



Carriage Services, Inc. (NYSE: CSV)

3040 Post Oak Boulevard • Suite 300 • Houston, TX 77056
Phone: 713-332-8400 • Fax: 713-332-8401

www.CarriageServices.com

Company Highlights

- Founded in 1991; public in 1996; One of the largest death care consolidator in highly fragmented industry, well positioned for growth by acquisition.
- Corporate strategy now defined by three models: Standards Operating Model; 4E Leadership Model; Strategic Acquisition Model; all supported by functional departments in Houston for organic growth in field operations.
- Most innovative, entrepreneurial, and transparent operating and reporting framework in deathcare industry.
- Decentralized high-performance culture framework and linked incentive compensation program attracts top-quality industry talent at both local and corporate level.
- Long term (five year) funeral and interment volume trends are most favorable in deathcare industry, which is critical for maintenance of operating leverage benefits in high fixed cost distribution network of local operating businesses.
- Long term, low fixed rate capital structure components enable strong and growing Free Cash Flow from operations to finance about 75% of acquisition growth pursuant to our published five year plan, while improving the credit profile of the Company.
- Strong and increasing Free Cash Flow supported the initiation of the Company's first quarterly dividend of 2.5¢ in June 2011.
- Increasing income from Trust funds have and will add materially to reported funeral and cemetery financial revenue, Field and Consolidated EBITDA and pretax Free Cash Flow.

Carriage Services is a leading provider of deathcare services and products in the United States. Carriage operates 159 funeral homes in 25 states and 33 cemeteries in 12 states. Carriage provides a complete range of funeral and cremation services and sells a wide variety of related products and merchandise.

Stock Price (December 15, 2011)

\$5.56

Stock Data

Fiscal Year-End:	December
Symbol / Exchange:	CSV / NYSE
52 - Week Trading Range:	\$4.39 - \$6.57
Diluted Common Shares Outstanding (In Mill.):	18.4
Market Capitalization (In Mill.):	\$98.30
Total Enterprise Value (In Mill.):	\$352.90
Avg. Daily Volume (3 Mos.):	21,220
Float (In Mill.):	15.3
Insider Ownership:	15.0%
Institutional Ownership:	47.0%

Financial Data (Amounts in Millions)

	<u>9/30/2011</u>
Cash & Investments:	\$4.2
Total Assets:	\$651.8
Total Senior Debt:	\$136.2
Total Subordinated Debt:	\$89.8
Total Debt:	\$221.3
Stockholders' Equity:	\$126.9

Trailing Twelve Months Ending 9/30/11

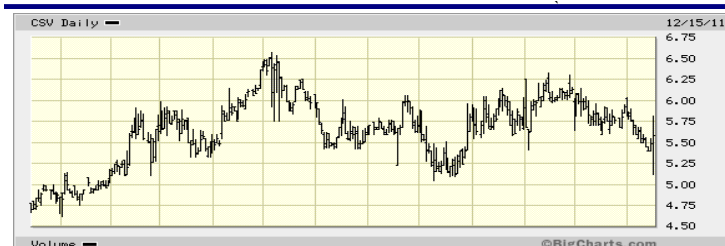
Total Revenue:	\$191.0
Field EBITDA:	\$68.4
Non-GAAP Consolidated EBITDA:	\$52.1
GAAP Diluted EPS:	\$0.48
Non-GAAP Diluted EPS:	\$0.74
Free Cash Flow:	\$26.4

Four Qtr.

<i>Company Financial Outlook</i>	<i>Period Ending</i>
	<u>9/30/2012</u>
Revenues:	\$208 - \$212
Field EBITDA:	\$74.9 - \$76.3
Consolidated EBITDA:	\$49.9 - \$50.8
Diluted EPS:	\$0.63 - \$0.66
Free Cash Flow:	\$20.5 - \$21.5

Valuation Data (Using Outlook Midpoint)

Price / Yr. 9/30/12(E) EPS:	11.6X
Enterprise Value 9/30/12(E) Consolidated EBITDA:	8.0X
Equity Market Cap / 9/30/12(E) Free Cash Flow:	3.7X



Carriage Services

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NYSE: CSV Forward-looking statements contained herein are subject to certain risks and uncertainties as further described at the end of this Company & Investment Profile. Please refer to the section Disclosure of Non-GAAP Performance Measures on page 29 that discusses and reconciles non-GAAP financial measures to GAAP financial measures.

