS TO INFORMATION. Prior to Closing, the Sellers will give to the Purchaser and its counsel, accountants and other representatives, full and free access to all of the properties, books, contracts, commitments and records of the Company so that the Purchaser may have full opportunity to make such investigation as it shall desire to make of the Homes and the affairs of the Company and the Assets.

5.3. CONSENTS AND APPROVALS. The Sellers will use their best efforts to obtain the necessary consents and approvals of other persons which may be required to be obtained on their part to consummate the transactions contemplated by this Agreement.

5.4. NO SHOP. For so long as this Agreement remains in effect, the Sellers agree that they shall not enter into any agreements or commitments, or initiate, solicit or encourage any offers, proposals or expressions of interest, or otherwise hold any discussions with any potential buyers, investment bankers or finders, with respect to the possible sale or other disposition of all or any substantial portion of the Assets, the sale of all or a controlling interest in the stock of the Company, or the merger or consolidation of the Company, other than with the Purchaser. If, during such period, any Seller receives an inquiry or expression of interest regarding any such transaction, the Sellers shall promptly notify the Purchaser of such fact; provided that the foregoing shall not require that the source of such expression of interest be disclosed.

6. COVENANTS OF THE PURCHASER PENDING CLOSING. The Purchaser covenants with the Sellers that:

6.1. CONSENTS AND APPROVALS. The Purchaser will use its best efforts to obtain the necessary consents and approvals of other persons which may be required to be obtained on its part to consummate the transactions contemplated in this Agreement.

6.2. CONFIDENTIALITY. Prior to the Closing, the Purchaser and its representatives will hold in confidence any data and information obtained with respect to the Homes from any representative or employee of the Company, including the accountants or legal counsel of the Sellers, or from any books or records of any of them, in connection with the transactions contemplated by this Agreement. If the transactions contemplated hereby are not consummated, none of the Purchaser nor its representatives shall use such data or information or disclose the same to others, except as such data or information is published or is a matter of public knowledge or is required by an applicable law or regulation to be disclosed. If this Agreement is terminated for any reason, all written data and information obtained by the Purchaser from the Sellers or their representatives in connection with the transactions contemplated by this Agreement shall be returned to the Sellers.

7. CONDITIONS TO OBLIGATIONS OF THE PURCHASER. The obligations of the Purchaser under this Agreement shall be subject to the following conditions, any of which may be expressly waived by it in writing:

7.1. REPRESENTATIONS AND WARRANTIES TRUE; COVENANTS PERFORMED. The Purchaser shall not have discovered any material error, misstatement or omission in the representations and warranties made by the Sellers in Section 3 hereof; the representations and warranties made by the Sellers herein shall be deemed to have been made again at and as of the time of Closing and shall then be true and correct; the Sellers shall have performed and complied

with all agreements and conditions required by this Agreement to be performed or complied with by them at or prior to the Closing; and the Purchaser shall have received a certificate, signed by the Shareholder and the President of the Company, to the effect of the foregoing provisions of this Section 7.1.

7.2. OPINION OF COUNSEL. The Sellers shall have caused to be delivered to the Purchaser an opinion of Schanker and Hochberg, counsel for the Sellers, dated the Closing Date, to the effect that:

(i) the Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey, with full corporate authority to enter into and perform its obligations under this Agreement; and CAT is a general partnership duly organized and existing under the laws of the State of New Jersey

(ii) the execution, delivery and performance of this Agreement by the Company have been duly authorized by all necessary corporate action required on the part of the Company;

(iii) this Agreement and the Documents to which the Sellers are parties have been duly and validly executed and delivered by the Sellers and constitute the valid and binding obligations of the Sellers enforceable against them in accordance with their respective terms; the Lease Agreement has been duly and validly executed and delivered by CAT and constitutes the valid and binding obligation of CAT enforceable against it in accordance with its terms; and the Redemption Agreement (including, without limitation, the non-competition provisions attached as Exhibit "A" thereto) was duly executed and delivered by Douglas and constitutes the valid and binding obligation

of Douglas enforceable against him in accordance with its terms;

(iv) neither the execution, delivery or consummation of the transactions contemplated by this Agreement or the Documents to which the Sellers are parties will (x) result in the breach of or constitute a default under the Certificate of Incorporation or bylaws of the Company, or under any loan or credit agreement, indenture, mortgage, deed of trust or other contract or agreement known to such counsel and to which any Seller is a party or by which the Sellers or the Assets are bound, or (y) violate any order, writ, injunction or decree known to such counsel of any court, administrative agency or governmental body;

(v) no authorization, approval or consent of or declaration or filing with any governmental authority or regulatory body, federal, state or local, is necessary or required in connection with the execution and delivery by the Sellers of this Agreement or the Documents to which they are parties, or the performance of their obligations hereunder or thereunder; and

(vi) to the knowledge of such counsel after due inquiry, there are no claims, actions, suits, proceedings or investigations pending or threatened against or affecting the Company or any of the Assets, at law or in equity or before or by any court or federal, state, municipal or other governmental department, commission, board, agency or instrumentality.

Such opinion may, as to matters of fact, be given in reliance upon certificates of the Shareholder and officers of the Company, copies of which shall be provided to Purchaser at Closing. Any opinion as to the enforceability of any document may be limited by bankruptcy, insolvency, reorganization,

moratorium and similar laws affecting creditors' rights and by principles of equity. Such opinion may be limited to federal law and the internal laws of the State of New Jersey.

7.3. CONSENTS AND APPROVALS. The Sellers shall have obtained all consents and approvals of other persons and governmental authorities to the transactions contemplated by this Agreement.

7.4. NO LOSS OR DAMAGE. Prior to the Closing there shall not have occurred any loss or damage to any substantial portion of the Assets, regardless of whether such loss or damage was insured.

7.5. APPROVAL BY COUNSEL. All actions, proceedings, instruments and documents required to carry out the transactions contemplated by this Agreement or incidental thereto and all other related legal matters shall have been approved by counsel for the Purchaser, and such counsel shall have been furnished with such certified copies of actions and proceedings and other instruments and documents as they shall have reasonably requested.

7.6. PRE-ACQUISITION REVIEW. The Purchaser and its representatives shall have completed a pre-acquisition review of the financial information, books and records, and Assets of the Homes and shall have discovered no change in the business, Assets, operations, financial condition or prospects of the Homes which could, in the sole determination of the Purchaser, have an adverse effect on the value to the Purchaser of the business, Assets, financial condition or prospects being acquired hereunder.

7.7. RELATED TRANSACTIONS. Each of Douglas, Ted and Drew shall have executed and delivered to the Purchaser his respective Employment Agreement; CAT shall have executed and delivered the Lease Agreement; and the closings under the Real Property Agreements shall have occurred substantially simultaneously with the Closing hereunder.

7.8. ENVIRONMENTAL, OSHA AND STRUCTURAL REPORTS. There shall have been conducted, at the Purchaser's expense, (i) a Phase I (and, if deemed necessary by Purchaser, a Phase II) environmental audit of each Home and the Real Property by an environmental consulting firm selected by Purchaser (or, in lieu thereof, in the Purchaser's sole discretion, an environmental questionnaire, on forms provided by the Purchaser, shall have been completed by the manager of the Homes and delivered to the Purchaser), (ii) a health and safety inspection of each Home by a person (who may be an employee of the Purchaser) or firm selected by the Purchaser and who is qualified and experienced in such matters in the funeral service industry, and (iii) a structural inspection of each Home by an engineering firm selected by the Purchaser. In any event, it shall be a condition to the Purchaser's obligations hereunder that the results of the reports of such firms or persons (together with any remedial action taken by Sellers, regardless of the cost, in response thereto) shall be satisfactory to Purchaser in its sole discretion. Without limiting the generality of the foregoing, the underground storage tanks located at the Eatontown and Matawan Homes as described on Schedule 3.18 shall be tested at the Purchaser's expense for soil contamination by an environmental consulting firm reasonably acceptable to the Purchaser. The underground storage tanks at the Keyport Home, which the Sellers represent are no longer in use, shall be removed following the Closing as described in Section 10.5.

7.9. ZONING. The Purchaser shall have received a letter or other acceptable form of communication from a responsible officer of each municipality or other governmental authority having jurisdiction over any zoning ordinance or regulation of each Home, indicating the zoning classification for each parcel on which it is located, affirmatively stating that the use thereof as a funeral home complies with such classification, and setting forth (if applicable) the number of parking spaces required for each such parcel under such ordinance or regulation.

7.10. LIEN RELEASES. The holders of any Liens against any of the Assets (other than Permitted Encumbrances against the Family Center Tract) or against any of the Real Property covered by the Lease Agreement (other than the Assumed Mortgage referred to therein) shall have executed and delivered written releases of such Liens, all in recordable form and otherwise acceptable to the Purchaser. In addition, the Mortgagee (as defined in the Lease Agreement) shall have entered into a subordination, non-disturbance and attornment agreement with the Purchaser with respect to such Real Property, in form and substance acceptable to them.

7.11. OTHER MANAGEMENT ARRANGEMENTS. The Sellers shall have identified to the Purchaser such personnel of the Homes (in addition to those persons covered by the Employment Agreements) as may be key to the continued effective management and operation of the Homes after the Closing, and the Purchaser shall have entered into mutually satisfactory arrangements regarding the continued employment of such personnel at the Homes following the Closing.

7.12. APPROVED BUDGET. The Purchaser, the Shareholder and the Manager of each Home shall have reached agreement regarding the proposed Operating Budget for the Homes for the current fiscal year of the Purchaser and for the next succeeding fiscal year; and the Purchaser shall have received from the Shareholder and such Managers their certificate, acceptable in form and substance to the Purchaser, setting forth their acknowledgement regarding such Budget and each such Manager's agreement to utilize his best efforts to achieve the results therein contained.

7.13. RELIANCE LETTERS. The Purchaser shall have received a letter or other written instrument acceptable in form and substance to the Purchaser from Sobel & Co., LLC, pursuant to which such firm permits the Purchaser to rely upon its

review reports referred to in Section 3.3 and waives any requirement or defense of privity in connection therewith.

7.14. TITLE INSURANCE. The Purchaser shall have received Owner's (with respect to the Family Center Tract) and Leasehold (with respect to the Lease Agreement Real Property) Policies of Title Insurance issued to the Purchaser in agreed-upon amounts, issued by Commonwealth Land Title Company or another title company mutually designed by the parties (the "Title Company"), insuring Purchaser's interests therein, subject only to the Permitted Encumbrances and any standard printed exceptions included in a New Jersey standard form Policy of Title Insurance; provided, however, that such policies shall have deleted any exception regarding restrictions or be limited to restrictions that are Permitted Encumbrances, any standard exception pertaining to discrepancies, conflicts or shortages in area shall be deleted except for "shortages in area", and any standard exception for taxes shall be limited to subsequent years. All premiums, escrow fees and other costs associated with the issuance of such policies shall be borne by the Purchaser.

7.15. SURVEY. The Purchaser shall have received an ALTA/ACSM survey prepared by a licensed surveyor approved by the Purchaser and acceptable to the Title Company, with respect to the Family Center Tract and the Lease Agreement Real Property, which surveys shall comply with any applicable standards under New Jersey law, be sufficient for Title Company to delete any survey exception contained in the owner's policy of title insurance referred to in Section 7.14, and otherwise be in form and content acceptable to Purchaser. All fees and costs associated with the issuance and finalization of such surveys shall be borne by the Purchaser.

8. CONDITIONS TO OBLIGATIONS OF THE SELLERS. The obligations of the Sellers under this Agreement shall be subject to the following conditions, any of which may be

expressly waived by the Sellers in writing:

8.1. REPRESENTATIONS AND WARRANTIES TRUE; COVENANTS PERFORMED.

The Sellers shall not have discovered any material error, misstatement or omission in the representations and warranties made by the Purchaser in Section 4 hereof; the representations and warranties made by the Purchaser herein shall be deemed to have been made again at and as of the time of Closing and shall then be true and correct; the Purchaser shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it at or prior to the Closing; and the Sellers shall have received a certificate, signed by an executive officer of the Purchaser, to the effect of the foregoing provisions of this Section 8.1.

8.2. OPINION OF COUNSEL. The Purchaser shall have caused to be delivered to the Sellers an opinion of Snell & Smith, A Professional Corporation, counsel for Purchaser to the effect that:

(i) the Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and the Purchaser has all requisite corporate power to enter into and perform its obligations under this Agreement and the Documents to which it is a party;

(ii) the execution, delivery and performance by the Purchaser of this Agreement and the Documents to which it is a party have been duly authorized by its Boards of Directors;

(iii) this Agreement is, and upon execution and delivery as herein provided the Documents to which the Purchaser is a party will be, valid and binding upon the Purchaser and enforceable against the Purchaser in accordance with their respective terms;

(iv) neither the execution, delivery or performance by the Purchaser of this Agreement or the Documents to which it is a party will conflict with or result in a violation or breach of any term or provision of, nor constitute a default under, the Certificate of Incorporation or bylaws of the Purchaser or under any loan or credit agreement, indenture, mortgage, deed of trust or other contract or agreement known to such counsel and to which the Purchaser is a party or by which the Purchaser or its property is bound, or violate any order, writ, injunction or decree known to such counsel and of any court, administrative agency or governmental body; and

(v) no authorization, approval or consent of or declaration or filing with any governmental authority or regulatory body, federal, state or local, is necessary or required in connection with the execution and delivery by the Purchaser of this Agreement or the Documents to which the Purchaser is a party or the performance of its obligations hereunder or thereunder.

Such opinion may, as to matters of fact, be given in reliance upon certificates of officers of the Purchaser and certificates of public officials, copies of which shall be provided to Sellers at Closing. Any opinion as to the enforceability of any document may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors rights and by principles of equity. Such opinion may be limited to federal law, the General Corporation Law of the State of Delaware and the internal laws of the State of Texas.

8.3. CONSENTS AND APPROVALS. The Purchaser shall have obtained all consents and approvals of other persons and governmental authorities to the transactions contemplated by this Agreement.

8.4. RELATED TRANSACTIONS. The Purchaser shall have executed and delivered to each of Douglas, Ted and Drew his respective Employment Agreement, and to CAT the Lease Agreement; and the closings under the Real Property Agreements shall have occurred substantially simultaneously with the Closing hereunder.

9. NATURE AND SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

9.1. NATURE OF STATEMENTS. All statements contained in this Agreement or any Schedule or Exhibit hereto shall be deemed representations and warranties of the party executing or delivering the same.

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

10. INDEMNIFICATION.

10.1. INDEMNIFICATION BY THE SELLERS. The Sellers jointly and severally agree to indemnify and hold harmless the Purchaser and its successors and assigns from and against any and all losses, damages, liabilities, obligations, costs or expenses (any one such item being herein called a "Loss" and all such items being herein collectively called "Losses") which are caused by or arise out of (i) any breach or default in the performance by any Seller of any covenant or agreement of the Sellers contained in this Agreement, (ii) any breach of warranty or inaccurate or erroneous representation made by the Sellers herein, in any Schedule delivered to the Purchaser pursuant hereto or in any certificate or other instrument delivered by or on behalf of the Sellers pursuant hereto,

(iii) any claim made against the Purchaser in respect of any of the Unassumed Liabilities, and (iv) any and all actions, suits, proceedings, claims, demands, judgments, costs and expenses (including reasonable legal fees) incident to any of the foregoing.

10.2. INDEMNIFICATION BY THE PURCHASER. The Purchaser agrees to indemnify and hold harmless the Sellers and their heirs, successors and assigns from and against any Losses which are caused by or arise out of (i) any breach or default in the performance by the Purchaser of any covenant or agreement of the Purchaser contained in this Agreement, (ii) any breach of warranty or inaccurate or erroneous representation made by the Purchaser herein or in any certificate or other instrument delivered by or on behalf of the Purchaser pursuant hereto, (iii) any claim made against the Sellers in respect of the Assumed Liabilities, and (iv) any and all actions suits, proceedings, claims, demands, judgments, costs and expenses (including reasonable legal fees) incident to any of the foregoing.

10.3. THIRD PARTY CLAIMS. If any third person asserts a claim against an indemnified party hereunder that, if successful, might result in a claim for indemnification against an indemnifying party hereunder, the indemnifying party shall be given prompt written notice thereof and shall have the right (i) to participate in the defense thereof and be represented, at his or its own expense, by advisory counsel selected by him or it, and (ii) to approve any settlement if the indemnifying party is, or will be, required to pay any amounts in connection therewith. Notwithstanding the foregoing, if within ten business days after delivery of the indemnified party's notice described above, the indemnifying party indicates in writing to the indemnified party that, as between such parties, such claims shall be fully indemnified for by the indemnifying party as provided herein, then the indemnifying party shall have the right to control the defense of such

claim, provided that the indemnified party shall have the right (i) to participate in the defense thereof and be represented, at his or its own expenses, by advisory counsel selected by him or it, and (ii) to approve any settlement if the indemnified party's interests are, or would be, affected thereby.

10.4. OFFSET. If any Seller becomes obligated to indemnify the Purchaser after the Closing Date pursuant to this Agreement, at any time when any Deferred Purchase Price remains payable, then the Purchaser may, at its option and without prejudice to any right of the Purchaser to proceed directly against any Seller, set-off the amount for which any such Seller shall be so obligated against the Deferred Purchase Price, provided that at the time of offset the Purchaser shall have accumulated Losses of at least \$10,000.00 (it being understood, however, that the Purchaser shall be entitled to recover all Losses, including the first \$10,000.00). The exercise of such right of set-off shall be evidenced by means of a written notice to such effect given by the Purchaser to the Sellers, describing the basis for indemnity and set-off hereunder and the amount of the set-off.

10.5. UST REMOVAL. Promptly following the Closing, the (i) the Purchaser, at its sole cost and expense, shall have the underground storage tanks at the Matawan and Eatontown Homes (collectively, the AMatawan and Eatontown Tanks) tested for soil contamination, and shall cause the inactive underground storage tanks located at the Keyport Home as described on Schedule 3.18 (the "Keyport Tanks") to be removed by a reputable and competent contractor, and the Purchaser shall, at its sole cost and expense, cause the surrounding soil to be tested for any contamination resulting from the use, operation or presence of the Keyport Tanks; and (ii) if the results of such testing shall reveal the presence of soil or ground water contamination or any other violation of applicable law, then the Sellers shall, on a cost-sharing basis as hereafter described, cause such soil to be

remediated and disposed of in a manner complying with all federal, state and local legal requirements, or such other action required for the site to comply with applicable law, and otherwise reasonably satisfactory to the Purchaser, in which case the Sellers shall file all necessary reports and other materials with all regulatory agencies having jurisdiction over such matter, with respect to such removal and remediation and shall furnish the Purchaser with written evidence of all of the foregoing as it shall have reasonably requested. In addition to the "Losses" for which the Purchaser shall be indemnified against as provided in Section 10.1, the Sellers jointly and severally agree to indemnify the Purchaser for any Losses arising from the Matawan and Eatontown Tanks and the Keyport Tanks, including any remediation, cleanup or other related costs and expenses, as well as liability, fines and penalties to governmental agencies and third parties; provided, however, that (after giving effect to any proceeds received and applied against such liability, costs and expenses from insurance maintained by the Sellers), the first \$25,000.00 shall be the Sellers' responsibility, the Purchaser shall bear the next \$50,000.00 of such expenses, and the Sellers shall be responsible for all such costs, expenses and liability in excess of \$75,000.00. As additional security for such indemnification, at the Closing the Purchaser shall withhold from the Purchase Price the sum of \$100,000.00 (the "Withheld Amount"). If the Purchaser completes (i) above and (ii) above does not apply, then the Purchaser shall promptly remit the Withheld Amount to the Company. If (ii) does apply and the conditions therein described have not been fully satisfied within 120 days after the Purchaser's completion of (i) above, then the Purchaser shall have the right (but not the obligation) to assume control over such matters described in (ii) above as shall then not be complete, all on a cost-sharing basis as described above and without relieving the Sellers of their responsibility in that regard. The Purchaser shall have the right to apply the Withheld Amount toward any such expenses incurred pursuant to the

preceding sentence, or for any other Losses for which it is entitled to indemnification under this Section 10.5. Once all of the conditions set forth in clause (ii) have been satisfied without any further liability or other "Losses" outstanding (or any and all such Losses have been paid by the Sellers), any remaining Withheld Amount shall then be disbursed to the Company.

11. TERMINATION.

11.1. BEST EFFORTS TO SATISFY CONDITIONS. The Sellers agree to use their best efforts to bring about the satisfaction of the conditions specified in Section 7 hereof, and the Purchaser agrees to use its best efforts to bring about the satisfaction of the conditions specified in Section 8 hereof.