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(Noteworthy new or updated information in this edition versus the previous edition in bold)

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This document is being published by Carriage Services in continuation of the Company's stated goal to provide more disclosure and transparency to the investment community regarding Carriage's operations, strategies and industry conditions. It is Carriage's intent to take responsibility for and a proactive role in communicating with the investment community and in providing greater operating and financial transparency.

MISSION STATEMENT: We are committed to being the most professional, ethical, and highest quality funeral and cemetery service organization in our industry.

GUIDING PRINCIPLES: Honesty, integrity and quality in all that we do. Hard work, pride of accomplishment and shared success through employee ownership. Belief in the power of people through individual initiative and teamwork. Outstanding service and profitability go hand-in-hand. Growth of the Company is driven by decentralization and partnership.

INVESTMENT MERITS

- At the right size at the right time with the right models and reputation to benefit from increased industry consolidation;
- Being the Best vision and strategy supported by specific growth plans;
- Corporate infrastructure can be leveraged with acquisitions;
- Current balance sheet and strong Free Cash Flow provides financial flexibility for selected acquisitions;
- Current equity valuation does not recognize the value of the trust funds and the opportunity for substantial earnings growth through acquisitions;
- Longer term demographics will increase revenues and bottom line performance over time;
- Leadership team deep, qualified and aligned for execution; and
- Strong Board Members with decades of industry operating and financial experience.

A JOURNEY OF TRANSFORMATION

The Company's recent strong operational and financial performance is the culmination of a corporate transformation process since 2003.

- **2003** – Skip Klug joined Carriage in 2002 as Vice President of Information Systems and for the first time this position and function was viewed as operationally strategic and reported to the CEO. Skip subsequently led a drive in 2003 to upgrade our systems in-house, a process that continues today which has been critical to the evolution and effectiveness of our decentralized operating model.
- **2004 – 2010** – Carriage's Funeral and Cemetery Standards Operating Models, designed around the drivers of sustained long term operating and financial performance with a focus on the quality of local leadership and staff, evolved under the guidance of corporate operations leadership and Standards Councils comprised of the best Managing Partners in each region. We began to publish monthly league table Standards Achievement rankings from best to worst business and established a Managing Partner profit sharing program with no upside limits.
- **2005** – Refinanced all remaining senior debt with a \$130 million 7% senior note offering due 2015, positioning Carriage to grow again by acquisition using Free Cash Flow and a new bank revolving credit.
- **2006 – 2010** – After two years of Standards Achievement data and analysis, we adopted Jack Welch's and GE's 4E Leadership Model to profile and assess Managing Partners who could effectively execute our Standards Operating Model. Beginning in mid-2006, 4E assessments together with actual Standards Achievement performance led to replacement of more than 65% of Managing Partners and Sales Managers by 2010. Application of our 4E Leadership Model had a similar dramatic impact on turnover and top grading of corporate leadership at all levels.
- **2006** – Combined cemetery organization with funeral organization under common regional leadership and implemented a simplified Cemetery Standards Operating Model. The operations organization was flattened with only one layer of management, our three Regional Partners, between the Chief Operating Officer and the Managing Partner for each business. Redefined responsibilities and duties of the Regional Partner heavily toward leadership versus management, with primary duty to have 4E Leader Managing Partners in charge of each business.
- **2006** – Developed a Strategic Acquisition Model using six strategic criteria to rank acquisition candidates and differentiate pricing. We established a goal of increasing the sustained earning power profile of our deathcare portfolio (Field EBITDA and Field EBITDA Margin) over time by selectively acquiring strong deathcare franchises in strategic markets.
- **2006 – 2010** – Formed Operational Analysis and Planning Group, whose responsibility is to support our Managing Partners with operating and financial analysis of their business with the goal of achieving more Standards over time. This group has become a critical and trusted source of customized reporting and information feedback for our Managing Partners that they use on a real time basis to manage their business.
- **2007** – Implemented long term (five years) and short term (five quarters) trend reports both for public reporting and internal operational reporting in a format linked closely with how we measure Standards Achievement over time for each business. Substantially improved the transparency of our financial results by breaking out the cash earning power profile of our field operations (Field EBITDA Margin), the three major components of Total Overhead, and the cash earning power profile of Carriage's consolidation platform (Consolidated EBITDA Margin).