11.2. TERMINATION. This Agreement may be terminated prior to Closing by:

(a) the mutual written consent of the Sellers and the Purchaser;

(b) the Purchaser if a material default shall be made by any Seller in the observance or in the due and timely performance by any of the Sellers' covenants herein contained, or if there shall have been a material breach or misrepresentation by any Seller of any of the Sellers' warranties and representations herein contained, or if the conditions of this Agreement to be complied with or performed by the Sellers at or before the Closing shall not have been complied with or performed at the time required for such compliance or performance and such non compliance or nonperformance shall not have been expressly waived by the Purchaser in writing;

(c) the Sellers if a material default shall be made by the Purchaser in the observance or in the due and timely performance by the Purchaser of any of the covenants of the

Purchaser herein contained, or if there shall have been a material breach or mis representation by the Purchaser of any of its warranties and representations herein contained, or if the conditions of this Agreement to be complied with or performed by the Purchaser at or before the Closing shall not have been complied with or per formed at the time required for such compliance or performance and such noncompliance or nonperformance shall not have been expressly waived by the Sellers in writing; or

(d) either the Sellers or the Purchaser, if the Closing has not occurred by November 30, 1997.

11.3. LIABILITY UPON TERMINATION. If this Agreement is terminated under paragraph (a) or (d) of Section 11.2, then no party shall have any liability to any other party hereunder. If this Agreement is terminated under paragraph (b) or (c) of Section 11.2, then (i) the party so terminating this Agreement shall not have any liability to any other party hereto, provided the terminating party has not breached any representation or warranty or failed to comply with any of its covenants in this Agreement, and (ii) such termination shall not prejudice the rights and remedies of the terminating party against any other party which has breached any of its representations, warranties or covenants herein prior to such termination.

12. POST-CLOSING COVENANTS.

12.1. RESTRICTIVE COVENANTS.

(a) NON-COMPETITION. If the Closing occurs, Charles agrees that he shall not, and by her execution hereof Charles' spouse (Charles, together with his spouse, being herein collectively referred to as the "Covenantors") agrees that she shall not, directly or indirectly, for a period commencing on the Closing Date and ending ten

(10) years thereafter, do any of the following:

(i) engage, as principal, agent, trustee or through the agency of any corporation, partnership, association or agent or agency, anywhere within a 25-mile radius of any Home (the "Territory"), in the funeral, mortuary, crematory, monument, or any related line of business (collectively, the "Business");

(ii) own or hold any beneficial interest in one percent (1%) or more of the voting securities in any corporation, partnership or other business entity which conducts its operations, in whole or in part, in the Business within the Territory;

(iii) become an employee of or consultant to, or otherwise serve in any similar capacity with, any corporation, partnership or other business entity that conducts its business, in whole or in part, in the Business within the Territory; or

(iv) cause or induce any present or future employee of the Purchaser or any of its affiliates to leave the employ of the Purchaser or any such affiliate to accept employment with such Covenantor or with any person, firm, association or corporation with which such Covenantor may be or become affiliated.

Without limiting the generality of the foregoing, a Covenantor shall be deemed directly or indirectly engaged in the Business if he or she acts as a funeral director at any funeral establishment within the Territory, if such Covenantor engages in the sale or

marketing of preneed funeral contracts for services to be performed within the Territory, or if such Covenantor promotes or finances any family member or affiliate to operate a Business or engage in any of the foregoing activities within the Territory.

(b) REFORMATION. The above covenants shall not be held invalid or unenforceable because of the scope of the territory or actions subject thereto or restricted thereby, or the period of time within which such covenants are operative; but any judgment of a court of competent jurisdiction may define the maximum territory and actions subject to and restricted thereby and the period of time during which such covenants are enforceable.

(c) REMEDIES. The Covenantors agree that any remedy at law for any actual or threatened breach of any of the foregoing covenants would be inadequate and that the Purchaser shall be entitled to specific performance hereof or injunctive relief or both, by temporary or permanent injunction or such other appropriate judicial remedy, writ or order as may be entered into by a court of competent jurisdiction in addition to any damages that the Purchaser may be legally entitled to recover together with reasonable expenses of litigation, including attorneys' fees incurred in connection therewith, as may be approved by such court.

(d) REPRESENTATIONS. Each Covenantor represents and warrants to and agrees with the Purchaser that (i) such Covenantor understands that the foregoing restrictions are being made incident to and as a condition of the purchase and sale of the Assets hereunder, and that such covenants are necessary in order to protect the business and goodwill being acquired thereby, (ii) such covenants are not oppressive to such Covenantor in any respect, and (iii) the consideration for such

restrictions is included in the Purchase Price, which consideration such Covenantor acknowledges is fair and adequate for the giving of the covenants herein and for which such Covenantor acknowledges a direct and valuable benefit.

(e) PURCHASE PRICE ALLOCATION. The parties agree to allocate \$50,000 of the Purchase Price to the foregoing covenants for federal income tax purposes. Such allocation is not intended to be a measure of the amount or range of damages which the Purchaser may suffer or recover as a result of any breach of the foregoing covenants, and the Covenantors acknowledge that in case of any such breach, the Purchaser shall be entitled to seek in excess of such amount as it may otherwise be able to demonstrate itself justly entitled to.

12.2. CHANGE OF NAME. Promptly following the Closing (but in no event later than 30 days thereafter), the Sellers shall cause the Articles of Incorporation of the Company to be amended so as to change its name to one wholly dissimilar to "Sidun Funeral Group" or its equivalent, and will furnish the Purchaser with written evidence of such amendment.

12.3. TERMINATION OF PROFIT SHARING PLAN. The parties agree that the Profit Sharing Plan described on Schedule 3.20 (the "Profit Sharing Plan") shall not be included as part of the Assets, the Purchaser shall not be substituted as the sponsoring employer under the Profit Sharing Plan, and the Assumed Liabilities shall in no event include any withdrawal, termination, unfunded or underfunded liability arising in connection with the Profit Sharing Plan. Following the Closing, the Sellers shall take all necessary action to terminate the Profit Sharing Plan in accordance with applicable law, in connection with which the Sellers shall file all necessary forms and pay all appropriate fees, fines, penalties and other sums due in respect thereof. Without limiting the

generality of Section 10.1, the "Losses" against which the Purchaser shall be indemnified against shall include all such liabilities, obligations and responsibilities arising in connection with the Profit Sharing Plan, whether arising before or after the Closing, and (regardless of any limitation set forth in the last sentence of Section 3.20) whether or not known to the Sellers at the time of Closing.

13. MISCELLANEOUS.

13.1. EXPENSES. Regardless of whether the Closing occurs, the parties shall each pay their own expenses in connection with the negotiation, preparation and carrying out of this Agreement and the consummation of the transactions contemplated herein. Without limiting the generality of the foregoing, all finders' and similar fees and expenses of Success Plan shall be borne solely by the Purchaser, and in no event shall the Sellers be charged or responsible therefor.

13.2. BULK SALES LAWS. The transactions contemplated by this Agreement shall be consummated without compliance with the bulk sales laws of any state. If by reason of any applicable bulk sales law any claims are asserted by creditors of the Company, such claims shall be the responsibility of the Purchaser in the case of claims arising under any of the Assumed Liabilities, or the responsibility of the Sellers in the case of claims arising under any other liabilities of the Company.

13.3. NOTICES. All notices, requests, consents and other communications hereunder shall be in writing and shall be deemed to have been given on the date personally delivered, three business days following the date mailed, first class, registered or certified mail, postage prepaid, or when sent by telex or telecopy and receipt is confirmed, as follows:

- (i) if to any Seller, to:

Sidun Funeral Group, Inc.
85 Riverside Avenue
Red Bank, New Jersey 07701
Attn: Mr. Charles D. Sidun

with a copy to:

Schanker and Hochberg
27 West Neck Road
Huntington, New York 11743
Attn: Mr. Steven M. Schanker

(ii) if to the Purchaser, to:

Carriage Funeral Holdings, Inc.
1300 Post Oak Blvd., Suite 1500
Houston, Texas 77056
Attention: President

with a copy to:

Snell & Smith,
A Professional Corporation
1000 Louisiana, Suite 1200
Houston, Texas 77002
Attention: Mr. W. Christopher Schaeper

or to such other address as shall be given in writing by any party to the other parties hereto.

13.4. ASSIGNMENT. This Agreement may not be assigned by any party hereto without the prior written consent of the other parties, provided, however, that following the Closing the Purchaser may assign its rights hereunder without the consent of the Sellers to a successor-in-interest to the Purchaser (whether by merger, sale of assets or otherwise). Nothing in this Agreement, express or implied, is intended to confer upon any person, other than the parties to this Agreement and their successors and permitted assigns, any rights or remedies under or by reason of this Agreement.

13.5. SUCCESSORS BOUND. Subject to the provisions of Section 13.4, this Agreement shall be

binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs and personal representatives.

13.6. SHAREHOLDER CONSENT. The Shareholder, in his capacity as the sole shareholder of the Company, hereby (i) consents to the sale of the Assets hereunder pursuant to New Jersey Revised Statutes Tit.14A, c.10, '11, and (ii) irrevocably and unconditionally waives all dissenters' and other similar rights with respect to the sale of the Assets under and pursuant to New Jersey Revised Statutes Tit.14A, c.11, "1,2.

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

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

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

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

13.11. CONSTRUCTION. As the context requires or permits: pronouns used herein shall include the masculine, the feminine and neuter; terms used in plural shall include the singular, and singular terms shall include the plural; "hereof", "herein", "hereunder" and "hereto" shall refer to this Agreement; and section and paragraph references, when not expressly referring to another agreement or document, shall mean sections or paragraphs in this Agreement.

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

13.13 PUBLICITY. The parties agree to (i) maintain the confidentiality of the commercial terms of the transactions under this Agreement, including the amount of the Purchase Price, and (ii) coordinate with one another regarding any press releases or other public announcements of the consummation of such transactions.

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

THE PURCHASER:

CARRIAGE FUNERAL HOLDINGS, INC.

By: _____
MARK W. DUFFEY, President

THE COMPANY:

SIDUN FUNERAL GROUP, INC.

By: _____
CHARLES D. SIDUN, President

THE SHAREHOLDER:

CHARLES D. SIDUN

CARRIAGE SERVICES, INC., a Delaware corporation and the Purchaser's parent corporation, hereby joins in the execution of this Agreement to evidence its unconditional and irrevocable guaranty of the obligations of the Purchaser to pay Deferred Purchase Price pursuant to Section 1.3 hereof.

CARRIAGE SERVICES, INC.

By: _____
MARK W. DUFFEY, President

The undersigned spouse of Charles D. Sidun hereby joins in the execution of this Agreement in order to evidence her agreement to be bound by the provisions of Section 12.2 hereof.

VIRGINIA L. SIDUN, spouse of
CHARLES D. SIDUN

EXHIBIT	DESCRIPTION
A-1	Employment Agreement (Douglas Sidun)
A-2	Employment Agreement (Ted Sidun)
A-3	Employment Agreement (Drew Sidun)
B	Lease Agreement

SCHEDULES	DESCRIPTION
1.2	Retained Assets
3.5	Family Center Tract
3.10	Fixed Assets
3.11	Contracts and Commitments
3.12	Preneed Contracts and Trust Accounts
3.13	Intangible Assets
3.15	Licenses, Permits, Etc.
3.18	Environmental Matters
3.19	Employees
3.20	Employee Benefit Plans
10.6	Building Repairs

MERGER AGREEMENT

THIS MERGER AGREEMENT dated as of November 19, 1997 (this "Agreement"), among CARRIAGE SERVICES, INC., a Delaware corporation (the "Purchaser"), CARRIAGE SERVICES OF FLORIDA, INC., a Florida corporation (the "Acquisition Subsidiary"), FOREST LAWN/EVERGREEN MANAGEMENT CORP., a Florida corporation (the "Company"), and GREG M. BRUDNICKI and CHARLES E. KENT, residents of Bay County, Florida (together, the "Shareholders");

WITNESSETH:

WHEREAS, the Company owns and operates the Forest Lawn Memorial Cemetery located at 2403 Harrison Avenue, the Evergreen Memorial Gardens Cemetery located at 3733 U.S. Highway 231 North, and the Garden of Memories Cemetery located at 5435 East 15th Street, all in Panama City, Bay County, Florida (collectively, the "Cemeteries"), and the Kent Forest Lawn Funeral Home located at 2403 Harrison Avenue in Panama City, Bay County, Florida and the Emerald Coast Funeral Home located at 113 Racetrack Road, N.E. in Fort Walton Beach, Okaloosa County, Florida (collectively, the "Homes"), and the Shareholders collectively own all of the issued and outstanding capital stock of the Company in the respective amounts shown on Schedule I hereto; and

WHEREAS, the parties desire that the Company merge with and into the Acquisition Subsidiary in a statutory merger (the "Merger") to be consummated under the laws of the State of Florida and upon the terms and conditions and for the consideration herein set forth and in the Plan of Merger among the Purchaser, the Acquisition Subsidiary and the Company in the form attached as Exhibit A hereto (the "Plan of Merger");

NOW, THEREFORE, the parties agree as follows:

1. REORGANIZATION AND MERGER.

1.1. THE MERGER. Simultaneously with the execution of this Agreement, the Plan of Merger shall be executed and delivered by the Purchaser, the Acquisition Subsidiary and the Company. Subject to the terms and conditions set forth in this Agreement and in the Plan of Merger, at the Effective Time of the Merger (as defined in the Plan of Merger), the Company shall be merged with and into the Acquisition Subsidiary in accordance with the laws of the State of Florida and the Plan of Merger. The corporation surviving the Merger is sometimes herein referred to as the "Surviving Corporation."

1.2. SS.368 REORGANIZATION. It is the intention of the parties that the Merger constitute a "reorganization" within the meaning of Section 368 (a) (1) (A) of the Internal Revenue Code of 1986, as amended (the "Code"), in accordance with Section 368 (a) (2) (D) of the

Code. The parties agree to file all of their respective tax returns and reports in a manner consistent with such intention, and to not take any filing position in a manner inconsistent with such intention unless compelled to do so by court order or administrative decree. Each party agrees to furnish such information and take such action as may be reasonably requested of the other party in connection with the foregoing (which action shall not include any change in the commercial terms of the Merger and the other transactions incident thereto) . In no event, however, shall the Purchaser or the Surviving Corporation be required to incur any out-of-pocket expenses in defending such position or providing such information or taking such action, nor shall the foregoing constitute a warranty or guaranty on the part of the Purchaser or the Surviving Corporation that the Merger will in fact constitute such a reorganization.

1.3. SHAREHOLDER CONSENT; WAIVER OF DISSENTERS' RIGHTS. The Shareholders, in their capacities as shareholders of the Company, and the Purchaser, in its capacity as a shareholder of the Acquisition Subsidiary, hereby (i) consent to the Merger pursuant to Section 607.1103 of the Florida Statutes Annotated, and (ii) irrevocably and unconditionally waive all dissenters' and other similar rights with respect to the Merger under and pursuant to Sections 607.1302 and 607.1320 of the Florida Statutes Annotated.

1.4. FURTHER ASSURANCES. The Shareholders jointly and severally agree to execute and deliver from time to time after the Effective Time of the Merger, at the reasonable request of the Purchaser, and without further consideration, such additional instruments of conveyance and transfer, and to take such other action as the Purchaser may reasonably require to more effectively carry out the terms and provisions of the Merger and the other transaction contemplated by this Agreement and the Plan of Merger.

2. THE CLOSING.

2.1. TIME AND PLACE. The Closing of the Merger (the "Closing") shall occur at the offices of Cranston Pope, 335 Magnolia Avenue, Panama City, Florida 32401 on November 20, 1997, or at such other date, time or place as may be mutually agreed upon by the parties, but in no event later than November 30, 1997. The date and time of the Closing is herein called the "Closing Date". At the Closing, the Shareholders shall surrender for cancellation pursuant to the Merger all certificates representing their respective shares of capital stock of the Company, against receipt from the Purchaser of the Merger Consideration. All action to be taken at the Closing as hereinafter set forth, and all documents and instruments executed and delivered, and all payments made with

respect thereto, shall be considered to have been taken, delivered or made simultaneously, and no such action or delivery or payment shall be considered as complete until all action incident to the Closing has been completed.

2.2. RELATED TRANSACTIONS. In addition to the Merger, at or prior to the Closing (as specified below) the following transactions shall occur:

(a) The Acquisition Subsidiary, on the one hand, and each of Greg M. Brudnicki ("Brudnicki"), Charles E. Kent ("Kent"), Charles Kent, Jr. ("Kent, Jr."), and James Holmes ("Holmes"), on the other, shall each execute and deliver to the other an Employment Agreement to be dated the Closing Date and in substantially the forms of Exhibits B-1, B-2, B-3 and B-4, respectively, hereto (collectively, the "Employment Agreements");

(b) The number of positions on the Purchaser's Board of Directors shall be increased by one (1), and Brudnicki shall be elected to the vacancy created by such increase;

(c) The Acquisition Subsidiary shall establish its Carriage Partners Program for Northern Florida, Southern Georgia and Alabama in substantially the form of Exhibit C hereto (the "Program"), and each Shareholder shall become a participant in the Program in accordance with the terms and provisions thereof; and

(d) Immediately prior to the Closing, the Company shall distribute (by dividend, distribution or bonus) to the Shareholders (or a corporation or other entity controlled by them) all of the capital stock owned by the Company in LaGrange Funeral Home, Inc., a Georgia corporation (the "LaGrange Corporation"), which owns and operates the LaGrange Funeral Home in LaGrange, Georgia (the "LaGrange Location"), provided that from and after the Closing the Surviving Corporation shall have no liability in respect thereof.

3. REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDERS. The Shareholders jointly and severally represent and warrant to and agree with the Purchaser and the Acquisition Subsidiary that:

3.1. TITLE TO SHARES. The Shareholders are the owners and holders, beneficially and of record, of all of the issued and outstanding shares of capital stock of the Company as shown on Schedule I, and the Shareholders have good and marketable title to all of such issued and outstanding shares, free and clear of any and all liens, encumbrances, pledges, security interests, mortgages or claims of any other person (collectively, "Liens"), other than a Lien on such stock in

favor of People's First Community Bank to secure loans to the Company (which Liens will be released at or prior to Closing).

3.2. ORGANIZATION AND EXISTENCE. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida, and has all requisite corporate power to enter into and perform its obligations under this Agreement and to carry on its business as now conducted. The Shareholders have delivered to the Purchaser complete and correct copies of the Articles of Incorporation, certified by the Secretary of State of Florida, and the Bylaws, certified by its Secretary, of the Company, all as in effect on the date hereof.

3.3. CAPITALIZATION. The authorized capital stock of the Company consists of 500 shares of Common Stock, \$1.00 par value, all of which shares are issued and outstanding and held by the Shareholders. All such issued and outstanding shares are validly issued and outstanding, fully paid and nonassessable and not issued in violation of the preemptive rights of any person. No such shares of capital stock are held by the Company as treasury stock. The Company does not have any outstanding subscriptions, options or other agreements or commitments obligating it to issue shares of its capital stock. There are no shareholders, buy-sell, voting or other similar agreements or commitments affecting the voting or transferability of any such shares.

3.4. NO SUBSIDIARIES. Other than the La Grange Corporation (which will be transferred out of the Company by the time of Closing), the Company does not have any subsidiaries or any investment or ownership interest in any corporation, joint venture or other business enterprise.

3.5. FINANCIAL INFORMATION. The Shareholders have delivered to the Purchaser (i) the unaudited balance of the Company at May 31, 1997 (the "Company Balance Sheet") and the related unaudited income statement of the Company for the nine months then ended, and (ii) the unaudited balance sheet of the Company at August 31, 1996 and the related unaudited income statement of the Company for the twelve months then ended. All such financial statements are true and correct, have been prepared in accordance with the books and records of the Company, and present fairly the respective financial positions of the Company at the dates indicated and its results of operations for the periods then ended in accordance with the federal income tax method of accounting applied on a consistent basis. Each Home performed the number of adult funeral services in each of the twelve-month periods ended December 31, 1994 through 1996 and for the seven months ended July 31, 1997 as set forth on Schedule 3.5 hereto. Each Cemetery performed at least the number of interments for each

of such twelve-month and seven-month periods as set forth on Schedule 3.5.

3.6. REAL PROPERTY.

(a) DESCRIPTION AND TITLE. Schedule 3.6 sets forth a legal description of all parcels of real property in which the Company have any interest or which is used in its business (collectively, the "Real Property"), other than the Excluded Real Property described on Schedule 5.1(a). Schedule 3.6 also briefly describes each building and major structure and improvement located on the Real Property. No person other than the Company has any ownership, leasehold or other interest of any kind in the Real Property, except for the real property on which the Emerald Coast Funeral Home is located (the "Emerald Coast Real Property"), which is leased to the Company as described in paragraph (b) below. The Real Property is the only interest in real property required for the conduct of the business of the Homes and the Cemeteries as presently conducted. All of the buildings, structures and improvements located on the Real Property are in good operating condition, ordinary wear and tear excepted. None of such buildings, structures or improvements, or the operation or maintenance thereof as now operated or maintained, contravenes any zoning ordinance or other administrative regulation or violates any restrictive covenant or any provision of law, the effect of which would interfere with or prevent their continued use for the purposes for which they are now being used. There is not pending nor, to the knowledge of either Shareholder, threatened any proceeding for the taking or condemnation of the Real Property or any portion thereof. The Company has good and marketable fee simple title to all of its respective Real Property (other than the Emerald Coast Real Property), free and clear of all Liens, other than easements and other similar title exceptions described on Schedule 3.6 ("Permitted Liens").