- **2007** – Acquired seven businesses consistent with our Strategic Acquisition Model using accumulated cash that added \$25 million in annual revenue and \$6.8 million in Field EBITDA.
- **2008** – Restructured the sales leadership of most of our cemetery portfolio by recruiting top sales leadership talent and increasing the number and quality of sales counselors required to produce consistent results under our revised Cemetery Standards Operating Model.
- **2008** – Jay Dodds was promoted to Chief Operating Officer and Terry Sanford to Chief Financial Officer and all Executive Team responsibilities and duties were realigned with the CEO role becoming primarily vision and growth strategy.
- **2008 – 2009** – Restructured and repositioned our trust fund portfolio to exploit the extraordinary values available in fixed income and equity securities during the market crash and panic. Now positioned to support funeral and cemetery operations with much higher financial income and realization of gains over time.
- **2008 – 2009** – Completed our \$10 million stock repurchase program during which we purchased 3.1 million common shares equivalent to 15% of diluted shares outstanding. We elected to use \$10 million of our Free Cash Flow during the height of the financial crisis to increase the ownership of existing shareholders by buying in shares at 50% of book value, an opportunity that seemed too good to pass up.
- **2009 – 2010** –The Strategic Development department completed building a team responsible for execution of our Strategic Acquisition Model over the next five years. Made two small acquisitions at year end 2009, six in 2010 and six to date in 2011.
- **2009** – Bill Heiligbrodt and Richard Scott joined our Board of Directors to add industry operating and financial knowledge. Our Board subsequently restructured and aligned Executive Team compensation with sustained corporate performance designed to create shareholder value over time.
- **2010** – Achieved a second straight year of EPS and Free Cash Flow records. Realized over \$30 million in trust fund gains and added \$10 million in acquired annualized funeral revenue.
- **2011** – Dave DeCarlo and Don Patteson joined our Board of Directors. Bill Heiligbrodt transitioned from an independent director of our Company to the role of key executive with the titles of Vice Chairman, Executive Vice President and Secretary.
- **2011** – Completed a \$60 million five year revolving credit facility with Wells Fargo to use along with accelerating Free Cash Flow for selective acquisitions.

TEN YEAR VISION AND STRATEGY

Our vision for Carriage over the next ten years is to affiliate with many of the best remaining independents in mostly large strategic markets. Our industry after almost fifty years of consolidation remains highly fragmented and succession planning issues have become more difficult and complex than ever.

We believe Carriage offers a highly attractive succession planning option for owners who want their legacy family business to remain operationally prosperous in their local communities. We also believe that our decentralized operating framework will continue to attract some of the top, more entrepreneurial talent in our industry. We are the right size with the right models at the right time for Carriage as a consolidation platform to prosper over the next ten years.

Key elements of our Company strategy include the following:

Standards Operating Model

- Focuses on market share, people and financial metrics that drive long term operating and financial performance.
- Designed and weighted to grow market share, volumes and average revenue per contract modestly over time.
- Designed to achieve sustainable Field EBITDA Margins over time.
- Designed to reward Managing Partners with 4E Leadership skills who consistently achieve a high level of standards.

4E Leadership Model

- Standards Operating Model requires strong leadership to grow an entrepreneurial, high value, personal service community business at sustainable Field EBITDA Margins.
- 4E Leaders have a winning, competitive spirit and want to make a difference not only in their business but in Carriage's performance and reputation within the deathcare industry.
- 4E Leaders are motivated by the recognition and rewards related to achievement of our Being the Best Standards, including League Table rankings, service on Regional Standards Councils, and our Being The Best Managing Partner Incentive Bonus Program.

Strategic Acquisition Model

- Use six Strategic Ranking Criteria to assess acquisition candidates and to differentiate pricing.
- Acquire and build concentrated groups of "A" and "B" businesses in 10 to 15 strategic markets and sell non-strategic "C" businesses over time.
- Increase the sustainable revenue growth and earning power profile of the Carriage deathcare portfolio over time.

LEVERAGED INVESTMENT RETURNS

Effective execution of these three Carriage Models should produce superior long-term shareholder returns driven by a combination of unique and simultaneous financial dynamics as follows:

Operating Leverage

- Modest growth in same store revenues and modest increases in Field EBITDA Margins over time produce a higher growth rate in same store Field EBITDA.
- Effective execution of our Standards Operating Model and higher death rates caused by the aging of the “baby boom” generation should increase same store volumes and revenues in the intermediate and long term and compound the leverage inherent in our operating model.

Organizational Overhead Leverage

- Regional and corporate organizations have cost structures that are relatively fixed.
- Variable overhead, primarily incentive compensation related to all three organizational levels (Field, Regional, and Corporate) will increase relative to the achievement of performance standards.

Capital Structure Leverage

- Subordinated convertible preferreds (7% due 2029) and Senior notes (7½% due 2015) have long term principal maturity dates and fixed low interest rates, producing a low cost of capital.
- Annual interest of approximately \$18 million is fixed and easily covered by Consolidated EBITDA, resulting in substantial Consolidated Free Cash Flow that will be used to make selective acquisitions and for internal growth projects, such as cemetery inventory development and local business expansion.
- Low share count enables \$300,000 of incremental Field EBITDA to be converted into \$0.01 per share of EPS.

Consolidation Platform Leverage

- Acquired Field EBITDA will substantially fall to Consolidated EBITDA and Consolidated Free Cash Flow and will be highly accretive to EPS as well at the \$300,000 per \$0.01 of EPS conversion rate.
- Consolidated Free Cash Flow after fixed interest and maintenance capital expenditures will grow at a faster rate than revenues, a financial benefit that will directly accrue to common shareholders.
- The Company’s bank credit facility can be used for acquisitions. At September 30, 2011, the bank credit facility was undrawn.

TREND REPORTS

Management monitors consolidated same store and acquisition field operating and financial results both on a most recent rolling five year and five quarters basis (“Trend Reports”) to reflect long term and short term trends and seasonality. The Trend Reports highlight trends in volumes, operating revenues, financial revenues, Field EBITDA (controllable profit), Field EBITDA Margin (controllable profit margin), the components of overhead, and Consolidated EBITDA and Consolidated EBITDA Margin which reflect the cash earning power of Carriage as a consolidation platform. Trend reporting allows management to focus on the key operational and financial drivers relevant to the longer term performance and valuation of the Company’s portfolio of deathcare businesses.

Same Store results represent the funeral contract volumes (both atneed and preneed), revenues and Field EBITDA for businesses that have been owned for the entirety of the periods presented. The transparency of Carriage’s Trend Reports is unique within the public deathcare sector. This transparency enables an investor to track Same Store volumes over long periods of time, which is the key driver of revenues, Field EBITDA and Field EBITDA Margins in a high fixed cost local business. Carriage has historically experienced smaller declines in Same Store contract volumes relative to other public deathcare companies, which we believe demonstrates good execution of a superior operating model.

“Acquisition” is defined as businesses acquired since January 1, 2007. The classification of Acquisitions (businesses acquired during the periods presented) is important in monitoring the results of these businesses to gauge the leveraging performance contribution that a selective acquisition program can have on the total Company performance over a five year timeframe, as well as the returns being generated by management’s allocation of capital for acquisitions versus other potential uses.

The following Trend Reports demonstrate the trends in funeral volumes, Operating Revenues, Financial Revenues, Field EBITDA, Field EBITDA Margins, Overhead, Consolidated EBITDA, Consolidated EBITDA Margins, Net Income and Earnings Per Share over both the five year history and the most recent five quarters ended September 30, 2011. The Trend Reports are also presented on a Non-GAAP basis for the trust investment income that was withdrawable for the respective periods and other special charges. The Company has established a policy for the preneed cemetery trusts in certain states where the Company may withdraw monthly the investment income now being generated from those trust portfolios, which is estimated to be approximately \$100,000. Under GAAP accounting, Carriage will account for the cash withdrawals by increasing Cash and Deferred Revenue by the withdrawn amount.