(b) EMERALD COAST LEASE. All of the Emerald Coast Real Property is validly leased to the Company under the Lease Agreement dated March 1, 1996 between the Company, as tenant, and Dennis Ginsburg, Trustee, as landlord (such Lease Agreement, together with all amendments thereto, being hereafter referred to as the "Emerald Coast Lease"); the Company is the current lessee under the Emerald Coast Lease; a true and complete copy of the Emerald Coast Lease has been provided to the Purchaser; there have been no amendments or modifications to the Emerald Coast Lease except for those for which copies have been provided to the Purchaser; the Emerald Coast Lease is in full force and effect and valid and binding on the parties thereto, and neither the Company nor (to

the Shareholders' knowledge) the landlord thereunder is in default thereunder.

(c) FIRPTA. Neither the Company nor either Shareholder is a "foreign person" (as defined in Section 1445(f) (3) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations issued thereunder), and the Shareholders shall deliver at Closing one or more non-foreign affidavits in recordable form containing such information as shall be required by Code Section 1445(b) (2) and the regulations issued thereunder.

(d) BILLS PAID. All bills and other payments due with respect to the ownership, operation, and maintenance of the Real Property have been (and on the Closing Date will be) paid, and no Liens or other claims for the same have been filed or asserted against any part of the Real Property.

(e) NO FLOOD HAZARDS. No portion of the Real Property is located within an area that has been designated by the Federal Insurance Administration, the Army Corp of Engineers, or any other governmental agency or body as being subject to special flooding hazards.

(f) STATUS OF CEMETERY PROPERTIES. All of the Real Property used in the business of each Cemetery has been plotted for cemetery use. Each Cemetery consists of the number of developed and undeveloped acres and the number of unsold individual grave spaces, unsold niches, unsold mausoleum crypts and unsold lawn crypts as set forth below:

	NO. OF DEVELOPED ACRES	NO. OF UNDEVELOPED ACRES	NO. OF UNSOLD GRAVE SPACES	NO. OF UNSOLD NICHES	NO. OF UNSOLD MAUSOLEUM CRYPTS	NO. OF UNSOLD LAWN CRYPTS
	-----	-----	-----	-----	-----	-----
Forest Lawn	9.75	12.25	645	251	145	16
Evergreen	26	15	420	45	198	(260)
Garden of Memories	8	9	4,125	12	157	N/A

3.7. TITLE TO AND STATUS OF PROPERTIES. All assets, rights and properties utilized in the conduct of the business of the Homes and the Cemeteries are owned by the Company, and none of such assets, rights or properties is subject to any lease or license, except for Emerald Coast Real Property that is leased to the Company as described in Section 3.6. The Company is in actual possession and control of all properties owned by it, and has good and marketable title to all of its assets, rights and properties, including without limitation, all properties and assets reflected in the Company Balance Sheet, free and clear of all Liens, except for (i) Liens to be

discharged and released at or prior to Closing, and (ii) Permitted Liens against Real Property.

3.8. ABSENCE OF CHANGES OR EVENTS. Since the date of the Company Balance Sheet, there has not been:

(i) any material adverse change in the financial condition, operations, business, properties or prospects of the Company;

(ii) any change in the authorized capital or outstanding securities of the Company;

(iii) any capital stock, bonds or other securities which the Company has issued, sold, delivered or agreed to issue, sell or deliver, nor has the Company granted or agreed to grant any options, warrants or other rights calling for the issue, sale or delivery thereof;

(iv) any borrowing or agreement by the Company to borrow any funds, nor has the Company incurred, or become subject to, any absolute or contingent obligation or liability, except trade payables incurred in the ordinary course of business;

(v) any declaration or payment of any bonus or other extraordinary compensation to any employee of the Company;

(vi) any hiring, firing, reassignment or other change in any key personnel of the Company;

(vii) any sale, transfer or other disposition of, or agreement to sell, transfer or otherwise dispose of, any of the inventories or other assets or properties of the Company, except in the ordinary course of business;

(viii) any damage, destruction or losses against the Company or any waiver any rights of material value to the Company;

(ix) any labor strike or labor dispute, or the entering into of any collective bargaining agreement, with respect to employees of the Company;

(x) any claim or liability for any material damages for any actual or alleged negligence or other tort or breach of contract against or affecting the Company;

(xi) any new competitor that has, to the knowledge of either Shareholder, built, commenced to build or

announced intentions to build a funeral home or mortuary in direct competition with either Home or a cemetery or mausoleum in direct competition with any Cemetery; or

(xii) any other transaction or event entered into or affecting the Company other than in the ordinary course of business.

3.9. ABSENCE OF UNDISCLOSED LIABILITIES. Except as set forth in the Company Balance Sheet, the Company has no, and none of its assets or properties is subject to any, liabilities or obligations of any kind or nature, other than unsecured trade accounts payable, accrued expenses and preneed obligations (fully funded by insurance or covered by trust) arising in the ordinary course of the business since the date of the Company Balance Sheet.

3.10. TAX MATTERS. All federal, state, county, local and other taxes due and payable by the Company on or before the date of this Agreement have been paid or are adequately provided for in the Company Balance Sheet. The Company has filed all tax returns and reports required to be filed by each of them with all taxing authorities, and all such tax returns and reports are true, complete and correct. True and correct copies of the federal, state and local income tax returns filed by or for the Company for each of its last three taxable years have been furnished to the Purchaser. Except as described on Schedule 3.10, no assessments of deficiencies for taxes of any kind have been made against the Company which are presently pending or outstanding, and no audits which may result in any such assessment are pending or, to the Share-holders' knowledge, threatened. Except as described on Schedule 3.10, no state of facts exists or has existed which would constitute grounds for the assessment of any tax liability against the Company with respect to any prior taxable period which has not been audited by the Internal Revenue Service or which has not been closed by applicable statute. Except as described on Schedule 3.10, there are no outstanding agreements or waivers extending the statutory period of limitations applicable to any income tax return of the Company for any period.

3.11. INVENTORY; ACCOUNTS RECEIVABLE. The inventories reflected in the Company Balance Sheet, and all items placed in inventory since the date thereof, are (i) accounted for in accordance with the federal income tax method of accounting applied on a consistent basis, and (ii) saleable or usable in the ordinary course of business of the Company at usual and customary prices, subject to normal returns and markdowns consistent with past practice. All accounts and notes receivable reflected in the Company Balance Sheet, and all accounts and notes receivable arising since the date thereof, (x) represent bona fide claims against customers for

goods sold or services rendered, and (y) are not subject to offsets or defenses of any kind. At the Closing, the Shareholders shall deliver to the Purchaser a list, certified by the Shareholders to be complete and correct, of all of the inventory of the Company as of the Closing Date and all of their accounts receivable arising from the preneed sale of services or merchandise by the Cemeteries as of the Closing Date.

3.12. FIXED ASSETS. Schedule 3.12 lists all motor vehicles and all other material items of equipment, fixtures, furniture and other fixed assets owned by the Company. All such items are in good and operating condition and repair, ordinary wear and tear excepted.

3.13. CONTRACTS AND COMMITMENTS. Schedule 3.13 hereto sets forth a complete description of:

(i) all loan, credit and similar agreements to which the Company is a party or by which it is bound, and all notes or other evidences of indebtedness of, or agreements creating any Lien on any property of, the Company;

(ii) all employment contracts, noncompetition agreements and other agreements relating to the employment of any employees of the Company;

(iii) all contracts and agreements affecting the Company which do not terminate or are not terminable by the Company upon notice of 30 days or less or which involve an obligation on its part in excess of \$1,000 per annum or \$5,000 in the aggregate; and

(iv) all other contracts and commitments of the Company entered into outside the ordinary course of business.

Each contract and commitment described on Schedule 3.13 is valid and binding on the parties thereto and in full force and effect, and neither the Company, as the case may be, nor, to the knowledge of the Shareholders, any of the other parties thereto, is in default thereunder. The Shareholders have furnished to the Purchaser a true and complete copy of each document listed on Schedule 3.13.

3.14. PRENEED CONTRACTS AND TRUST ACCOUNTS. Schedule 3.14 hereto accurately and completely lists, as of the date of this Agreement (i) all preneed contracts of the Company unfulfilled as of the date hereof, including contracts for the sale of funeral merchandise and services, and summaries of contracts for cemetery merchandise and plots, and (ii) all trust accounts relating to the Homes and the Cemeteries,

indicating the location of each and the balance thereof. All preneed contracts required to be listed on Schedule 3.14 (x) have been entered into in the normal course of business at regular retail prices, or pursuant to a sales promotion program, solely for use by the named customers and members of their families on terms not more favorable than shown on the specimen contracts which have been delivered to the Purchaser, (y) are subject to the rules and regulations of the Company as now in force (copies of which have been delivered to the Purchaser), and (z) on the date hereof are in full force and effect, subject to no offsets, claims or waivers, and neither the Company, as the case may be, nor such customer is in default thereunder. All funds received by the Company under preneed contracts have been deposited in the appropriate accounts and administered and reported in accordance with the terms thereof and as required by applicable laws and regulations. The aggregate market value of the preneed accounts, trusts or other deposits is equal to or greater than the aggregate preneed liability related to such accounts. The services heretofore provided by the Company have been rendered in a professional and competent manner consistent with prevailing professional standards, practices and customs.

3.15. TRADEMARKS. ETC. Schedule 3.15 accurately and completely describes all trademarks, copyrights, patents and other intellectual property rights, and applications and licenses for the foregoing (collectively, "Intangible Rights"), owned by or licensed to or in the name of the Company. The Company owns or possesses valid rights or adequate licenses for all of such Intangible Rights as are necessary to the conduct of the business of the Homes and the Cemeteries as presently conducted. The Company is not charged with infringement of any Intangible Rights of any other person, nor does either Shareholder know of any such infringement, whether or not claimed by any person.

3.16. INSURANCE. The Company maintains such policies of insurance in such amounts, and which insure against such losses and risks, as are generally maintained for comparable businesses and properties. Valid policies for such insurance will be outstanding and duly in force at all times prior to the Closing.

3.17. LICENSES. PERMITS. ETC. Schedule 3.17 hereto correctly and completely lists all licenses, franchises, permits, certificates, consents, rights and privileges issued to or held by the Company, which are all that are necessary or appropriate for the operation of the Homes and the Cemeteries as presently operated. All such items are in full force and effect.

3.18. LITIGATION. There are no claims, actions, suits, proceedings or investigations pending or, to the knowl-

edge of either Shareholder, threatened against or affecting the Company or any of their respective assets or properties, at law or in equity or before or by any court or federal, state, municipal or other governmental department, commission, board, agency or instrumentality. The Company is not subject to any continuing court or administrative order, writ, injunction or decree, nor is the Company in default with respect to any order, writ, injunction or decree issued by any court or foreign, federal, state, municipal or other governmental department, commission, board, agency or instrumentality.

3.19. COMPLIANCE WITH LAWS. The Company has complied and is in compliance with all federal, state, municipal and other statutes, rules, ordinances, and regulations applicable to the Company and its assets, rights and properties, and to the operation of each Home and each Cemetery (including without limitation all occupational safety and health rules, regulations and laws, and laws and regulations applicable to preneed and perpetual care contracts and trust accounts, including the so-called "FTC Funeral Rule").

3.20. ENVIRONMENTAL MATTERS.

(a) The Company has complied and is in compliance with all Environmental Laws (as hereinafter defined)

(b) Without limiting the generality of the foregoing, the Company has obtained, and has complied and is in compliance with, all permits, licenses and other authorizations that may be required pursuant to Environmental Laws for the occupation of the Real Property and the operation of the business of the Company.

(c) The Company has not received any notice, report or other information regarding any liabilities (whether accrued, absolute, contingent, unliquidated or otherwise) or investigatory, remedial or corrective obligations, relating to their respective businesses or any of the Real Property arising under Environmental Laws.

(d) Except as set forth on Schedule 3.20, none of the following exists on any portion of the Real Property:

- (i) Underground storage tanks or surface impoundments;
- (ii) Asbestos-containing material in any form or condition; or
- (iii) Materials or equipment containing polychlorinated biphenyls.

(e) The Company has not treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled, or Released any substance, including without limitation any Hazardous Materials, or owned or operated any facility or property, so as to give rise to liabilities for response costs, natural resource damages or attorneys fees pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended, or similar state Environmental Laws.

(f) Neither this Agreement nor the consummation of the transaction that is the subject of this Agreement will result in any obligations for site investigation or cleanup, or notification to or consent of any governmental authority or third parties, pursuant to any so-called "transaction-triggered" or "responsible property transfer" Environmental Laws.

(g) Without limiting the foregoing, no facts, events or conditions relating to the past or present facilities, properties or operations of the Company will prevent, hinder or limit continued compliance with Environmental Laws, give rise to any investigatory, remedial or corrective obligations pursuant to Environmental Laws, or give rise to any other liabilities (whether accrued absolute, contingent, unliquidated or otherwise) pursuant to Environmental Laws, including without limitation any relating to onsite or offsite Releases or threatened Releases of Hazardous Materials, substances or wastes, personal injury, property damage or natural resource damage.

(h) For purposes of this Section 3.20:

"Environmental Laws" means all laws concerning pollution or protection of the environment (including without limitation all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, Release, threatened Release, control or cleanup of any Hazardous Materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise or radiation).

"Hazardous Materials" means any hazardous, toxic, dangerous or other waste, substance or material defined as such in, regulated by or for purposes of any Environmental Law. The Purchaser acknowledges that the Company uses formaldehyde and other similar chemicals typically associated with the operation of a funeral

home, and that such substances constitute "Hazardous Materials."

"Release" has the meaning set forth in CERCLA.

3.21. EMPLOYEES. Schedule 3.21 hereto correctly and completely lists the names and monthly or hourly rates of salary and other compensation of all the employees and agents of the Company. Schedule 3.21 also sets forth the date of the last salary increase for each employee listed thereon, the outstanding balances of all loans and advances, if any, made by the Company to any employee or agent thereof, and the number of vacation days or other time off to which each such employee is presently eligible to take. There are not pending or, to the knowledge of either Shareholder, threatened against the Company any general labor disputes, strikes or concerted work stoppages, and there are no discussions, negotiations, demands or proposals that are pending or have been conducted or made with or by any labor union or association with respect to any employees of the Company. No Shareholder is aware of the existence of any serious health condition of any key management personnel of the Company that might impair any such person's ability to perform the essential functions of his or her normal duties into the foreseeable future after the Closing. The Shareholders believe that the relations between the Company, on the one hand, and their respective employees, on the other, are good.

3.22. EMPLOYEE BENEFIT PLANS. Schedule 3.22 sets forth a description of all plans, contracts, commitments, programs and policies (including, without limitation, pension, profit sharing, thrift, bonus, deferred compensation, severance, retirement, disability, medical, life, dental and accidental insurance, vacation, sick leave, death benefit and other similar employee benefit plans and policies) maintained by the Company which provides benefits to any employee or former employee of the Company. True and complete copies of all such benefit plans have been provided to the Purchaser. All obligations of the Company under the Plans have been fully paid, fully funded or adequate accruals therefor have been made on the Company Balance Sheet. All necessary governmental approvals have been obtained for all Plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA") and have been qualified under Section 401 of the Code, and each trust established for any Plan is exempt from federal income taxation pursuant to Section 501 (a) of the Code. With respect to any such Plan, there has been no (i) "reportable event" as defined in Section 4043 of ERISA, (ii) event described in Section 4062(e) or 4063 (a) of ERISA, or (iii) in the case of any defined benefit plan, termination or partial termination.

3.23. AFFILIATED PARTY TRANSACTIONS. The Company have been operated and are being operated in a manner separate

from the personal and other business activities of the Shareholders and their affiliates¹ and neither of the Company nor any of its assets are subject to any affiliated party commitments or transactions.

3.24. BOOKS AND RECORDS. All books and records of the Company are true, correct and complete and have been maintained by it in accordance with good business practices and in accordance with all laws, regulations and other requirements applicable to the Company. The corporate records of the Company reflect a true record of all meetings and proceedings of the Board of Directors and Shareholders of the Company.

3.25. FINDERS. Neither the Company nor either Shareholder is a party to or in any way obligated under any contract or other agreement, and there are no outstanding claims against any of them, for the payment of any broker's or finder's fee in connection with the origin, negotiation, execution or performance of this Agreement.

3.26. AUTHORITY OF THE SHAREHOLDERS. Each Shareholder has the full right, capacity and authority to enter into and perform this Agreement and the other documents to be executed by such Shareholder as provided in this Agreement, and to consummate the transactions contemplated hereby and thereby. This Agreement constitutes, and upon execution and delivery by each Shareholder, each of such other documents will constitute, the legal, valid and binding obligations of the Shareholders enforceable against them in accordance with their respective terms. Neither the execution, delivery nor performance of this Agreement or any of such other documents, nor the consummation of the transactions contemplated hereby or thereby, will: (i) result in a violation or breach of any term or provision of, constitute a default or acceleration under, require notice to or consent of any third party to, or result in the creation of any Lien by virtue of (x) the Articles of Incorporation or Bylaws of the Company, or (y) any contract, agreement, lease, license or other commitment to which the Company or either Shareholder is a party or by which the Company or any such Shareholder or his or its respective assets or properties are bound; nor (ii) violate any statute or any order, writ, injunction or decree of any court, administrative agency or governmental body.

3.27. AUTHORITY OF THE COMPANY. The execution, delivery and performance by the Company of this Agreement have been duly authorized by its Board of Directors. This Agreement is legally binding and enforceable against the Company in accordance with their respective terms. Neither the execution, delivery nor performance by the Company of this Agreement will result in a violation or breach of, nor constitute a default or accelerate the performance required under, the

Articles of Incorporation or Bylaws of the Company or any indenture, mortgage, deed of trust or other contract or agreement to which the Company is a party or by which it or its properties are bound, or violate any order, writ, injunction or decree of any court, administrative agency or governmental body.

3.28. FULL DISCLOSURE. The representations and warranties made by the Shareholders hereunder or in any Schedules or certificates furnished to the Purchaser pursuant hereto or thereto, do not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein or therein necessary to make the representations or warranties herein or therein, in light of the circumstances in which they are made, not misleading.

3.29. SCHEDULES. The Schedules referred to in this Section 3 have been prepared as of the date hereof in a separate binder or volume contemporaneously with the execution of this Agreement, and have been signed for identification by the Shareholders.

4. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER AND THE ACQUISITION SUBSIDIARY. The Purchaser and the Acquisition Subsidiary jointly and severally represent and warrant to and agree with the Shareholders that:

4.1. ORGANIZATION AND EXISTENCE. The Acquisition Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida, and has all requisite corporate power to enter into and perform its obligations under this Agreement and the other documents to which it is a party. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power to enter into and perform its obligations under this Agreement, including the issuance and delivery of the Purchaser Stock to the Shareholders as provided in this Agreement. The Purchaser has delivered to the Shareholders complete and correct copies of the Amended and Restated Certificate of Incorporation and Bylaws of the Purchaser and the Articles of Incorporation and Bylaws of the Acquisition Subsidiary, both as in effect on the date hereof.

4.2. CAPITALIZATION. The authorized capital stock of the Purchaser consists of (i) 40,000,000 shares of Class A Common Stock, \$.01 par value, of which 5,541,780 shares were issued and outstanding as of September 30, 1997; (ii) 10,000,000 shares of Class B Common Stock, \$.01 par value, of which 5,050,485 shares were issued and outstanding as of September 30, 1997, and (iii) 70,000,000 shares of Preferred Stock, \$.01 par value, of which (x) 2,000,000 shares have been designated as Series D Preferred Stock, \$.01 par value, of which

1,682,500 shares were issued and outstanding as of September 30, 1997; (y) 11,000,000 shares have been designated as Series E Preferred Stock, \$.01 par value, none of which shares were issued and outstanding as of September 30, 1997; and (z) 15,000,000 shares have been designated as Series F Preferred Stock, \$.01 par value, of which 14,611,677 shares were issued and outstanding as of September 30, 1997.

4.3. REPORTS AND FINANCIAL STATEMENTS. The Purchaser has filed all reports required to be filed by it under the Securities Exchange Act of 1934, as amended. The Purchaser has delivered to the Shareholders true and complete copies of (i) the Prospectus dated June 3, 1997 relating to the shelf registration of 2,000,000 shares of the Purchaser's Class A Common Stock, and (ii) its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997, both as filed with the Securities and Exchange Commission (collectively, "SEC Filings"). As of their respective dates, the SEC Filings did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. All of the financial statements included in the SEC Filings are true and correct in all material respects, have been prepared in accordance with the books and records of the Purchaser and its subsidiaries, and present fairly the consolidated financial positions of the Purchaser and its subsidiaries at the dates indicated and the consolidated results of their operations for the periods then ended in accordance with generally accepted accounting principles consistently applied.

4.4. NO MATERIAL ADVERSE CHANGE. Since June 30, 1997, there has not been any material adverse change in the financial condition, operations, properties or prospects of the Purchaser and its consolidated subsidiaries taken as a whole.

4.5. AUTHORITY. The execution, delivery and performance by the Purchaser and the Acquisition Subsidiary of this Agreement and the documents contemplated in this Agreement to be executed and delivered by them have been duly authorized by their respective Boards of Directors. This Agreement is, and upon their execution and delivery as herein provided such other documents will be, valid and binding upon the Purchaser and the Acquisition Subsidiary and enforceable against each of them in accordance with their respective terms. Neither the execution, delivery or performance by the Purchaser or the Acquisition Subsidiary of this Agreement or any such other document will conflict with or result in a violation or breach of any term or provision of, nor constitute a default under, the Amended and Restated Certificate of Incorporation or Bylaws of the Purchaser or the Articles of Incorporation or Bylaws of the Acquisition Subsidiary, or under any indenture, mortgage, deed of trust or other contract or agreement to

which the Purchaser or the Acquisition Subsidiary is a party or by which they or their respective properties are bound, except for such contracts and commitments for which all necessary consents have been duly and validly obtained, or violate any order, writ, injunction or decree of any court, administrative agency or governmental body. Consummation of the transactions contemplated by this Agreement will not require the consent or approval of the stockholders of the Purchaser, under the laws of the State of Delaware, under applicable rules and regulations of the National Association of Securities Dealers, Inc., or otherwise.

4.6. FINDERS. Except as described in Section 11.1, neither the Purchaser nor the Acquisition Subsidiary is a party to or in any way obligated under any contract or other agreement, and there are no outstanding claims against either of them, for the payment of any broker's or finder's fee in connection with the origin, negotiation, execution or performance of this Agreement.

5. COVENANTS PENDING CLOSING.

5.1. COVENANTS OF THE COMPANY AND THE SHAREHOLDERS. The Company and the Shareholders jointly and severally covenant and agree with the Purchaser that:

(a) CONDUCT OF BUSINESS. From the date of this Agreement to the Closing Date, the business of the Company will be operated only in the ordinary course, and, in particular, without the prior written consent of the Purchaser, the Company will not, and the Shareholders will not cause or allow the Company to, do any the following:

(i) cancel or permit any insurance to lapse or terminate, unless renewed or replaced by like coverage;

(ii) amend or otherwise modify its Articles of Incorporation or Bylaws;

(iii) issue or enter into any subscriptions, options, agreements or other commitments in respect of the issuance, transfer, sale or encumbrance of any shares of capital stock of the Company.

(iv) take any action described in Section 3.8;

(v) enter into any contract, agreement or other commitment of the type described in Section 3.13;

(vi) hire, fire, reassign or make any other change in key personnel of the Company, or increase the rate of compensation of or declare or pay any bonuses to any employee in excess of that listed on Schedule 3.21; or

(vii) take any other action which would cause any of the representations and warranties made in Section 3 hereof not to be true and correct in all material respects on and as of the Closing Date with the same force and effect as if the same had been made on and as of the Closing Date.

Notwithstanding the foregoing, the Company may, immediately prior to the Closing, (x) transfer the stock of the La Grange Corporation to the Shareholders as contemplated in Section 2.2(d); and (y) sell to the Shareholders fee simple title to the real estate described on Schedule 5.1(a) (the "Excluded Real Property") for the sum of \$400,000.00, as shall be represented by the Shareholders' Promissory Note payable to the Company in such amount (the "Shareholders Note").

(b) ACCESS TO INFORMATION. Prior to Closing, the Company will give to the Purchaser and its counsel, accountants and other representatives, full and free access to all of the properties, books, contracts, commitments and records of the Company so that the Purchaser may have full opportunity to make such investigation as it shall desire to make of the affairs of the Company.

(c) CONSENTS AND APPROVALS. The Company and the Shareholders will use their best efforts to obtain the necessary consents and approvals of other persons which may be required to be obtained on their part to consummate the transactions contemplated by this Agreement.

(d) NO SHOP. For so long as this Agreement remains in effect, neither the Company nor either Shareholder shall enter into any agreements or commitments, or initiate, solicit or encourage any offers, proposals or expressions of interest, or otherwise hold any discussions with or respond to any inquiries or expressions of interest with any potential buyers, investors investment bankers or finders, with respect to the possible sale or other disposition of all or any substantial portion of the assets and business of the Company or any other sale of the Company (whether by merger, consolidation, sale of any shares of capital stock of the Company, or otherwise), other than with the Purchaser and the Acquisition Subsidiary as contemplated in this Agreement. If, during such period, the Company or either Shareholder receives an inquiry or expression of interest regarding any such

transaction, the Company or such Shareholder, as the case may be, shall promptly notify the Purchaser of such fact; provided that the foregoing shall not require that the source of such expression of interest be disclosed.

5.2. COVENANTS OF THE PURCHASER AND THE ACQUISITION SUBSIDIARY. The Purchaser and the Acquisition Subsidiary jointly and severally covenant with the Shareholders that the Purchaser and the Acquisition Subsidiary will use their best efforts to obtain the necessary consents and approvals of other persons which may be required to be obtained on their part to consummate the transactions contemplated in this Agreement.

5.3. CONFIDENTIALITY. Prior to the Closing, each party will hold in confidence any data and information obtained with respect to the other party or parties from any representative, officer, director or employee thereof, including their accountants or legal counsel, or from any books or records of any of them, in connection with the transactions contemplated by this Agreement, except that such party may disclose such information to its outside attorneys and accountants and to its lenders, provided that the disclosing party shall remain responsible to the other parties for any unauthorized disclosure thereof by such attorneys, accountants or lenders. If the transactions contemplated hereby are not consummated, no party in receipt of such information shall disclose such data or information to others, except as such data or information is published or is a matter of public knowledge or is required by an applicable law or regulation to be disclosed. If this Agreement is terminated for any reason, any party receiving such confidential information shall return to the party which provided it all such data and information so obtained which is in written form.

6. CONDITIONS TO CLOSING.

6.1. CONDITIONS TO OBLIGATIONS OF THE PURCHASER AND THE ACQUISITION SUBSIDIARY. The obligations of the Purchaser and the Acquisition Subsidiary under this Agreement shall be subject to the following conditions, any of which may be expressly waived by the Purchaser in writing:

(a) REPRESENTATIONS AND WARRANTIES TRUE; COVENANTS PERFORMED. The Purchaser shall not have discovered any error, misstatement or omission in the representations and warranties made by the Shareholders in Section 3 hereof; the representations and warranties made by the Shareholders herein shall be deemed to have been made again at and as of the time of Closing and shall then be true and correct; the Company and the Shareholders shall have performed and complied with all agreements and conditions required by this Agreement to be performed or

complied with by them at or prior to the Closing; and the Purchaser shall have received a certificate, signed by the Shareholders and an executive officer of the Company, to the effect of the foregoing provisions of this Section 6.1(a).

(b) OPINION OF LEGAL COUNSEL. The Shareholders shall have caused to be delivered to the Purchaser an opinion of Cranston Pope, legal counsel for the Company and the Shareholders, dated the Closing Date, to the effect that:

(i) the Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida, with full corporate authority to enter into and perform its obligations under this Agreement and the Plan of Merger;

(ii) the authorized capital stock of the Company consists of 500 shares of Common Stock, \$1.00 par value, all of which shares are validly issued and outstanding and fully paid and nonassessable;

(iii) to the knowledge of such counsel, after due inquiry, there are no outstanding subscriptions, options or other agreements or commitments obligating the Company to issue any shares of its capital stock or securities convertible into shares of its capital stock;

(iv) the Shareholders are the record and beneficial owners of all of the issued and outstanding shares of capital stock of the Company, free and clear of any and all Liens (other than as described in Section 3.1, and the Shareholders have full capacity to enter into and perform their obligations in accordance with this Agreement;

(v) the execution, delivery and performance by the Company of this Agreement and the Plan of Merger have been duly authorized and approved by all necessary corporate action required on the part of the Company;

(vi) this Agreement and the Plan of Merger have been duly and validly executed and delivered by the Company, and this Agreement and the Plan of Merger constitute the valid and binding obligations of the Company enforceable against it in accordance with their respective terms;

(vii) this Agreement and the other documents to be executed and delivered hereunder by the Shareholders (as shall be specified in such opinion) have been duly and validly executed and delivered by the Shareholders, and this Agreement and such other documents constitute the valid and binding obligations of the Shareholders enforceable against them in accordance with their respective terms;

(viii) neither the execution, delivery or consummation of the transactions contemplated by this Agreement, the Plan of Merger or any of such other documents will (x) result in the breach of or constitute a default under the Articles of Incorporation or Bylaws of the Company or any loan or credit agreement, indenture, mortgage, deed of trust or other contract or agreement known to such counsel and to which the Company or either Shareholder is a party or by which they or their respective assets are bound, or (y) violate any order, writ, injunction or decree known to such counsel of any court, administrative agency or governmental body;

(ix) except as specified in such opinion, no authorization, approval or consent of or declaration or filing with any governmental authority or regulatory body, federal, state or local, is necessary or required in connection with the execution and delivery by the Company and the Shareholders of this Agreement, the Plan of Merger or any of such other documents;

(x) to the knowledge of such counsel after due inquiry, there are no claims, actions, suits, proceedings or investigations pending or threatened against or affecting the Company or any of its assets, at law or in equity or before or by any court or federal, state, municipal or other governmental department, commission, board, agency or instrumentality.

Such opinion may, as to matters of fact, be given in reliance upon certificates of the Shareholders and officers of the Company and certificates of public officials, copies of which shall be provided to the Purchaser at Closing. Any opinion as to the enforceability of any document may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and by principles of equity. Such opinion may be limited to federal law and the internal laws of the State of Florida.

(c) CONSENTS AND APPROVALS. The Company and the Shareholders shall have obtained all consents and approvals of other persons and governmental authorities to the transactions contemplated by this Agreement. Without limiting the generality of the foregoing: (i) the landlord under the Emerald Coast Lease shall have delivered to the Purchaser a written instrument pursuant to which such landlord (x) consents to the transactions hereunder (or certifies that such consent is not required) and (y) represents to the Purchaser that the Emerald Coast Lease is in full force and effect and that neither it nor, to its knowledge, the Company is in default thereunder; and (ii) the Purchaser shall have received written notice that its application to acquire control of the Cemeteries has been approved by the Florida Board of Funeral and Cemetery Services, pursuant to Florida Statutes Ann. ss.497.007(2), and that all publication and waiting periods in connection therewith have expired.

(d) NO MATERIAL ADVERSE CHANGE. Prior to the Closing there shall not have occurred any loss or damage to the assets and properties of the Company, including (without limitation) any of the Real Property or any improvements located thereon (regardless of whether such loss or damage was insured), or any other event or condition, the effect of which could reasonably be expected to have a material adverse effect on the condition, business, operations or prospects of the Company.

(e) RELATED TRANSACTIONS. Brudnicki, Kent, Kent, Jr. and Holmes shall have executed and delivered to the Acquisition Subsidiary their respective Employment Agreements; and each Shareholder shall have executed and delivered his plan adoption agreement pursuant to the terms of the Program.

(f) ENVIRONMENTAL OSHA AND STRUCTURAL REPORTS. There shall have been conducted, at the Purchaser's expense, (i) a Phase I (and, if deemed necessary by Purchaser, a Phase II) environmental audit of each parcel of Real Property by an environmental consulting firm selected by Purchaser, (ii) a health and safety inspection of each Home and each building on the Cemeteries by a person (who may be an employee of the Purchaser) or firm selected by the Purchaser and who is qualified and experienced in such matters in the funeral service industry, and (iii) a structural inspection of each Home and each building on the Cemeteries by an engineering firm selected by the Purchaser. The Shareholders agree to take the action (and pay any costs in taking such action) as may be reasonably recommended by such firms and/or persons, up to \$25,000 in the aggregate at the Homes and

the Cemeteries, as the case may be. In any event, it shall be a condition to the Purchaser's obligations hereunder that the results of the reports of such firms or persons (together with any remedial action, if any, taken by Shareholders, regardless of the cost, in response thereto) shall be satisfactory to Purchaser in its sole discretion.

(g) TITLE INSURANCE. The Shareholders shall have provided to the Acquisition Subsidiary a Leasehold Policy of Title Insurance (with respect to the Emerald Coast Real Property) and one or more Owner's Policies of Title Insurance (with respect to all other Real Property) issued to the applicable Acquisition Subsidiary in agreed-upon amounts, issued by Commonwealth Land Title Insurance Company or another title agency reasonably acceptable to the parties (the "Title Company"), insuring the Acquisition Subsidiary's leasehold or ownership interest (as the case may be) in the Real Property, subject only to the Permitted Liens and any standard printed exceptions included in a Florida standard form Policy of Title Insurance; provided, however, that such policy shall have deleted any exception regarding restrictions or be limited to restrictions that are Permitted Liens, any standard exception pertaining to discrepancies, conflicts or shortages in area shall be deleted except for "shortages in area", and any standard exception for taxes shall be limited to subsequent years. All premiums and other expenses to the Title Company associated with the issuance of such title policies shall be borne equally between the Purchaser and the Shareholders.

(h) SURVEY. The Purchaser shall have received an ALTA/ACSM survey prepared by a licensed surveyor approved by the Purchaser and acceptable to the Title Company, with respect to each parcel of Real Property, which survey shall comply with any applicable standards under Florida law, be sufficient for Title Company to delete any survey exception contained in each applicable policy of title insurance referred to in Section 6.1(g), save and except for the phrase "shortages in area", and otherwise be in form and content acceptable to the Purchaser. All fees and expenses of such surveyor shall be borne equally between the Purchaser and the Shareholders.

(i) ZONING. The Purchaser shall have received a letter or other acceptable form of communication from a responsible officer of each municipality or other governmental authority having jurisdiction over any zoning ordinance or regulation of each parcel of Real Property, indicating the zoning classification for each such parcel, affirmatively stating that the use thereof as a

funeral home or cemetery, as the case may be, complies with such classification, and setting forth (if applicable) the number of parking spaces required for each such parcel under such ordinance or regulation.

(j) LIEN RELEASES. The holders of the Liens against any assets or stock of the Company, including any of the Real Property (other than Permitted Liens) shall have executed and delivered written releases of such Liens, all in recordable form and otherwise acceptable to the Purchaser.

(k) OTHER MANAGEMENT ARRANGEMENTS. The Shareholders shall have identified to the Purchaser such other personnel of the Company (in addition to the parties to the Employment Agreements) as may be key to the continued effective management and operation of the Homes and the Cemeteries after the Closing, and the Purchaser shall have entered into mutually satisfactory arrangements regarding the continued employment of such personnel at the applicable Home or the Cemeteries following the Closing.

(l) APPROVED BUDGET. The Purchaser and the Shareholders shall have reached agreement regarding the proposed Operating Budget for the Homes and the Cemeteries for the fiscal year ending December 31, 1998; and the Purchaser shall have received from the Shareholders their certificate, acceptable in form and substance to the Purchaser, setting forth their acknowledgement regarding such Budget and their agreement to utilize their best efforts to achieve the results therein contained.

(m) SHAREHOLDERS NOTE. Effective upon the Closing, the Shareholders shall have paid in full the amount of the Shareholders Note and the amount of all other loans and other sums owed by them to the Company.

6.2. CONDITIONS TO OBLIGATIONS OF THE COMPANY AND THE SHAREHOLDERS. The obligations of the Company and the Shareholders under this Agreement shall be subject to the following conditions, any of which may be expressly waived by the Shareholders in writing:

(a) REPRESENTATIONS AND WARRANTIES TRUE; COVENANTS PERFORMED. The Shareholders shall not have discovered any material error, misstatement or omission in the representations and warranties made by the Purchaser and the Acquisition Subsidiary in Section 4 hereof; the representations and warranties made by the Purchaser and the Acquisition Subsidiary herein shall be deemed to have been made again at and as of the time of Closing and

shall then be true and correct; the Purchaser and the Acquisition Subsidiary shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by them at or prior to the Closing; and the Shareholders shall have received a certificate, signed by an executive officer of each of the Purchaser and the Acquisition Subsidiary, to the effect of the foregoing provisions of this Section 6.2(a).

(b) OPINION OF LEGAL COUNSEL. The Purchaser shall have caused to be delivered to the Shareholders an opinion of Snell & Smith, A Professional Corporation, legal counsel for the Purchaser and the Acquisition Subsidiary, dated the Closing Date, to the effect that:

(i) the Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power to enter into and perform its obligations under this Agreement and the Plan of Merger; and the Acquisition Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida, and has all requisite corporate power to enter into and perform its obligations under this Agreement and the other documents contemplated herein to be executed and delivered by the Acquisition Subsidiary (as shall be specified in such opinion);

(ii) the execution, delivery and performance by the Purchaser and the Acquisition Subsidiary of this Agreement and such other documents have been duly authorized and approved by all necessary corporate action required on their part;

(iii) this Agreement is, and upon execution and delivery as herein provided such other documents will be, valid and binding upon the Purchaser and the Acquisition Subsidiary, enforceable against the Purchaser and the Acquisition Subsidiary in accordance with their respective terms;

(iv) neither the execution, delivery or performance by the Purchaser or the Acquisition Subsidiary of this Agreement or any of such other documents will conflict with or result in a violation or breach of any term or provision of, nor constitute a default under, the Certificate of Incorporation or Bylaws of the Purchaser, the

Articles of Incorporation or Bylaws of the Acquisition Subsidiary or under any loan or credit agreement, indenture, mortgage, deed of trust or other contract or agreement known to such counsel and to which the Purchaser or the Acquisition Subsidiary is a party or by which they or their respective properties are bound, or violate any order, writ, injunction or decree known to such counsel and of any court, administrative agency or governmental body; and

(v) except as specified in such opinion, no authorization, approval or consent of or declaration or filing with any governmental authority or regulatory body, federal, state or local, is necessary or required in connection with the execution and delivery by the Purchaser or the Acquisition Subsidiary of this Agreement or any of such other documents, or the performance of its obligations hereunder or thereunder.

Such opinion may, as to matters of fact, be given in reliance upon certificates of officers of the Purchaser and the Acquisition Subsidiary, and on certificates of public officials, copies of which shall be provided to the Shareholder at Closing. Any opinion as to the enforceability of any document may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors rights and by principles of equity. Such opinion may be limited to federal law, the General Corporation Law of the State of Delaware and the internal laws of the State of Texas.

(c) CONSENTS AND APPROVALS. The Purchaser and the Acquisition Subsidiary shall have obtained all consents and approvals of other persons and governmental authorities to the transactions contemplated by this Agreement.

(d) NO MATERIAL ADVERSE CHANGE. Prior to the Closing there shall not have occurred any event or condition, the effect of which could reasonably be expected to have a material adverse effect on the condition, business, operations or prospects of the Purchaser and its consolidated subsidiaries, taken as a whole.

(e) RELATED TRANSACTIONS. The Acquisition Subsidiary shall have executed and delivered to Brudnicki, Kent, Kent, Jr. and Holmes their respective Employment Agreements; the number of positions on the Purchaser's Board of Directors shall have been increased by one (1) and Brudnicki shall have been elected to the vacancy created by such increase; and the Acquisition Subsidiary

shall have established the Program and executed and delivered to the Shareholders their plan adoption agreements thereunder.

6.3. MUTUAL CONDITIONS TO CLOSING. The respective obligations of each of the parties under this Agreement shall be subject to the following mutual conditions, which may be waived only by the unanimous agreement of all parties:

(a) CLOSING CERTIFICATES. The Company, the Purchaser and the Acquisition Subsidiary shall have executed and delivered to each other such certificates as to the incumbency of its officers who are executing and delivering documents hereunder and as to the adoption of resolutions by its directors and (where applicable) shareholders, and shall have provided certificates of public officials certifying as to their existence and good standing, all as shall be reasonably requested by the other parties hereunder.

(b) NO INJUNCTIONS. There shall not have been entered or issued any injunction, writ or order of a court of competent jurisdiction which prohibits or substantially limits the consummation of the transactions contemplated by this Agreement.

7. NATURE AND SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

7.1. NATURE OF STATEMENTS. All statements contained in this Agreement or any Schedule or Exhibit hereto shall be deemed representations and warranties of the party executing or delivering the same.

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

8. INDEMNIFICATION.

8.1. INDEMNIFICATION BY THE SHAREHOLDERS. The Shareholders jointly and severally agree to indemnify and hold harmless the Purchaser and (following the Effective Time of the Merger) the Surviving Corporation, and their respective successors and assigns, from and against any and all losses, damages, liabilities, obligations, costs or expenses (any one such item being herein called a "Loss" and all such items being herein collectively called "Losses") which are caused by

or arise out of (i) any breach or default in the performance by the Company or either Shareholder of any covenant or agreement of the Company or the Shareholders contained in this Agreement, (ii) any breach of warranty or inaccurate or erroneous representation made by either Shareholder herein, in any Schedule delivered to the Purchaser pursuant hereto or in any certificate or other instrument delivered by or on behalf of the Company or either Shareholder pursuant hereto, (iii) any Closing Date Liability (as defined in the Plan of Merger) of the Company of any kind or nature, whether absolute or contingent, known or unknown, to the extent not paid or discharged prior to the Effective Time of the Merger or not disclosed pursuant to the certificate of the Shareholders delivered to the Purchaser as provided in Sections 5(a) (iii) (F) and 5(g) of the Plan of Merger, (iv) all liabilities and obligations whatsoever associated with the ownership and operation of the La Grange Location, and (v) any and all actions, suits, proceedings, claims, demands, judgments, costs and expenses (including reasonable legal fees) incident to any of the foregoing.