Trend reporting allows management to focus on the key operational and financial drivers relevant to the longer term performance and valuation of the Company’s portfolio of death care businesses.

NON-GAAP UNAUDITED INCOME STATEMENT FROM CONTINUING OPERATIONS

Annual Trend
For the Five Years Ended September 30, 2011
(\$000's)

	Year 2007	Year 2008	Year 2009	Year 2010	Rolling 12 Months September 30, 2011
Same Store Contracts					
Atneed Contracts	16,556	17,100	16,173	16,147	16,038
Preneed Contracts	4,502	4,084	3,870	3,902	4,144
Total Same Store Funeral Contracts	21,058	21,184	20,043	20,049	20,182
Acquisition Contracts					
Atneed Contracts	1,772	3,509	3,465	4,593	5,942
Preneed Contracts	536	838	854	1,159	1,477
Total Acquisition Funeral Contracts	2,308	4,347	4,319	5,752	7,419
Total Funeral Contracts	23,366	25,531	24,362	25,801	27,601
Funeral Operating Revenue					
Same Store Revenue	\$ 110,246	\$ 110,147	\$ 108,513	\$ 107,351	\$ 107,673
Acquisition Revenue	8,937	16,341	16,603	22,392	28,748
Total Funeral Operating Revenue	\$ 119,183	\$ 126,488	\$ 125,116	\$ 129,743	\$ 136,421
Cemetery Operating Revenue					
Same Store Revenue	\$ 34,299	\$ 32,615	\$ 36,021	\$ 34,211	\$ 33,092
Acquisition Revenue	3,875	6,082	6,276	6,239	6,484
Total Cemetery Operating Revenue	\$ 38,174	\$ 38,697	\$ 42,297	\$ 40,450	\$ 39,576
Financial Revenue					
Preneed Funeral Commission Income	\$ 2,199	\$ 2,670	\$ 2,024	\$ 2,265	\$ 1,848
Preneed Funeral Trust Earnings	2,457	5,088	3,911	6,117	6,399
Cemetery Trust Earnings	3,128	2,328	2,747	4,815	5,318
Preneed Cemetery Finance Charges	1,715	1,657	1,532	1,557	1,378
Total Financial Revenue	\$ 9,499	\$ 11,743	\$ 10,214	\$ 14,754	\$ 14,943
Total Revenue	\$ 166,856	\$ 176,928	\$ 177,627	\$ 184,947	\$ 190,940
Field EBITDA from Continuing Operations					
Same Store Funeral Field EBITDA	\$ 41,220	\$ 38,015	\$ 38,977	\$ 36,030	\$ 37,526
Same Store Funeral Field EBITDA Margin	37.4%	34.5%	35.9%	33.6%	34.9%
Acquisition Funeral Field EBITDA	\$ 2,751	\$ 4,238	\$ 4,807	\$ 5,123	\$ 7,920
Acquisition Funeral Field EBITDA Margin	30.8%	25.9%	29.0%	22.9%	27.5%
Total Funeral Field EBITDA	\$ 43,971	\$ 42,253	\$ 43,784	\$ 41,153	\$ 45,446
Total Funeral Field EBITDA Margin	36.9%	33.4%	35.0%	31.7%	33.3%
Same Store Cemetery Field EBITDA	\$ 8,878	\$ 5,133	\$ 7,875	\$ 7,339	\$ 7,527
Same Store Cemetery Field EBITDA Margin	25.9%	15.7%	21.9%	21.5%	22.7%
Acquisition Cemetery Field EBITDA	\$ 737	\$ 1,842	\$ 1,438	\$ 1,708	\$ 1,946
Acquisition Cemetery Field EBITDA Margin	19.0%	30.3%	22.9%	27.4%	30.0%
Total Cemetery Field EBITDA	\$ 9,615	\$ 6,975	\$ 9,313	\$ 9,047	\$ 9,473
Total Cemetery Field EBITDA Margin	25.2%	18.0%	22.0%	22.4%	23.9%
Funeral Financial EBITDA	\$ 2,829	\$ 6,070	\$ 4,198	\$ 6,998	\$ 6,825
Cemetery Financial EBITDA	4,843	3,985	4,279	6,372	6,696
Total Financial EBITDA	\$ 7,672	\$ 10,055	\$ 8,477	\$ 13,370	\$ 13,521
Total Financial EBITDA Margin	80.8%	85.6%	83.0%	90.6%	90.5%
Total Field EBITDA	\$ 61,258	\$ 59,283	\$ 61,574	\$ 63,570	\$ 68,442
Total Field EBITDA Margin	36.7%	33.5%	34.7%	34.4%	35.8%