8.2. INDEMNIFICATION BY THE PURCHASER. The Purchaser and the Acquisition Subsidiary jointly and severally agree to indemnify and hold harmless the Shareholders and their heirs and assigns from and against any Losses which are caused by or arise out of (i) any breach or default in the performance by the Purchaser or the Acquisition Subsidiary of any covenant or agreement of the Purchaser or the Acquisition Subsidiary contained in this Agreement, (ii) any breach of warranty or inaccurate or erroneous representation made by the Purchaser or the Acquisition Subsidiary herein or in any certificate or other instrument delivered by or on behalf of the Purchaser or the Acquisition Subsidiary pursuant hereto, and (iii) any and all actions, suits, proceedings, claims, demands, judgments, costs and expenses (including reasonable legal fees) incident to any of the foregoing.

8.3. THIRD PARTY CLAIMS. If any third person asserts a claim against a party entitled to indemnification hereunder ("indemnified party") that, if successful, might result in a claim for indemnification against another party hereunder ("indemnifying party"), the indemnifying party shall be given prompt written notice thereof and shall have the right (i) to participate in the defense thereof and be represented, at its own expense, by advisory counsel selected by it, and (ii) to approve any settlement if the indemnifying party is, or will be, required to pay any amounts in connection therewith, which approval shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, if within ten business days after delivery of the indemnified party's notice described above, the indemnifying party indicates in writing to the indemnified party that, as between such parties, such claims shall be fully indemnified for by the indemnifying party as provided

herein, then the indemnifying party shall have the right to control the defense of such claim, provided that the indemnified party shall have the right (i) to participate in the defense thereof and be represented, at its own expenses, by advisory counsel selected by it, and (ii) to approve any settlement if the indemnified party's interests are, or would be, affected thereby.

8.4. OFFSET. If either Shareholder becomes obligated to indemnify the Surviving Corporation or the Purchaser after the Closing Date pursuant to this Agreement, at any time when any Deferred Merger Consideration or Contingent Merger Consideration (as such terms are defined in the Plan of Merger), or any portion of the Merger Consideration attributable to Closing Date Receivables (as defined in the Plan of Merger), remains payable, then the Purchaser may, at its option and without prejudice to any right of the Purchaser to proceed directly against any of the Shareholders, set-off the amount for which the Shareholders shall be so obligated against such components of the Merger Consideration. The exercise of such right of set-off shall be evidenced by means of a written notice to such effect given by the Purchaser to the Shareholders, describing the basis for indemnity and set-off hereunder and the amount of the set-off. To the extent of any offset against Deferred Merger Consideration, the amount offset against shall be determined based upon present value as of the date of such offset, at a discount rate of seven percent (7%) per annum.

9. TERMINATION.

9.1. BEST EFFORTS TO SATISFY CONDITIONS. The Company and the Shareholders agree to use their best efforts to bring about the satisfaction of the conditions specified in Section 6.1 hereof; and the Purchaser and the Acquisition Subsidiary agree to use their best efforts to bring about the satisfaction of the conditions specified in Section 6.2 hereof.

9.2. TERMINATION. This Agreement may be terminated prior to Closing by:

(a) the mutual written consent of the Shareholders and the Purchaser;

(b) the Purchaser if a material default shall be made by the Company or either Shareholder in the observance or in the due and timely performance by any of their covenants herein contained, or if there shall have been a material breach or misrepresentation by the Company or either Shareholder of any of their warranties and representations herein contained, or if the conditions of this Agreement to be complied with or performed

by the Company or either Shareholder at or before the Closing shall not have been complied with or performed at the time required for such compliance or performance and such noncompliance or nonperformance shall not have been expressly waived by the Purchaser in writing;

(c) the Shareholders if a material default shall be made by the Purchaser or the Acquisition Subsidiary in the observance or in the due and timely performance by the Purchaser or the Acquisition Subsidiary of any of their covenants herein contained, or if there shall have been a material breach or misrepresentation by the Purchaser or the Acquisition Subsidiary of any of their warranties and representations herein contained, or if the conditions of this Agreement to be complied with or performed by the Purchaser and the Acquisition Subsidiary at or before the Closing shall not have been complied with or performed at the time required for such compliance or performance and such noncompliance or nonperformance shall not have been expressly waived by the Shareholders in writing; or

(d) either the Shareholders or the Purchaser, if the Closing has not occurred by November 30, 1997.

9.3. LIABILITY UPON TERMINATION. If this Agreement is terminated under paragraph (a) or (d) of Section 9.2, then no party shall have any liability to any other parties hereunder. If this Agreement is terminated under paragraph (b) or (c) of Section 9.2, then (i) the party so terminating this Agreement shall not have any liability to any other party hereto, provided the terminating party has not breached any representation or warranty or failed to comply with any of its covenants in this Agreement, and (ii) such termination shall not prejudice the rights and remedies of the terminating party against any other party which has breached any of its representations, warranties or covenants herein prior to such termination.

10. POST-CLOSING COVENANTS.

10.1. RESTRICTIVE COVENANTS.

(a) NON-COMPETITION. If the Closing occurs, then for a period commencing on the Closing Date and ending fifteen (15) years thereafter, neither Shareholder nor by her execution hereof such Shareholder's spouse (the Shareholders, together with their spouses being hereafter referred to as the "Covenantors") shall, directly or indirectly:

(i) engage, as principal, agent, trustee or through the agency of any corporation, partner-

ship, association or agent or agency, anywhere within a fifty (50) mile radius of either Home or any Cemetery (the "Territory"), in the funeral, mortuary, crematory, monument, cemetery or any related line of business (collectively, the "Business");

(ii) own or hold any beneficial interest in one percent (1%) or more of the voting securities in any corporation, partnership or other business entity which conducts its operations, in whole or in part, in the Business within the Territory;

(iii) become an employee of or consultant to, or otherwise serve in any similar capacity with, any corporation, partnership or other business entity that conducts its business, in whole or in part, in the Business within the Territory; or

(iv) cause or induce any present or future employee of the Purchaser or any of its affiliates to leave the employ of the Purchaser or any such affiliate to accept employment with such Covenantor or with any person, firm, association or corporation with which such Covenantor may be or become affiliated.

Without limiting the generality of the foregoing, a Covenantor shall be deemed directly or indirectly engage in the Business if he or she acts as a funeral director at any funeral establishment within the Territory, if such Covenantor engages in the sale or marketing of preneed funeral contracts for services to be performed within the Territory, or if such Covenantor promotes or finances any family member or affiliate to operate a Business or engage in any of the foregoing activities within the Territory.

(b) REFORMATION. The above covenants shall not be held invalid or unenforceable because of the scope of the territory or actions subject thereto or restricted thereby, or the period of time within which such covenants are operative; but any judgment of a court of competent jurisdiction may define the maximum territory and actions subject to and restricted thereby and the period of time during which such covenants are enforceable.

(c) REMEDIES. The Covenantors agree that any remedy at law for any actual or threatened breach of any of the foregoing covenants would be inadequate and that the Purchaser shall be entitled to specific performance hereof or injunctive relief or both, by temporary or

permanent injunction or such other appropriate judicial remedy, writ or order as may be entered into by a court of competent jurisdiction in addition to any damages that the Purchaser may be legally entitled to recover together with reasonable expenses of litigation, including attorneys' fees incurred in connection therewith, as may be approved by such court.

(d) REPRESENTATIONS. Each Covenantor represents and warrants to and agrees with the Purchaser that (i) such Covenantor understands that the foregoing restrictions are being made incident to and as a condition of consummation of the Merger hereunder, and that such covenants are necessary in order to protect the business and goodwill being acquired thereby, (ii) such covenants are not oppressive to such Covenantor in any respect, and (iii) the consideration for such restrictions is included in the Merger Consideration, which consideration such Covenantor acknowledges is fair and adequate for the giving of the covenants herein and for which such Covenantor acknowledges a direct and valuable benefit.

(e) MERGER CONSIDERATION ALLOCATION. The parties agree to allocate \$50,000 of the Merger Consideration to the foregoing covenants for federal income tax purposes. Such allocation is not intended to be a measure of the amount or range of damages which the Purchaser may suffer or recover as a result of any breach of the foregoing covenants, and the Covenantors acknowledge that in case of any such breach, the Purchaser shall be entitled to seek in excess of such amount as it may otherwise be able to demonstrate itself justly entitled to.

10.2. TAX MATTERS. (a) Except as provided in paragraph (b) below, the Shareholders shall be fully responsible for all federal, state and local taxes (including, but not limited to, income taxes) of the Company accrued through the Closing and for completing, filing and handling all tax returns and reports in respect in of all periods through Closing and consummation of the Merger, including responding to any inquiries, examinations or audits regarding such taxes, returns and reports. Without limiting the generality of the foregoing, the Shareholders will (i) jointly and severally indemnify the Surviving Corporation and the Purchaser from any Losses (including income tax liability, assessments, interest and penalties) arising from any disallowance of the Merger as a "reorganization" under Code Section 368 (other than as a result of any action taken by the Purchaser or the Surviving Corporation following the Merger), and (ii) cause the preparation of a short-period federal income tax return for the Company's current year through the Closing Date (after which time the Surviving Corporation will be included as part of the consolidated group of which the Purchaser is the parent

corporation), and the Shareholders shall pay all federal income taxes in respect thereof. If after the Closing the Surviving Corporation becomes entitled to and actually receives any federal or state income tax refund in respect of any tax period prior to the Closing Date, the Surviving Corporation shall forward such refund, in the form received, to the Shareholders.

(b) Notwithstanding paragraph (a) above, the Shareholders shall not be responsible for (and the Surviving Corporation shall retain liability for) any federal or state income tax liability ("Assumed Tax Liability") which may be assessed after the Closing in respect of operations of the Company prior to the Closing, but only insofar as any such tax liability is directly attributable to the sale of cemetery merchandise and services on a preneed basis as to which there are accounts receivable in existence on (and ONLY to the extent of the balance of such accounts receivable as of) the Closing Date arising from such sales ("Preneed Cemetery Accounts Receivable"); provided, however, that without limiting the generality of the foregoing, there is specifically excluded from Assumed Tax Liability (i) any federal or state income tax liability arising from (a) sales from funeral merchandise and services; (b) sales of cemetery merchandise and services on an at-need basis; and (c) sales of cemetery merchandise and services on a preneed basis¹ but only insofar as such sales are not reflected in the Preneed Cemetery Accounts Receivable; (ii) any penalties and interest that may be assessed in respect of the Assumed Tax Liability; and (iii) the professional fees of any attorneys, tax advisors or other consultants in defending any tax position or in negotiating or settling any tax liability. The Shareholders shall have the right to control the defense of any audits or proceedings in which an Assumed Tax liability may be assessed, provided that the Shareholders shall keep the Purchaser reasonably advised of all developments in any such audit or proceedings, the Purchaser may participate in such defense with counsel or advisors of its own choice (and at the Purchaser's own expense), and the Purchaser shall have the right to approve any settlement concerning the Assumed Tax Liability, which consent shall not be unreasonably withheld or delayed. At such time as any such assessment which may result in Assumed Tax Liability may become final (whether by judgment or agreement), the Shareholders and the Purchaser shall provide access to each other's records and otherwise cooperate with one another so as to properly allocate the total tax based upon (x) the proportion between sales of preneed cemetery merchandise and services attributable to Preneed Cemetery Accounts Receivable balances as of the Closing Date (on the one hand) and such sales for which there are not such corresponding balances as of the Closing Date (on the other), and (y) the other principles set forth above. At such time as the Assumed Tax Liability becomes finally determined in accordance

with this Section 10.2, the Purchaser shall reimburse the Shareholders for the amount thereof within ten (10) business days.

10.3. EMPLOYEE MATTERS. At Closing, the Shareholders will cause the Company to pay or satisfy all vacation, holiday and other accrued benefits to employees of the Company which are then outstanding. Following the Closing, the Shareholders shall be fully responsible for funding all necessary contributions to each pension, profit sharing or other similar employee benefit plan described on Schedule 3.22 that is required to be qualified under ERISA (collectively, "Pension Plans") for all periods, and following the Closing the Shareholders shall take all necessary action to terminate the Pension Plans in accordance with applicable law in connection with which the Shareholders shall file all necessary forms and pay all appropriate fees, fines, penalties and other sums due in respect thereof and make any necessary distributions to plan beneficiaries. Without limiting the generality of Section 8.1, the "Losses" against which the Purchaser and the Surviving Corporation shall be indemnified against shall include all such liabilities, obligations and responsibilities arising in connection with the Pension Plans (whether arising before or after the Closing). The Shareholders shall keep the Purchaser reasonably informed regarding the progress of the termination, winding up and distribution of the Pension Plans.

10.4. RESALE OF CARRIAGE STOCK. The parties acknowledge that all shares of Class A Common Stock of the Purchaser (and all shares of Class A Common Stock issuable upon conversion of the Purchaser's Series E Preferred Stock) constituting a portion of the Merger Consideration as provided in the Plan of Merger ("Carriage Stock") will be registered under the Securities Act of 1933, as amended, pursuant to a Registration Statement on Form S-4. Notwithstanding such registration, however, each Shareholder, for himself and for all future holders of the Carriage Stock, hereby agrees that, for a period of two years following the Closing, (i) he shall not, without the Purchaser's prior written consent, sell a number of shares of Carriage Stock, over any three-month period, in excess of the greater of (x) one percent (1%) of the total number of shares of Common Stock of the Purchaser then outstanding or (y) the average weekly reported volume of trading of the Common Stock on any national securities exchange on which the Common Stock is traded, or as reported on the NASDAQ National Market Service, as applicable, during the four calendar weeks preceding the date of the proposed sale; and (ii) if during such two-year period the Purchaser engages in an underwritten public offering of its Common Stock, and the managing underwriter(s) request(s) either or both Shareholders to refrain from selling or otherwise disposing of any Carriage Stock for a certain period (not to exceed 180 days), then the Shareholders shall enter into the requested lock-up agreement

with such underwriter(s) to the extent and in the same manner that members of the Purchaser's Board of Directors are so requested.

10.5. LA GRANGE LOCATION. Immediately prior to the Closing, as provided in Section 2.2(d), the Company shall distribute to the Shareholders (or their designated entity) all of the stock of the La Grange Corporation. The Surviving Corporation shall have no liability and obligations associated with the La Grange Corporation or the La Grange Location, and the Surviving Corporation and the Purchaser shall be indemnified in respect thereof as provided in Section 8.1(iv). Prior to or following the Closing, the Shareholders shall take all necessary action to obtain all necessary approvals under Georgia law to permit the transfer of the La Grange Corporation's stock as described in said Section 2.2(d), including any necessary transfers of the La Grange Location's funeral establishment license to, or to be obtain a new license in the name of, the Shareholders or their designated entity.

11. MISCELLANEOUS.

11.1. EXPENSES. Regardless of whether the Closing occurs, the parties shall pay their own expenses in connection with the negotiation, preparation and carrying out of this Agreement and the consummation of the transactions contemplated herein. If the transactions contemplated by this Agreement and the Exhibits hereto are consummated, the Company shall have no obligation for, nor shall the Company be charged with, any such expenses of the Shareholders. All finders' and similar fees and expenses of Thomas Pierce & Co. shall be borne solely by the Purchaser, and in no event shall either Shareholder be charged or responsible therefor. All sales, transfer, stamp or other similar taxes, if any, which may be assessed or charged in connection with the transactions hereunder shall be borne by the Shareholders.

11.2. NOTICES. All notices, requests, consents and other communications hereunder shall be in writing and shall be deemed to have been given when personally delivered or three business days following the date, mailed, first class, registered or certified mail, postage prepaid, or when sent by facsimile transmission and receipt is confirmed, as follows:

(i) if to the Company or either Shareholder, to:

Forest Lawn/Evergreen Management Corp.
2403 Harrison Avenue
Panama City, Florida 32405
Attention: Mr. Greg M. Brudnicki
Facsimile: 850/785-1897

with a copy to:

Cranston Pope
P.O. Box 12151
Panama City, Florida 32401
Facsimile: 904/784-9175

(ii) if to the Purchaser or the Acquisition Subsidiary, to:

Carriage Services, Inc.
1300 Post Oak Boulevard, Suite 1500
Houston, Texas 77056
Attention: President
Facsimile: (281) 556-7401

with a copy to:

Snell & Smith, A Professional Corporation
1000 Louisiana, Suite 3650
Houston, Texas 77002
Attention: Mr. W. Christopher Schaeper
Facsimile: (713) 651-8010

or to such other address as shall be given in writing by any party to the other parties hereto.

11.3. ASSIGNMENT. This Agreement may not be assigned by any party hereto without the prior written consent of the other parties; provided, however, that following the Closing the Purchaser or the Surviving Corporation may assign its rights hereunder without the consent of the Shareholders to a successor-in-interest to the Purchaser or the Surviving Corporation, as the case may be (whether by merger, sale of assets or otherwise).

11.4. SUCCESSORS BOUND. Subject to the provisions of Section 11.3, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs and personal representatives.

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

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

11.7. ENTIRE AGREEMENT. This Agreement and the Exhibits, Schedules, certificates and other documents referred to herein, constitute the entire agreement of the parties

hereto, and supersede all prior understandings with respect to the subject matter hereof and thereof.

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

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

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

THE PURCHASER:

CARRIAGE SERVICES, INC.

By: MARK W. DUFFEY, President

THE ACQUISITION SUBSIDIARY:

CARRIAGE SERVICES OF FLORIDA, INC.

By: MARK W. DUFFEY, President

THE COMPANY:

FOREST LAWN/EVERGREEN MANAGEMENT CORP.

By: GREG M. BRUDNICKI, President

THE SHAREHOLDERS:

GREG M. BRUDNICKI

CHARLES E. KENT

The undersigned spouses of the Shareholders hereby join in the execution of this Agreement for purposes of evidencing their agreement to be bound by the provisions of Section 10.1 hereof.

EVELYN L. BRUDNICKI, wife of GREG M.
BRUDNICKI

JULIE KENT, wife of CHARLES E. KENT

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EXHIBIT	DESCRIPTION
A	Plan of Merger
B-1	Employment Agreement (Greg M. Brudnicki)
B-2	Employment Agreement (Charles E. Kent)
B-3	Employment Agreement (Charles Kent, Jr.)
B-4	Employment Agreement (Jim Holmes)
C	Carriage Partners Program

SCHEDULE	DESCRIPTION
I	The Shareholders
3.5	Financial Information
3.6	Real Property
3.12	Fixed Assets
3.13	Contracts and Commitments
3.14	Preneed Contracts and Trust Accounts
3.15	Intangible Rights
3.17	Licenses
3.20	Environmental Matters
3.21	Employees
3.22	Employee Benefit Plans
5.1(a)	Excluded Real Property

ASSET PURCHASE AGREEMENT

THIS AGREEMENT, dated as of November 19, 1997, among CARRIAGE FUNERAL HOLDINGS, INC., a Delaware corporation (the "Purchaser"), KENT-THORNTON FUNERAL HOME, INC., an Alabama corporation (the "Company"), and GREG BRUDNICKI, CHARLES KENT, RICKY KENT and JANE THORNTON (collectively, the "Shareholders") (the Company and the Shareholders being sometimes hereafter referred to together as the "Sellers");

W I T N E S S E T H:

WHEREAS, the Company owns all of the operating assets, rights and properties associated with the operation of the Kent-Thornton Funeral Home located at 1468 Hartford Highway in Dothan, Houston County, Alabama (the "Home"), and the Shareholders collectively own all of the issued and outstanding capital stock of the Company; and

WHEREAS, the parties desire that the Purchaser acquire substantially all of such assets, rights and properties of the Home from the Company, and that the parties enter into certain related transactions, on the terms and subject to the conditions hereafter set forth;

NOW, THEREFORE, the parties agree as follows:

1. PURCHASE AND SALE OF ASSETS.

1.1. TRANSFER OF ASSETS BY THE COMPANY. Subject to the provisions of this Agreement, the Company agrees to sell, and the Purchaser agrees to purchase, at the Closing referred to in Section 2.1, substantially all of the properties, assets, rights and business of the Home of every kind and description, tangible and intangible, real, personal or mixed, wherever located, as they shall exist at the time of the Closing (collectively, the "Assets"), including, but not limited to, all of the following-described assets, rights and properties (but excluding those described in Section 1.2):

(i) inventories of caskets, vaults, urns, accessories, monuments and other goods and inventories;

(ii) fee simple title to all of the interests in real property used in the business and operations of the Home, more particularly described on Schedule 3.5 hereto (collectively, the "Real Property");

(iii) machinery, equipment, motor vehicles (five), furniture, fixtures, supplies, tools and other fixed assets and property, plant and equipment, including those described on Schedule 3.10 hereto;

(iv) all cash balances in bank accounts and certificates of deposit and other investments to fund obligations under preneed contracts;

(v) all pre-need contracts of the Home and other agreements, leases and commitments described on Schedule 3.11 (other than those shown thereon, if any, as not being assumed by the Purchaser);

(vi) all rights to the name "Kent-Thornton Funeral Home" and all derivatives thereof, and all trademarks, trade names, patents, processes, copyrights, know-how and similar intangible rights, and all goodwill associated therewith;

(vii) all permits, licenses, books, records, brochures and literature, rights in unemployment compensation, industrial accident and other similar funds, and prepaid items; and

(viii) all other assets, rights and properties owned or leased by the Company that are used in or necessary for the Home at the time of Closing, excluding those described in Section 1.2.

At the Closing, the Company shall convey to the Purchaser the Assets free and clear of any and all liens, security interests, pledges, encumbrances, easements, rights-of-way or title restrictions of any kind (collectively, "Liens"), other than easements and other similar restrictions against Real Property described on Schedule 3.5 ("Permitted Encumbrances").

1.2. RETAINED ASSETS. Notwithstanding the foregoing, the following properties, assets, rights and interests (the "Retained Assets") are hereby excluded from the purchase and sale contemplated hereby and are therefore not included in the Assets:

(i) all cash on hand, in transit or on deposit, including bank account balances, certificates of deposit and marketable securities, excluding, however, account balances and certificates of deposit to fund preneed contracts;

(ii) notes and accounts receivable; and

(iii) any prepaid federal income taxes of the Company, and any rights to or claims for federal income tax refunds, in respect of the operation of the Home prior to the Closing.

1.3. PURCHASE PRICE. The purchase price for the Assets shall be \$1,000,000.00 PLUS the amount (if any) of the Contingent Purchase Price payable under Section 1.5 below (the "Purchase Price"). Of the Purchase Price, (i) an amount sufficient to discharge indebtedness of the Company as determined by the Purchaser pursuant to Section 1.4 shall be paid to the holders of such indebtedness, (ii) the Contingent Purchase Price, if earned, shall be payable in the manner specified in Section 1.5, and (iii) the balance of the Purchase Price, after deducting the amounts in clauses (i) through (ii) above, shall be paid to the Company in cash at Closing by wire transfer to such account as the Sellers shall designate in writing at least three business days prior to the Closing. The Purchase Price shall be subject to adjustment following the Closing as provided in Sections 1.4 and 1.5.

1.4. ADJUSTMENT TO PURCHASE PRICE. At least two business days prior to the Closing, the Sellers shall deliver to the Purchaser a written statement, certified by them to be accurate and complete, setting forth a description, and the outstanding balance as of the date of such statement, of all liabilities and obligations of the Company, including (but not limited to) indebtedness for borrowed money, indebtedness secured by Liens against any of the Assets, accounts and trade payable, accrued liabilities, federal, state and local taxes, any liabilities under suits, claims judgments or orders then pending, or any other liability or obligation (collectively, "Unassumed Liabilities"), excluding only Assumed Liabilities described in Section 1.6. At Closing, the Purchaser shall pay out of the Purchase Price such portion thereof as shall be required to pay and discharge those Unassumed Liabilities as the Purchaser in its sole discretion deems appropriate, which at a minimum shall include liabilities secured by Liens against any of the Assets, and any and unsecured indebtedness for borrowed money, but may also include any of such other liabilities. Notwithstanding such payment, the Sellers shall remain responsible for paying any remaining Unassumed Liabilities. Payments under this Section 1.4 shall be deemed downward adjustments in the Purchase Price.

1.5. CONTINGENT PURCHASE PRICE. If the Earnout Amount (as hereafter calculated) is determined to be greater than \$1,000,000.00, then the Purchaser shall pay,

as additional Purchase Price hereunder, the amount by which the Earnout Amount exceeds \$1,000,000.00, without interest. If the Earnout Amount is equal to or less than \$1,000,000.00, then no adjustment to the Purchase Price shall be made hereunder. If the Contingent Purchase Price is so earned, the Purchaser shall pay the same on or before March 31, 2001, either in cash or in shares of Class A Common Stock, \$.01 par value ("Class A Common Stock") (based upon its Fair Market Value, as hereafter defined, determined as of December 31, 2000), of Carriage Services, Inc., a Delaware corporation ("Parent"), as the Shareholders shall indicate by written notice delivered to the Purchaser on or before February 28, 2001 (and in the absence of such notice, the entire amount of the Contingent Purchase Price shall be payable in cash). The Contingent Purchase Price shall be subject to offset as provided in Section 10.4. For purposes hereof:

"Earnout Amount" means the product of (x) the sum of the Home's Operating Net Income (as hereafter defined) for the Purchaser's fiscal years ending December 31, 1998-2000, divided by three, MULTIPLIED BY (y) seven.

"Operating Net Income" of the Home means for any fiscal year, the net income for such fiscal year attributable to the revenues and expenses from the Home, determined in accordance with generally accepted accounting principles and as reflected in the unaudited statement of income of the operations of the Home for such Fiscal Year, PLUS federal income taxes, interest, depreciation and amortization deducted for purposes of calculating such net income. In no event will there be charged against Operating Net Income, for purposes of the above calculation, any corporate overhead charges from the Purchaser's corporate offices in Houston, Texas, other than auditors fees, insurance premiums, legal expenses and other similar costs of the Purchaser, all of which must be reasonably and directly attributable to the Home's operations.

"Fair Market Value" means the average Trading Value of a share of Class A Common Stock for the ten trading days immediately preceding the date of determination. For purposes of the foregoing, "Trading Value" means, on any trading day for the Class A Common Stock, (i) if the Class A Common Stock is traded on a national securities exchange on such trading day, then the closing price on such trading day as reflected in the consolidated trading tables of the WALL STREET JOURNAL or any other

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

1.6. ASSUMPTION OF LIABILITIES. The Purchaser, upon the sale and purchase of the Assets, shall, subject to Section 1.7 below, assume and agree to pay or discharge only the following liabilities and obligations of the Company (collectively, the "Assumed Liabilities"):

(i) liabilities under those preneed contracts of the Home that are included in the Assets, provided that as of the Closing such liabilities are fully covered by trust or insurance; and

(ii) obligations arising after Closing under the agreements, leases and commitments of the Home described in Schedule 3.11 (other than agreements, leases and commitments, if any, which are indicated on such Schedule as not to be assumed by the Purchaser).

The assumption by the Purchaser of the Assumed Liabilities shall not enlarge any rights or remedies of any third parties under any contracts or arrangements so assumed. Nothing herein shall prevent the Purchaser from - contesting in good faith any of the Assumed Liabilities. At Closing, the Purchaser shall deliver to the Company an instrument, dated the Closing Date and reasonably satisfactory in form and substance to it, pursuant to which the Purchaser will assume the Assumed Liabilities.

1.7. LIMITATIONS ON ASSUMPTION. Notwithstanding Section 1.6 above, the Purchaser will not assume and does not agree to pay or discharge any obligations or liabilities of the Company not specifically included in the Assumed Liabilities. In particular, without limiting the generality of the definition of "Unassumed Liabilities" under Section 1.4 above, the Purchaser shall not assume or agree to pay or discharge any of the following:

(i) any notes or accounts payable;

(ii) any trade payables of any kind, regardless of whether entered into in the ordinary course of business;

(iii) any federal, state or local tax of any type, whether arising by reason of the sale of the Assets or by operation of the Home prior to the Closing Date;

(iv) any losses, costs, damages or expense based upon or arising from any claims, litigation, legal proceedings or other actions against the Company based upon any set of facts occurring prior to the Closing;

(v) the liabilities and obligations under any warranties to customers with respect to goods or products sold or services provided by the Company prior to Closing;

(vi) all personal injury, product liability claims, claims of environmental damage, claims of hazards to health, strict liability, toxic torts, enforcement proceedings, cleanup orders and other similar actions or claims instituted by private parties or governmental agencies, with respect to the operation of the Home prior to Closing; or

(vii) any other liability or obligation not specifically included within the Assumed Liabilities.

1.8. CERTAIN PRORATIONS. All normal and customarily proratable items, including without limitation, real estate and personal property taxes, rents under leases and utility bills, shall be prorated as of the Closing Date, the Company being charged and credited for all of same up to such date and the Purchaser being charged and credited for all of same on and after such date. Utility services will be transferred to the Purchaser's name on the Closing Date. If the actual amounts to be prorated are not known as of the Closing Date, the prorations shall be made on the basis of the best evidence then available, and thereafter, within thirty (30) days after actual figures are received, a cash settlement will be made between the Company and the Purchaser.

1.9. INSTRUMENTS OF TRANSFER. At the Closing, the Sellers shall deliver to the Purchaser such instruments of transfer, assignment and conveyance, including (without limitation) bills of sale, general warranty deeds,

lease assignments and assignments of motor vehicle registrations, transferring title to the Assets to the Purchaser as may reasonably be requested by the Purchaser. Such instruments shall be reasonably satisfactory in form and substance to the Purchaser and shall vest in the Purchaser good and marketable title to all the Assets, free and clear of all Liens except (in the case of Real Property) for any Permitted Encumbrances.

1.10. DELIVERY OF RECORDS. CONTRACTS AND TRUST FUNDS. At the Closing, the Company will deliver to the Purchaser all of the leases, contracts, commitments and rights of the Home constituting a portion of the Assets, with such assignments thereof and consents to assignment as the Purchaser shall deem necessary to assure the Purchaser of their full benefit. Simultaneously with such deliveries, the Company shall take all requisite steps to put the Purchaser in actual possession and operating control of the Assets and all of the records, books and other data of the Home. In addition, at the Closing, the Sellers and the Purchaser shall take all necessary or appropriate action to cause the transfer of the trust-funds referred to in Section 3.12 including, without limitation, the obtaining of governmental and third party consents.

1.11. TAXES. Any sales or transfer taxes which may be payable in connection with the sale of the Assets under this Agreement shall be paid by the Sellers.

1.12. EMPLOYEE MATTERS. On the Closing Date, the Purchaser may (but shall not be required to) offer employment to each employee of the Home listed on Schedule 3.19. Each such employee so offered employment-who accepts shall, effective as of the Closing Date, cease to be an employee of the Company and shall thereupon become an employee of the Purchaser. The Sellers shall be responsible for satisfying all claims, if any, of such employees as to accrued vacation and holiday, health benefits, workers compensation claims, termination and severance benefits, and any withdrawal liability and vested rights under any pension or profit sharing plans, all arising and accrued through the Closing Date, and in no event shall the Purchaser have any liability or responsibility in respect thereof.

1.13. FURTHER ASSURANCES. The Sellers shall from time to time after the Closing, without further consideration, execute and deliver such instruments of transfer, conveyance and assignment (in addition to those delivered pursuant to Section 1.9), and shall take such other action, as the Purchaser may reasonably request to

more effectively transfer, convey and assign to and vest in the Purchaser, and to put the Purchaser in actual possession and control of, each of the Assets.

2. THE CLOSING.

2.1. TIME AND PLACE. The closing of the transactions contemplated under this Agreement (the "Closing") shall occur at the offices of Cranston Pope, 438 N. Cove Blvd., Panama City, Florida 32401, at 9:00 a.m. on November 20, 1997, or at such other date, time or place as may be mutually agreed upon by the parties, but in no event later than November 30, 1997. The date and time of the Closing is herein called the "Closing Date", and shall be deemed to have occurred as of the commencement of business on the Closing Date. All action to be taken at the Closing as hereinafter set forth, and all documents and instruments executed and delivered, and all payments made with respect thereto, shall be considered to have been taken, delivered or made simultaneously, and no such action or delivery or payment shall be considered as complete until all action incident to the Closing has been completed.

2.2. RELATED TRANSACTIONS. In addition to the purchase and sale of the Assets, the following transactions shall take place at the Closing:

(i) the Purchaser, on the one hand, and each of Kendall Glover ("Glover") and Earl Sellers ("Earl"), on the other, shall each execute and deliver to the other an Employment Agreement to be dated the Closing Date, substantially in the forms of Exhibit A-1 and A-2, respectively, hereto (collectively, the "Employment Agreements"); and

(ii) on the date of this Agreement, Parent, Carriage Services of Florida, Inc. ("Carriage-Florida"), Forest Lawn/Evergreen Management Corp. ("Forest Lawn") and the shareholders of Forest Lawn have entered into a Merger Agreement (the "Merger Agreement") providing for, among other things, the merger of Forest Lawn with and into Carriage-Florida, and the Closing hereunder is subject to the closing substantially simultaneously therewith of such merger transaction under the Merger Agreement.

3. REPRESENTATIONS AND WARRANTIES OF THE SELLERS. The Sellers jointly and severally represent and warrant to and agree with the Purchaser that:

3.1. ORGANIZATION AND EXISTENCE. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Alabama, and has all requisite corporate power to enter into and perform its obligations under this Agreement.

3.2. OWNERSHIP OF THE COMPANY. The Shareholders collectively own and hold all of the issued and outstanding capital stock of the Company.

3.3. FINANCIAL STATEMENTS. The Sellers have delivered to the Purchaser (i) the unaudited balance sheet of the Company at December 31, 1996 (the "Company Balance Sheet") and the related unaudited income statement of the Company for the twelve-month period of operations then ended, and (ii) the unaudited balance sheet of the Company at December 31, 1995 and the related unaudited income statement of the Company for the twelve-month period of operations then ended. All of such financial statements are true and correct, have been prepared in accordance with the books and records of the Company, and present fairly the financial positions of the Company at the dates thereof and the results of operations of the Company for the periods then ended in accordance with the federal income tax method of accounting applied on a consistent basis. The Home performed at least 114 adult casketed funeral services for the twelve months ended December 31, 1995, at least 164 adult casketed funeral services for the twelve months ended December 31, 1996, and at least 74 adult casketed funeral services for the seven months ended July 31, 1997.

3.4. TITLE TO AND STATUS OF ASSETS. All assets, rights and properties required in the operation of the -Home are owned or validly leased by the Company and are included within the Assets. The Company is in actual possession and control of all properties owned or leased by it which are required in the operation of the Home, and has good and marketable title to all of the Assets, free and clear of all Liens (except, in the case of Real Property, for Permitted Encumbrances).

3.5. REAL PROPERTY.

(a) DESCRIPTION. Schedule 3.5 sets forth a legal description of all parcels included within the Real Property, and also briefly describes each building and major structure and improvement thereon. The Company has good and marketable fee simple title to the Real Property as shown on Schedule 3.5, free and clear of any and all Liens, other than Permitted Encumbrances. No person other than the Company has any ownership, leasehold or

other interest of any kind in the Real Property. The Real Property constitutes all of the interests in real property required for the operation of the Home as presently conducted. All of the buildings, structures and improvements located on the Real Property are in good operating condition, ordinary wear and tear excepted. None of such buildings, structures or improvements, or the operation or maintenance thereof as now operated or maintained, contravenes any zoning ordinance or other administrative regulation or violates any restrictive covenant or any provision of law, the effect of which would interfere with or prevent their continued use for the purposes for which they are now being used. There is not pending nor, to the knowledge of any Seller, threatened any proceeding for the taking or condemnation of the Real Property or any portion thereof.

(b) NO FLOOD HAZARDS. The Real Property is not located within an area that has been designated by the Federal Insurance Administration, the Army Corp of Engineers, or any other governmental agency or body as being subject to special flooding hazards.

(c) NON-FOREIGN STATUS. The Company is not a "foreign person" or a "United States real property holding corporation" (as defined in Section 1445(f)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations issued thereunder), and the Company shall deliver at Closing a non-foreign affidavit in recordable form containing such information as shall be required by Code Section 1445(b)(2) and the regulations issued thereunder.

(d) BILLS PAID. All bills and other payments due -with respect to the ownership, operation, and maintenance of the Real Property have been (and on the Closing Date will be) paid, and no Liens or other claims for the same have been filed or asserted against any part of the Real Property.

3.6. ABSENCE OF CHANGES OR EVENTS. Since the date of the Company Balance Sheet, there has not been:

(i) any adverse change in the financial condition, operations, properties or prospects of the Home;

(ii) any material damage, destruction or losses against the Home or any of its properties;

(iii) any claim or liability for any material damages for any actual or alleged negli-

gence or other tort or breach of contract against or affecting the Company;

(iv) any declaration or payment of any bonus or other extraordinary compensation to any employee of the Company;

(v) any hiring, firing, reassignment or other change in any key personnel of the Company;

(vi) any sale, transfer or other disposition of, or agreement to sell, transfer or otherwise dispose of, any of the inventories or other assets or properties of the Company, except in the ordinary course of business;

(vii) any labor strike or labor dispute, or the entering into of any collective bargaining agreement, with respect to employees of the Company;

(viii) any new competitor that has, to the knowledge of any Shareholder, built, commenced to build or announced intentions to build a funeral home or mortuary in direct competition with the Home; or

(ix) any other transaction or event entered into or affecting the Company other than in the ordinary course of business.

3.7. ABSENCE OF UNDISCLOSED LIABILITIES. Except as set forth in the Company Balance Sheet and in this Agreement, the Company has no, and none of its assets or properties are subject to any, liabilities or obligations, other than unsecured trade accounts payable and accrued expenses arising in the ordinary course of business since the date of the Company Balance Sheet.

3.8. TAX MATTERS. All federal, state, county, local and other taxes due and payable on or before the date of this Agreement in respect of the Company and the ownership of the Assets have been paid. All tax returns and reports required to be filed for all such taxes have been filed with all taxing authorities, and all such tax returns and reports are true and correct. True and correct copies of the federal, state and local income tax returns filed by the Company for each of its last three taxable years have been furnished to the Purchaser. No assessments of deficiencies have been made against the Company which are presently pending or outstanding, and no state or facts exist which would constitute grounds

for any such assessment. No agreements, waivers or extensions of time are in effect for the assessment of deficiencies in respect of the business or any of the Assets. Following the Closing, the Sellers shall be responsible for accurately and completely preparing, signing and filing all tax returns and paying all taxes in respect of the assets and operations of the Company through the Closing Date and for the sale of the Assets.

3.9. INVENTORY. All inventories reflected in the Company Balance Sheet are, and all inventories of the Company on the Closing Date will be, (i) accounted for in accordance with the federal income tax method of accounting applied on a consistent basis, and (ii) saleable or usable in the ordinary course of business at usual and customary prices, subject to normal returns and markdowns consistent with past practice. At the Closing, the Sellers will deliver to the Purchaser a list, certified by them to be complete and correct, of all of the inventory of the Home.

3.10. FIXED ASSETS. Schedule 3.10 lists all motor vehicles and other material items of equipment, fixtures, furniture and other fixed assets used in the operation of the Home, all of which are included in the Assets. All such items are in good and operating condition and repair, ordinary wear and tear excepted.

3.11. CONTRACTS AND COMMITMENTS. Schedule 3.11 sets forth a complete description of:

(i) all documents evidencing any money borrowed by the Company or the creation or existence of any Lien against any of the Assets, and all documents relating to any debt secured in whole or in part by any such Liens;

(ii) all collective bargaining agreements, employment contracts, noncompetition agreements and other agreements relating to the employment of any employees of the Company;

(iii) all joint venture agreements and all other agreements involving the sharing of profits, involving the Company or the Home;

(iv) all (i) contracts or commitments for capital expenditures for the Company involving obligations aggregating in excess of \$5,000, (ii) leases under which personal property is leased by the Company and which are not cancelable by either party thereto without penalty upon notice of 30

days or less or pursuant to which re \$1,000 per annum or \$5,000 in the aggregate, or (iii) contracts and agreements of the Company which do not terminate or are not terminable by the Company upon notice of 30 days or less or which involves an obligation on its part in excess of \$1,000 per annum or \$5,000 in the aggregate; and

(v) all other contracts and commitments of the Company entered into outside course of business.

Each contract and other document required to be described in Schedule 3.11 is valid and in full force and effect and neither the Company, nor, to the knowledge of the Sellers, none of the other parties thereto, are in default thereunder. A true and correct copy of each document listed on Schedule 3.11 has been delivered to the Purchaser by the Sellers.

3.12. PRE-NEED CONTRACTS AND TRUST ACCOUNTS. Schedule 3.12 accurately lists, as of the date of this Agreement, (i) all preneed contracts of the Home unfulfilled as of such date, including contracts for the sale of funeral merchandise and services, and (ii) all trust accounts relating of the Company, indicating the location of each and the balance thereof. All preneed contracts required to be listed on Schedule 3.12 (x) have been entered into in the normal course of business at regular retail prices, or pursuant to a sales promotion program, solely for use by the named customers and members of their families on terms not more favorable than shown on the specimen contracts which have been delivered to the Purchaser, (y) are subject to the rules and regulations of the Home as now in force (copies of which have been delivered to the Purchaser), and (z) on the date hereof are in full force and effect, subject to no offsets, claims or waivers, and neither the the company nor, except as disclosed on Schedule 3.12, such customer is in default thereunder. All funds received by the company under preneed contracts have been deposited in the appropriate accounts and administered and reported in accordance with the terms thereof and as required by applicable laws and regulations. The aggregate market value of such preneed accounts, trusts and other depositions in equal to or greater than the aggregate preneed liability related thereto. The services heretofore provided by the Home have been rendered in a professional and competent manner consistent with prevailing professional standards, practices and customs.

3.13. INTANGIBLE RIGHTS. There are no patents, patent applications, patent licenses, trademarks, trademark applications or trademark or trademark licenses (collectively, "Intangible Rights") used in the operation of the Home, except as described on Schedule 3.13. The Company is not charged with infringement of any Intangible Rights, nor do the Sellers know of any such infringement, whether or not claimed by any person.

3.14. INSURANCE AND CLAIMS. The Company maintains such policies of insurance in such amounts, and which insure against such losses and risks, as are generally maintained for comparable businesses and properties. Valid policies for such insurance will be outstanding and duly in force at all times prior to the Closing.

3.15. LICENSES. PERMITS. ETC. Schedule 3.15 lists all licenses, franchises, permits, certificates, consents, rights and privileges that are necessary or appropriate for the operation of the Home. All such items are in full force and effect.

3.16. LITIGATION. There are no claims, actions, suits, proceedings or investigations pending or, to the Sellers' knowledge, threatened against or affecting the Company or any of the Assets, at law or in equity or before or by any court or federal, state, municipal or other governmental department, commission, board, agency or instrumentality. The Company is not subject to any continuing court or administrative order, writ, injunction or decree, nor is the Company in default with respect to any order, writ, injunction or decree issued by any court or foreign, federal, state, municipal or other governmental department, commission, board, agency or instrumentality.

3.17. COMPLIANCE WITH LAWS. The Company has operated and is operating the Home in compliance with all federal, state, municipal and other statutes, rules, ordinances and regulations applicable to the operation of the Home and the Assets (including without limitation all environmental protection and occupational safety and health rules, regulations and laws, and laws and regulations applicable to preneed contracts and trust accounts, including the so-called "FTC Funeral Rule").

3.18. ENVIRONMENTAL MATTERS.

(a) The Company has complied and is in compliance with all Environmental Laws (as hereinafter defined).

(b) Without limiting the generality of the foregoing, the Company has obtained, and has complied and is in compliance with, all permits, licenses and other authorizations that may be required pursuant to Environmental Laws for the occupation of the Real Property and the operation of the business of the Company.

(c) The Company has not received any notice, report or other information regarding any liabilities (whether accrued, absolute, contingent, unliquidated or otherwise) or investigatory, remedial or corrective obligations, relating to their respective businesses or any of the Real Property arising under Environmental Laws.

(d) Except as set forth on Schedule 3.18, none of the following exists on any portion of the Real Property:

- (i) Underground storage tanks or surface impoundments;
- (ii) Asbestos-containing material in any form or condition; or
- (iii) Materials or equipment containing polychlorinated biphenyls.

(e) The Company has not treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled, or Released any substance, including without limitation any Hazardous Materials, or owned or operated any facility or property, so as to give rise to liabilities for response costs, natural resource damages or attorneys fees pursuant to the Comprehensive - Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended, or similar state Environmental Laws.

(f) Neither this Agreement nor the consummation of the transaction that is the subject of this Agreement will result in any obligations for site investigation or cleanup, or notification to or consent of any governmental authority or third parties, pursuant to any so-called "transaction-triggered" or "responsible property transfer" Environmental Laws.

(g) Without limiting the foregoing, no facts, events or conditions relating to the past or present facilities, properties or operations of the Company will prevent, hinder or limit continued compliance with Environmental Laws, give rise to any investigatory, remedial or corrective obligations pursuant to

Environmental Laws, or give rise to any other liabilities (whether accrued absolute, contingent, unliquidated or otherwise) pursuant to Environmental Laws, including without limitation any relating to onsite or offsite Releases or threatened Releases of Hazardous Materials, substances or wastes, personal injury, property damage or natural resource damage.

(h) For purposes of this Section 3.18:

"Environmental Laws" means all laws concerning pollution or protection of the environment (including without limitation all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, Release, threatened Release, control or cleanup of any Hazardous Materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise or radiation).

"Hazardous Materials" means any hazardous, toxic, dangerous or other waste, substance of material defined as such in, regulated by or for purposes of any Environmental Law.

"Release" has the meaning set forth in CERCLA.

3.19. EMPLOYEES. Schedule 3.19 correctly and completely lists the names and annual or hourly rates of salary and other compensation of all the employees and agents of the Company. Schedule 3.19 also sets forth the date of the last salary increase for each employee listed thereon, and the outstanding balances of all loans and advances made by the Company to any such employee or agent. There are not pending or threatened against the Company any general labor disputes, strikes or concerted work stoppages, and there are no discussions, negotiations, demands or proposals that are pending or have been conducted or made with or by any labor union or association with respect to any employees of the Company. No Shareholder is aware of the existence of any serious health condition of any key management personnel of the Home that might impair any such person's ability to carry on the essential functions of his or her position into the foreseeable future after the Closing. The Sellers believe that the relations between the Company and its employees are good.

3.20. EMPLOYEE BENEFIT PLANS. Schedule 3.20 lists all plans, contracts, commitments, programs and policies

(including, without limitation, pension, profit sharing, thrift, bonus, deferred compensation, severance, retirement, disability, medical, life, dental and accidental insurance, vacation, sick leave, death benefit and other similar employee benefit plans and policies) providing benefits to any employee or former employee of the Company (collectively, the "Plans"). The Sellers have delivered to the Purchaser true and correct copies of all documents embodying the Plans. All obligations of the Company under the Plans have been fully paid, fully funded or adequate accruals therefor have been made on the Company Balance Sheet. No Plan constitutes a defined benefit plan or defined contribution plan within the meaning of the Employee Retirement Income Security Act of 1974.

3.21. BOOKS AND RECORDS. All books and records of the Company are true, correct and complete, have been maintained in accordance with good business practice and in accordance with all laws, regulations and other requirements applicable to the Home.

3.22. FINDERS. Except as described in Section 13.1, no Seller is a party to or in any way obligated under any contract or other agreement, and there are no outstanding claims against any of them, for the payment of any broker's or finder's fee in connection with the origin, negotiation, execution or performance of this Agreement.

3.23. AUTHORITY OF THE COMPANY. The execution, delivery and performance of this Agreement by the Company have been duly authorized by its Board of Directors. This Agreement is legally binding and enforceable against the Company in accordance with its terms. Neither the execution, delivery nor performance of this Agreement by the Company will result in a violation or breach of, nor constitute a default or accelerate the performance required under, the Articles of Incorporation or bylaws of the Company or any indenture, mortgage, deed of trust or other contract or agreement to which the Company is a party or by which it or its properties are bound, or violate any order, writ, injunction or decree of any court, administrative agency or governmental body.

3.24. AUTHORITY OF THE SHAREHOLDERS. Each Shareholder has full authority to enter into this Agreement and the Documents (as hereafter defined) to which he, she or it is a party, and to perform his, her or its obligations hereunder and thereunder, and neither the execution, delivery nor performance by such Shareholder of this Agreement or such Documents will result in a violation or breach of any term or provision of, nor con-

stitute a default under, any contract, agreement or other commitment to which such Shareholder is a party or by which such Shareholder or the Assets are bound, or violate any order, writ, injunction or decree of any court, administrative agency or governmental body. This Agreement is, and such Documents upon their execution and delivery as herein provided will be, valid and binding obligations of each Shareholder enforceable against such Shareholder in accordance with their respective terms. For purposes of this Agreement, the term "Documents" shall mean, as to any party hereto, any and all agreements, certificates and other instruments expressly contemplated in this Agreement or any exhibit hereto to be executed or delivered by or on behalf of such party at or in connection with the Closing hereunder.

3.25. FULL DISCLOSURE. The representations and warranties made by the Sellers hereunder or in any Schedules or certificates furnished to the Purchaser pursuant hereto do not and will not contain any untrue statement of a fact or omit to state a fact required to be stated herein or therein or necessary to make the representations or warranties herein or therein, in light of the circumstances in which they are made, not misleading.

3.26. SCHEDULES. The Schedules referred to in this Section 3 have been prepared as of the date hereof in a separate binder or volume contemporaneously with the execution of this Agreement, and have been signed for identification by the Sellers.

4. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER. The Purchaser represents and warrants to and agrees with the Sellers that:

4.1. ORGANIZATION AND EXISTENCE. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power to enter into and perform its obligations under this Agreement and the Documents to which it is a party.

4.2. AUTHORITY OF THE PURCHASER. The execution, delivery and performance by the Purchaser of this Agreement and the Documents to which it is a party have been duly authorized by its Board of Directors. This Agreement is, and upon execution and delivery as herein provided the Documents to which the Purchaser is a party will be, valid and binding upon the Purchaser and enforceable against it in accordance with their respective terms. Neither the execution, delivery or performance by the Purchaser of this Agreement or such

Documents will conflict with or result in a violation or breach of any term or provision of, nor constitute a default under, the Certificate of Incorporation or bylaws of the Purchaser or under any indenture, mortgage, deed of trust or other contract or agreement to which it is a party or by which the Purchaser or its property is bound, or violate any order, writ, injunction or decree of any court, administrative agency or governmental body.

4.3. FINDERS. The Purchaser is not a party to or in any way obligated under any contract or other agreement, and there are no outstanding claims against it, for the payment of any broker's or finder's fee in connection with the origin, negotiation, execution or performance of this Agreement.

4.4. FULL DISCLOSURE. The representations and warranties made by the Purchaser hereunder or in any certificates furnished to the Sellers pursuant hereto do not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein or therein or necessary to make the representations or warranties herein or therein, in light of the circumstances in which they are made, not misleading.

5. COVENANTS OF THE SELLERS PENDING CLOSING. The Sellers jointly and severally covenant with the Purchaser that:

5.1. CONDUCT OF BUSINESS. From the date of this Agreement to the Closing Date, the Home will be operated only in the ordinary course, and, in particular, without the prior written consent of the Purchaser, the Company will not (and the Shareholders will not cause or permit the Company to):

(i) cancel or permit any insurance to lapse or terminate, unless renewed or replaced by like coverage;

(ii) commit any act or permit the occurrence of any event or the existence of any condition of the type described in Section 3.6;

(iii) enter into any contract, agreement or other commitment of the type described in Section 3.11;

(iv) hire, fire, reassign or make any other change in key personnel of the Company, or increase the rate of compensation of or declare or

pay any bonuses to any employee in excess of that listed on Schedule 3.19;
or

(v) take any other action which would cause any of the representations and warranties made in Section 3 hereof not to be true and correct in all material respects on and as of the Closing Date with the same force and effect as if the same had been made on and as of the Closing Date.

5.2. ACCESS TO INFORMATION. Prior to Closing, the Sellers will give to the Purchaser and its counsel, accountants and other representatives, full and free access to all of the properties, books, contracts, commitments and records of the Company so that the Purchaser may have full opportunity to make such investigation as it shall desire to make of the Home and the affairs of the Company and the Assets.

5.3. CONSENTS AND APPROVALS. The Sellers will use their best efforts to obtain the necessary consents and approvals of other persons which may be required to be obtained on their part to consummate the transactions contemplated by this Agreement.

5.4. NO SHOP. For so long as this Agreement remains in effect, the Sellers agree that they shall not enter into any agreements or commitments, or initiate, solicit or encourage any offers, proposals or expressions of interest, or otherwise hold any discussions with any potential buyers, investment bankers or finders, with respect to the possible sale or other disposition of all or any substantial portion of the Assets, the sale of all or a controlling interest in the stock of the Company, or the merger or consolidation of the Company, other than with the Purchaser.

6. COVENANTS OF THE PURCHASER PENDING CLOSING. The Purchaser covenants with the Sellers that:

6.1. CONSENTS AND APPROVALS. The Purchaser will use its best efforts to obtain the necessary consents and approvals of other persons which may be required to be obtained on its part to consummate the transactions contemplated in this Agreement.

6.2. CONFIDENTIALITY. Prior to the Closing, the Purchaser and its representatives will hold in confidence any data and information obtained with respect to the Home from any representative or employee of the Company, including the accountants or legal counsel of the Sellers, or from any books or records of any of them, in

connection with the transactions contemplated by this Agreement. If the transactions contemplated hereby are not consummated, neither the Purchaser nor its representatives shall use such data or information or disclose the same to others, except as such data or information is published or is a matter of public knowledge or is required by an applicable law or regulation to be disclosed. If this Agreement is terminated for any reason, all written data and information obtained by the Purchaser from the Sellers or their representatives in connection with the transactions contemplated by this Agreement shall be returned to the Sellers.

7. CONDITIONS TO OBLIGATIONS OF THE PURCHASER. The obligations of the Purchaser under this Agreement shall be subject to the following conditions, any of which may be expressly waived by them in writing:

7.1. REPRESENTATIONS AND WARRANTIES TRUE: COVENANTS PERFORMED. The Purchaser shall not have discovered any material error, misstatement or omission in the representations and warranties made by the Sellers in Section 3 hereof; the representations and warranties made by the Sellers herein shall be deemed to have been made again at and as of the time of Closing and shall then be true and correct; the Sellers shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by them at or prior to the Closing; and the Purchaser shall have received a certificate, signed by each Shareholder and the President of the Company, to the effect of the foregoing provisions of this Section 7.1.

7.2. OPINION OF COUNSEL. The Sellers shall have caused to be delivered to the Purchaser an opinion of Cranston Pope, counsel for the Sellers, dated the Closing Date, to the effect that:

(i) the Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Alabama, with full corporate authority to enter into and perform its obligations under this Agreement;

(ii) the execution, delivery and performance of this Agreement by the Company have been duly authorized by all necessary corporate action required on the part of the Company;

(iii) this Agreement and the Documents to which the Sellers are parties have been duly and validly executed and delivered by the Sellers and

constitute the valid and binding obligations of the Sellers enforceable against them in accordance with their respective terms;

(iv) neither the execution, delivery or consummation of the transactions contemplated by this Agreement or the Documents to which the Sellers are parties will (x) result in the breach of or constitute a default under the Articles of Incorporation or bylaws of the Company, or under any loan or credit agreement, indenture, mortgage, deed of trust or other contract or agreement known to such counsel and to which any Seller is a party or by which the Sellers or the Assets are bound, or (y) violate any order, writ, injunction or decree known to such counsel of any court, administrative agency or governmental body;

(v) no authorization, approval or consent of or declaration or filing with any governmental authority or regulatory body, federal, state or local, is necessary or required in connection with the execution and delivery by the Sellers of this Agreement or the Documents to which they are parties, or the performance of their obligations hereunder or thereunder; and

(vi) to the knowledge of such counsel after due inquiry, there are no claims, actions, suits, proceedings or investigations pending or threatened against or affecting the Company or any of the Assets, at law or in equity or before or by any court or federal, state, municipal or other governmental department, commission, board, agency or instrumentality.

Such opinion may, as to matters of fact, be given in reliance upon certificates of the Shareholders and officers of the Company, copies of which shall be provided to Purchaser at Closing. Any opinion as to the enforceability of any document may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and by principles of equity. Such opinion may be limited to federal law and the internal laws of the State of Alabama.

7.3. CONSENTS AND APPROVALS. The Sellers shall have obtained all consents and approvals of other persons and governmental authorities to the transactions contemplated by this Agreement.

7.4. NO LOSS OR DAMAGE. Prior to the Closing there shall not have occurred any loss or damage to any substantial portion of the Assets, regardless of whether such loss or damage was insured.

7.5. APPROVAL BY COUNSEL. All actions, proceedings, instruments and documents required to carry out the transactions contemplated by this Agreement or incidental thereto and all other related legal matters shall have been approved by counsel for the Purchaser, and such counsel shall have been furnished with such certified copies of actions and proceedings and other instruments and documents as they shall have reasonably requested.

7.6. RELATED TRANSACTIONS. Forest Lawn shall have been merged with and into Carriage-Florida in accordance with the Merger Agreement substantially simultaneously with the Closing hereunder; and Glover and Earl shall have executed and delivered to the Purchaser their respective Employment Agreements.

7.7. ENVIRONMENTAL. OSHA AND STRUCTURAL REPORTS. There shall have been conducted, at the Purchaser's expense, (i) a Phase I (and, if deemed necessary by Purchaser, a Phase II) environmental audit of the Home and the Real Property by an environmental consulting firm selected by Purchaser (or, in lieu thereof, in the Purchaser's sole discretion, an environmental questionnaire, on forms provided by the Purchaser, shall have been completed by the manager of the Home and delivered to the Purchaser), (ii) a health and safety inspection of the Home by a person (who may be an employee of the Purchaser) or firm selected by the Purchaser and who is qualified and experienced in such matters in the funeral service industry, and (iii) a structural inspection of the Home by an engineering firm selected by the Purchaser. The Sellers agree to pay the costs and to take the action reasonably recommended by such firms and/or persons, up to \$25,000 in the aggregate. In any event, it shall be a condition to the Purchaser's obligations hereunder that the results of the reports of such firms or persons (together with any remedial action taken by Sellers, regardless of the cost, in response thereto) shall be satisfactory to Purchaser in its sole discretion.

7.8. TITLE INSURANCE. The Purchaser shall have received one or more Owner's Policies of Title Insurance issued to the Purchaser in agreed-upon amounts, issued by Commonwealth Land Title Insurance Company or another title company acceptable to the parties (the "Title Company"), insuring that the Purchaser is the owner of

each parcel of the Real Property subject only to the Permitted Encumbrances, and any standard printed exceptions included in the standard form Owner Policy of Title Insurance in Alabama. Such policies shall have deleted any exception regarding restrictions or be limited to restrictions that are Permitted Encumbrances, any standard exception pertaining to discrepancies, conflicts or shortages in area shall be deleted except for "shortages in area", and any standard exception for taxes shall be limited to the year in which the Closing occurs. All premiums and other costs associated with issuing such policy or policies shall be borne equally between the Sellers and the Purchaser.

7.9. SURVEY. The Purchaser shall have received an ALTA/ACSM survey prepared by a licensed surveyor approved by the Purchaser and acceptable to the Title Company, with respect to each parcel of Real Property, which survey shall comply with any applicable standards under Alabama law, be sufficient for the Title Company to delete any survey exception contained in the title insurance policies referred to in Section 7.8, save and except for the phrase "shortages in area", and otherwise be in form and content acceptable to Purchaser. The fees and costs associated with such survey shall be borne equally between the Sellers and the Purchaser.

7.10. LIEN RELEASES. The holders of any Liens against any of the Assets (other than Permitted Encumbrances against Real Property) shall have executed and delivered written releases of such Liens, all in recordable form and otherwise acceptable to the Purchaser and its lender.

7.11. OTHER MANAGEMENT ARRANGEMENTS. The Sellers shall have identified to the Purchaser such personnel of the Home (in addition to Glover) as may be key to the continued effective management and operation of the Home after the Closing, and the Purchaser shall have entered into mutually satisfactory arrangements regarding the continued employment of such personnel at the Home following the Closing.

7.12. APPROVED BUDGET. The Purchaser and the Shareholders shall have reached agreement regarding the proposed Operating Budget for the Home for the current fiscal year of the Purchaser and for the next succeeding fiscal year; and the Purchaser shall have received from the Shareholders their certificate, acceptable in form and substance to the Purchaser, setting forth their acknowledgement regarding such Budget and the agreement

of Greg M. Brudnicki and Charles E. Kent to utilize their best efforts to achieve the results therein contained.

8. CONDITIONS TO OBLIGATIONS OF THE SELLERS. The obligations of the Sellers under this Agreement shall be subject to the following conditions, any of which may be expressly waived by the Sellers in writing:

8.1 REPRESENTATIONS AND WARRANTIES TRUE: COVENANTS PERFORMED. The Sellers shall not have discovered any material error, misstatement or omission in the representations and warranties made by the Purchaser in Section 4 hereof; the representations and warranties made by the Purchaser herein shall be deemed to have been made again at and as of the time of Closing and shall then be true and correct; the Purchaser shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it at or prior to the Closing; and the Sellers shall have received a certificate, signed by an executive officer of the Purchaser, to the effect of the foregoing provisions of this Section 8.1.

8.2.OPINION OF COUNSEL. The Purchaser shall have caused to be delivered to the Sellers an opinion of Snell & Smith, A Professional Corporation, counsel for Purchaser to the effect that:

(i) the Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and the Purchaser has all requisite corporate power to enter into and perform its obligations under this Agreement and the Documents to which it is a party;

(ii) the execution, delivery and performance by the Purchaser of this Agreement and the Documents to which it is a party have been duly authorized by its Board of Directors;

(iii) this Agreement is, and upon execution and delivery as herein provided the Documents to which the Purchaser is a party will be, valid and binding upon the Purchaser and enforceable against it in accordance with their respective terms;

(iv) neither the execution, delivery or performance by the Purchaser of this Agreement or the Documents to which it is a party will conflict with or result in a violation or breach of any term or provision of, nor constitute a default under,

the Certificate of Incorporation or bylaws of the Purchaser or under any loan or credit agreement, indenture, mortgage, deed of trust or other contract or agreement known to such counsel and to which the Purchaser is a party or by which it or its property is bound, or violate any order, writ, injunction or decree known to such counsel and of any court, administrative agency or governmental body; and

(v) no authorization, approval or consent of or declaration or filing with any governmental authority or regulatory body, federal, state or local, is necessary or required in connection with the execution and delivery by the Purchaser of this Agreement or the Documents to which the Purchaser is a party or the performance of its obligations hereunder or thereunder.

Such opinion may, as to matters of fact, be given in reliance upon certificates of officers of the Purchaser and certificates of public officials, copies of which shall be provided to Sellers at Closing. Any opinion as to the enforceability of any document may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors rights and by principles of equity. Such opinion may be limited to federal law, the General Corporation Law of the State of Delaware and the internal laws of the State of Texas.

8.3. CONSENTS AND APPROVALS. The Purchaser shall have obtained all consents and approvals of other persons and governmental authorities to the transactions contemplated by this Agreement.

8.4. RELATED TRANSACTIONS. The Purchaser shall have executed and delivered to Glover and Earl their respective Employment Agreements; and Forest Lawn shall have been merged with and into Carriage-Florida in accordance with the Merger Agreement substantially simultaneously with the Closing hereunder. In addition, the Purchaser shall have entered into an Employment Agreement with Jane Thornton on terms mutually acceptable to them.

9. NATURE AND SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

9.1. NATURE OF STATEMENTS. All statements contained in this Agreement or any Schedule or Exhibit hereto shall be deemed representations and warranties of the party executing or delivering the same.

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

10. INDEMNIFICATION.

10.1. INDEMNIFICATION BY THE SELLERS. The Sellers jointly and severally agree to indemnify and hold harmless the Purchaser and its successors and assigns from and against any and all losses, damages, liabilities, obligations, costs or expenses (any one such item being herein called a "Loss" and all such items being herein collectively called "Losses") which are caused by or arise out of (i) any breach or default in the performance by the Sellers of any covenant or agreement of the Sellers contained in this Agreement, (ii) any breach of warranty or inaccurate or erroneous representation made by the Sellers herein, in any Schedule delivered to the Purchaser pursuant hereto or in any certificate or other instrument delivered by or on behalf of the Sellers pursuant hereto, (iii) any claim made against the Purchaser in respect of any of the Unassumed Liabilities, and (iv) any and all actions, suits, proceedings, claims, demands, judgments, costs and expenses (including reasonable legal fees) incident to any of the foregoing.

10.2. INDEMNIFICATION BY THE PURCHASER. The Purchaser agrees to indemnify and hold harmless the Sellers and their heirs, successors and assigns from and against any Losses which are caused by or arise out of (i) any breach or default in the performance by the Purchaser of any covenant or agreement of the Purchaser contained in this Agreement, (ii) any breach of warranty or inaccurate or erroneous representation made by the Purchaser herein or in any certificate or other instrument delivered by or on behalf of the Purchaser pursuant hereto, (iii) any claim made against the Sellers in respect of the Assumed Liabilities, and (iv) any and all actions suits, proceedings, claims, demands, judgments, costs and expenses (including reasonable legal fees) incident to any of the foregoing.

10.3. THIRD PARTY CLAIMS. If any third person asserts a claim against an indemnified party hereunder that, if successful, might result in a claim for indemnification against an indemnifying party hereunder, the indemnifying party shall be given prompt written notice

thereof and shall have the right (i) to participate in the defense thereof and be represented, at his or its own expense, by advisory counsel selected by him, her or it, and (ii) to approve any settlement if the indemnifying party is, or will be, required to pay any amounts in connection therewith. Notwithstanding the foregoing, if within ten business days after delivery of the indemnified party's notice described above, the indemnifying party indicates in writing to the indemnified party that, as between such parties, such claims shall be fully indemnified for by the indemnifying party as provided herein, then the indemnifying party shall have the right to control the defense of such claim, provided that the indemnified party shall have the right (i) to participate in the defense thereof and be represented, at his or its own expenses, by advisory counsel selected by him, her, or it, and (ii) to approve any settlement if the indemnified party's interests are, or would be, affected thereby.

10.4. OFFSET. If any Seller becomes obligated to indemnify the Purchaser after the Closing date pursuant to this Agreement, at any time when any Contingent Purchase Price under Section 1.5 or any amount in respect of Closing Date Receivables under Section 12.1 may then or thereafter be payable, then the Purchaser may, at its option and without prejudice to any right of the Purchaser its proceed directly against any Seller, set-off the amount for which any such Seller shall be so obligated against the Contingent Purchase Price and the Closing Date Receivables. The exercise of such right of set-off shall be evidenced by means of a written notice to such effect given by the Purchaser to the Sellers, describing the basis for indemnity and set-off hereunder and the amount of the set-off.

11. TERMINATION.

11.1. BEST EFFORTS TO SATISFY CONDITIONS The Sellers agree to use their best efforts the satisfaction of the conditions specified in Section 7 hereof, and the Purchaser agrees to use its best efforts to bring about the satisfaction of specified in Section 8 hereof.

11.2. TERMINATION. This Agreement may be terminated prior to Closing by:

(a) the mutual written consent of the Sellers and the Purchaser;

(b) the Purchaser if a material default shall be made by any Seller in the observance or in the

due and timely performance by any of the Sellers' covenants herein contained, or if there shall have been a material breach or misrepresentation by any Seller of any of the Sellers' warranties and representations herein contained, or if the conditions of this Agreement to be complied with or performed by the Sellers at or before the Closing shall not have been complied with or performed at the time required for such compliance or performance and such noncompliance or nonperformance shall not have been expressly waived by the Purchaser in writing;

(c) the Sellers if a material default shall be made by the Purchaser in the observance or in the due and timely performance by the Purchaser of any of the covenants of the Purchaser herein contained, or if there shall have been a material breach or misrepresentation by the Purchaser of any of its warranties and representations herein contained, or if the conditions of this Agreement to be complied with or performed by the Purchaser at or before the Closing shall not have been complied-with or performed at the time required for such compliance or performance and such noncompliance or nonperformance shall not have been expressly waived by the Sellers in writing; or

(d) either the Sellers or the Purchaser, if the Closing has not occurred by November 30, 1997.

11.3. LIABILITY UPON TERMINATION. If this Agreement is terminated under paragraph (a) or (d) of Section 11.2, then no party shall have any liability to any other party hereunder. If this Agreement is terminated under paragraph (b) or (c) of Section 11.2, then (i) the party so terminating this Agreement shall not have any liability to any other party hereto, provided the terminating party has not breached any representation or warranty or failed to comply with any of its covenants in this Agreement, and (ii) such termination shall not prejudice the rights and remedies of the terminating party against any other party which has breached any of its representations, warranties or covenants herein prior to such termination.

12. POST-CLOSING COVENANTS.

12.1. CLOSING DATE RECEIVABLES. As described in Section 1.2(ii), all of the accounts and notes receivable of the Company at the Closing ("Closing Date Receivables") shall be retained by the Company. At the Closing, the Sellers shall provide to the Purchaser a listing (certified by them to be complete and accurate) of the

Closing Date Receivables in order to identify those to be retained by the Company. Notwithstanding such retention of ownership, the Purchaser shall have the exclusive (even as to the Sellers) right and control over the collection of Closing Date Receivables. After the Closing, for each month in which any Closing Date Receivables are collected, the Purchaser shall remit 100% of such collections to the Company by no later than the 15th day of the following month. The Purchaser shall have no duty to pursue collection of Closing Date Receivables by means greater than used on its collection of other accounts receivable, and in no event shall the Purchaser be required to institute suit or refer any account to a collection agency. At any time after the Closing, the Purchaser may at any time, by written notice to the Company, return the right and control over collection of Closing Date Receivables to the Company, in which case the Purchaser shall be thereafter relieved of all further responsibility hereunder other than in respect of collections received prior to the giving of such notice.

12.2. RESTRICTIVE COVENANTS.

(a) NON-COMPETITION. If the Closing occurs, the Shareholders agree that they shall not, and by their execution hereof the respective spouses of those Shareholders who are married (the Shareholders, together with all such spouses, being herein collectively referred to as the "Covenantors") agree that they shall not, directly or indirectly, for a period commencing on the Closing Date and ending fifteen (15) years thereafter, do any of the following

(i) engage, as principal, agent, trustee or through the agency of any corporation, partnership, association or agent or agency, anywhere within a 50-mile radius of the Home (the "Territory"), in the funeral, mortuary, crematory, monument, or any related line of business (collectively, the "Business");

(ii) own or hold any beneficial interest in one percent (1%) or more of the voting securities in any corporation, partnership or other business entity which conducts its operations, in whole or in part, in the Business within the Territory;

(iii) become an employee of or consultant to, or otherwise serve in any similar

capacity with, any corporation, partnership or other business entity that conducts its business, in whole or in part, in the Business within the Territory; or

(iv) cause or induce any present or future employee of the Purchaser or any of its affiliates to leave the employ of the Purchaser or any such affiliate to accept employment with such Covenantor or with any person, firm, association or corporation with which such Covenantor may be or become affiliated.

Without limiting the generality of the foregoing, a Covenantor shall be deemed directly or indirectly engaged in the Business if he or she acts as a funeral director at any funeral establishment within the Territory, if such Covenantor engages in the sale or marketing of preneed funeral contracts for services to be performed within the Territory, or if such Covenantor promotes or finances any family member or affiliate to operate a Business or engage in any of the foregoing activities within the Territory.

(b) REFORMATION. The above covenants shall not be held invalid or unenforceable because of the scope of the territory or actions subject thereto or restricted thereby, or the period of time within which such covenants are operative; but any judgment of a court of competent jurisdiction may define the maximum territory and actions subject to and restricted thereby and the period of time during which such covenants are enforceable.

(c) REMEDIES. The Covenantors agree that any remedy at law for any actual or threatened breach of any of the foregoing covenants would be inadequate and that the Purchaser shall be entitled to specific performance hereof or injunctive relief or both, by temporary or permanent injunction or such other appropriate judicial remedy, writ or order as may be entered into by a court of competent jurisdiction in addition to any damages that the Purchaser may be legally entitled to recover together with reasonable expenses of litigation, including attorneys' fees incurred in connection therewith, as may be approved by such court.

(d) REPRESENTATIONS. Each Covenantor represents and warrants to and agrees with the Purchaser

that (i) such Covenantor understands that the foregoing restrictions are being made incident to and as a condition of the purchase and sale of the Assets hereunder, and that such covenants are necessary in order to protect the business and goodwill being acquired thereby, (ii) such covenants are not oppressive to such Covenantor in any respect, and (iii) the consideration for such restrictions is included in the Purchase Price, which consideration such Covenantor acknowledges is fair and adequate for the giving of the covenants herein and for which such Covenantor acknowledges a direct and valuable benefit.

(e) PURCHASE PRICE ALLOCATION. The parties agree to allocate \$50,000 of the Purchase Price to the foregoing covenants for federal income tax purposes. Such allocation is not intended to be a measure of the amount or range of damages which the Purchaser may suffer or recover as a result of any breach of the foregoing covenants, and the Shareholders acknowledge that in case of any such breach, the Purchaser shall be entitled to seek in excess of such amount as it may otherwise be able to demonstrate itself justly entitled to.

12.3. CHANGE OF NAME. Promptly following the Closing (but in no event later than 30 days thereafter), the Sellers shall cause the Articles of Incorporation of the Company to be amended so as to change its name to one wholly dissimilar to "Kent-Thornton" or its equivalent, and will furnish the Purchaser with written evidence of such amendment.

13. MISCELLANEOUS.

13.1.EXPENSES. Regardless of whether the Closing occurs, the parties shall each pay their own expenses in connection with the negotiation, preparation and carrying out of this Agreement and the consummation of the transactions contemplated herein. Without limiting the generality of the foregoing, all finders' and similar fees and expenses of Thomas, Pierce & Co., sales representative for the Sellers, shall be borne solely by the Sellers, and in no event shall the Purchaser be charged or responsible therefor.

13.2.BULK SALES LAWS. The transactions contemplated by this Agreement shall be consummated without compliance with the bulk sales laws of any state. If by reason of any applicable bulk sales law any claims are asserted by creditors of the Company, such claims shall

be the responsibility of the Purchaser in the case of claims arising under any of the Assumed Liabilities, or the responsibility of the Sellers in the case of claims arising under any other liabilities of the company.

13.3. Notices. All notices, requests, consents and other communication hereunder shall be in writing and shall be deemed to have been given on the date personally delivered, three business days following the date mailed, first class, registered or certified mail, postage pre-paid, or when sent by telex or telecopy and receipt is confirmed, as follows:

(i) if to any Seller, to:

Kent-Thornton Funeral Home, Inc.
1468 Hartford Highway
Dothan, Alabama 36301
Attn: Mr. Greg Brudnicki

with a copy to:

Mr. Cranston Pope
438 N. Cove Blvd.
Panama City, Florida 32401

(ii) if to the Purchaser, to:

Carriage Funeral Holdings, Inc
1300 Post Oak Blvd., Suite 1500
Houston, Texas 77056
Attn: President

with a copy to:

Snell & Smith,
A Professional Corporation
1000 Louisiana, Suite 1200
Houston, Texas 77002
Attn: Mr. W. Christopher Schaeper

or to such other address as shall be given in writing by any party to the other parties hereto.

13.4 Assignment. The Agreement may not be assigned by any party hereto without the prior written consent of the other parties, provided, however, that following the Closing the Purchaser may assign its rights hereunder without the consent of the Sellers to a successor-in-interest to the Purchaser (whether by merger, sale of assets or otherwise). Nothing in this Agreement, express or implied, is intended to confer upon

any person, other than the parties to this Agreement and their successors and permitted assigns, any rights or remedies under or by reason of this Agreement.

13.5.SUCCESSORS BOUND. Subject to the provisions of Section 13.4, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs and personal representatives.

13.6.SHAREHOLDER CONSENT. The Shareholders, in their capacities as the shareholders of the Company, hereby (i) consent to the sale of the Assets hereunder pursuant to Alabama Code S10-2B-12.02, and (ii) irrevocably and unconditionally waive all dissenters' and other similar rights with respect to the sale of the Assets under and pursuant to Alabama Code ss.10-2B-13.21, et SEQ.

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

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

13.9.ENTIRE AGREEMENT. This Agreement and the Exhibits, Schedules, certificates and other documents referred to herein constitute the entire agreement of the parties hereto, and supersede all prior understandings with respect to the subject matter hereof and thereof (including, without limitation, the letter of intent between the Purchaser and the Sellers dated June 9, 1997).

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

13.11. CONSTRUCTION. As the context requires or permits: pronouns used herein shall include the masculine, the feminine and neuter; terms used in plural shall include the singular, and singular terms shall include the plural; "hereof", "herein", "hereunder" and "hereto" shall refer to this Agreement; and section and paragraph references, when not expressly referring to another agreement or document, shall mean sections or paragraphs in this Agreement.

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

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

THE PURCHASER:

CARRIAGE FUNERAL HOLDINGS, INC.

By: Mark W. Duffey, President

THE COMPANY:

KENT-THORNTON FUNERAL HOME, INC.

By: Greg Brudnicki, President

THE SHAREHOLDERS:

GREG BRUDNICKI

CHARLES KENT

RICKY KENT

JANE THORNTON

The undersigned spouses of those Shareholders who are married hereby join in the execution of this Agreement in order to evidence their agreement to be bound by the provisions of Section 12.2 hereof.

EVELYN L BRUDNICKI, spouse of
GREG BRUDNICKI

JULIE KENT, spouse of
CHARLES KENT

EXHIBIT	DESCRIPTION
A-1	Employment Agreement (Kendall Glover)
A-2	Employment Agreement (Earl Sellers)
SCHEDULES	DESCRIPTION
3.5	Real Property
3.10	Fixed Assets
3.11	Contracts and Commitments
3.12	Preneed Contracts and Trust Accounts
3.13	Intangible Assets
3.15	Licenses, Permits, Etc.
3.18	Environmental Matters
3.19	Employees
3.20	Employee Benefit Plans

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

Earnings (loss) per share for 1995, 1996 and 1997 is calculated based on the weighted average number of common and common equivalent shares outstanding during each year as proscribed by SFAS 128. The following table sets forth the computation of the basic and diluted earnings (loss) per share for 1995, 1996 and 1997:

	1995	1996	1997
	-----	-----	-----
Net income (loss) before extraordinary item	\$(2,494)	\$ 207	\$ 4,491
Extraordinary item	--	(498)	(195)
	-----	-----	-----
Net income (loss)	(2,494)	(291)	4,296
Preferred stock dividends	--	(622)	(890)
	-----	-----	-----
Net income (loss) available to common stockholders for basic EPS computation	(2,494)	(913)	\$ 3,406
Effect of dilutive securities	--	--	--
	-----	-----	-----
Net income (loss) available to common stockholders for diluted EPS computation	\$(2,494)	\$ (913)	\$ 3,406
	=====	=====	=====
Weighted average number of common shares outstanding for basic EPS computation	2,520	4,869	10,226
Effect of dilutive securities:			
Stock options	--	--	259
	-----	-----	-----
Weighted average number of common and common equivalent shares outstanding for diluted EPS computation	2,520	4,869	10,485
	=====	=====	=====
Basic earnings per share			
Net income (loss) before extraordinary item	\$ (.99)	\$ (.09)	\$.35
Extraordinary item	--	(.10)	(.02)
	-----	-----	-----
Net income (loss)	\$ (.99)	\$ (.19)	\$.33
	=====	=====	=====
Diluted earnings per share			
Net income (loss) before extraordinary item	\$ (.99)	\$ (.09)	\$.34
Extraordinary item	--	(.10)	(.02)
	-----	-----	-----
Net income (loss)	\$ (.99)	\$ (.19)	\$.32
	=====	=====	=====

CARRIAGE SERVICES, INC.
SUBSIDIARIES AS OF MARCH 12, 1998

EXHIBIT 21.1

NAME	JURISDICTION OF INCORPORATION
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Carriage Funeral Holdings, Inc.	Delaware
CFS Funeral Services, Inc.	Delaware
Carriage Holding Company, Inc.	Delaware
Carriage Funeral Services of Michigan, Inc.	Michigan
Carriage Funeral Services of Ohio, Inc.	Ohio
CFS Funeral Services of Ohio, Inc.	Ohio
The Lusk Funeral Home, Incorporated	Kentucky
James E. Drake Funeral Home, Inc.	Kentucky
Hennessy-Bagnoli Funeral Home, Inc.	Ohio
Carriage Funeral Services of Idaho, Inc.	Idaho
Dwayne R. Spence Funeral Home, Inc.	Ohio
Carriage Funeral Services of Kentucky, Inc.	Kentucky
Carriage Funeral Services of South Carolina, Inc.	South Carolina
Carriage Funeral Services of Connecticut, Inc.	Connecticut
Carriage Funeral Services of Indiana, Inc.	Indiana
Carriage Funeral Services of Texas, Inc.	Texas
Carriage Funeral Services of California, Inc.	California
Wilson & Kratzer Mortuaries	California
Rolling Hills Memorial Park	California
Cheda & Matteucci, Inc.	California
Ouimet Concord Funeral Chapel, Inc.	California
Frank J. Calcaterra Funeral Home, Inc.	Michigan
Dakan Funeral Chapel, Inc.	Idaho
Hillcrest Memorial Gardens, Inc.	Idaho
Richmond County Memorial Park, Inc.	North Carolina
Bryan Funeral Home, Inc.	Ohio
Cox Funeral Home, Incorporated	Tennessee
Stevens Funeral Homes, Inc.	Ohio
Grandview Memorial Gardens, Inc.	Indiana
Carriage Funeral Services of Kansas, Inc.	Kansas
CFS Funeral Services of Kansas Inc.	Kansas
CFS Services of Kentucky, Inc.	Kentucky
Carriage Services of Illinois, Inc.	Illinois
Carriage Services of New York, Inc.	New York
Pioneer Funeral Plans, Inc.	Texas
Redgate Funeral Service Corporation	Connecticut
Carriage Services of Connecticut, Inc.	Connecticut
Geisendorf-Rush Smith Funeral Home, Ltd.	Kansas
Hamilton County Burial Services, Inc.	Tennessee
Carriage Services of Florida, Inc.	Florida
Schlup-Pucak Funeral Home, Inc.	Ohio
Fox-Engartner Funeral Home, Inc.	Ohio
Johnson Mortuary & Crematory, Inc.	Montana
Feeney Funeral Home, Inc.	New Jersey
CSI Funeral Services of Massachusetts, Inc.	Massachusetts

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DEC-31-1997
6,126
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14,203
1,291
5,691
24,729
92,988
7,123
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58,038
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8,217
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4,491
0
(195)
0
4,296
.33
.32