NON-GAAP UNAUDITED INCOME STATEMENT FROM CONTINUING OPERATIONS

Annual Trend
For the Five Years Ended September 30, 2011
(\$000's)

	Year 2007	Year 2008	Year 2009	Year 2010	Rolling 12 Months September 30, 2011
Overhead					
Total Variable Overhead	\$ 4,561	\$ 9,135	\$ 2,926	\$ 3,396	\$ 6,065
Total Regional Fixed Overhead	3,122	3,413	3,093	3,370	3,763
Total Corporate Fixed Overhead	13,408	13,311	13,646	14,464	15,516
Total Overhead	\$ 21,091	\$ 25,859	\$ 19,665	\$ 21,230	\$ 25,344
	12.6%	14.6%	11.1%	11.5%	13.3%
Other Income	\$ -	\$ -	\$ -	\$ 465	\$ 845
Consolidated EBITDA from Continuing Operations	\$ 40,167	\$ 33,424	\$ 41,909	\$ 42,805	\$ 43,943
Consolidated EBITDA Margin from Continuing Operations	24.1%	18.9%	23.6%	23.1%	23.0%
Special Charges					
Withdrawable trust income (loss)	\$ 1,103	\$ (546)	\$ 236	\$ 4,979	\$ 6,921
Gain on Repurchase of Convertible Junior Subordinated Debenture	-	-	-	(316)	(845)
Litigation Settlement	-	3,300	-	-	-
Acquisition Expenses	-	-	-	667	1,059
Litigation Related Legal Costs	861	1,638	-	-	-
Securities Transactions Expenses	-	-	-	-	501
Write Off of Loan Amortization Costs	-	-	-	-	201
Termination Expenses	-	969	-	237	354
Recovery of Legal Fees	-	-	-	(682)	-
Other Special Charges	739	254	-	-	-
Sum Of Special Charges	\$ 2,703	\$ 5,615	\$ 236	\$ 4,885	\$ 8,191
Non- GAAP Consolidated EBITDA	\$ 42,870	\$ 39,039	\$ 42,145	\$ 47,690	\$ 52,134
Non-GAAP Consolidated EBITDA Margin	25.7%	22.1%	23.7%	25.8%	27.3%
Property Depreciation & Amortization	\$ 9,488	\$ 10,368	\$ 10,339	\$ 9,977	\$ 9,732
Non Cash Stock Compensation	1,168	1,425	1,455	1,722	1,947
Interest, net	17,193	18,102	18,270	17,659	17,560
Pretax Income	\$ 15,021	\$ 9,144	\$ 12,081	\$ 18,332	\$ 22,895
Income Tax	6,084	3,703	4,893	7,424	9,272
Non-GAAP Net Income	\$ 8,938	\$ 5,441	\$ 7,188	\$ 10,907	\$ 13,623
	5.4%	3.1%	4.0%	5.9%	7.1%
Diluted EPS from Continuing Operations	\$ 0.38	\$ 0.09	\$ 0.40	\$ 0.45	\$ 0.48
Net Income(loss) from Discontinued Operations	\$ 921	\$ (1,546)	\$ -	\$ -	\$ -
Diluted EPS from Discontinued Operations	\$ 0.05	\$ (0.08)	\$ -	\$ -	\$ -
Non-GAAP Diluted EPS from Continuing Operations	\$ 0.46	\$ 0.28	\$ 0.40	\$ 0.61	\$ 0.74

NON-GAAP UNAUDITED INCOME STATEMENT FROM CONTINUING OPERATIONS

Quarter Trend

For the Five Quarters Ended September 30, 2011

(\$000's)

	Qtr 3 2010	Qtr 4 2010	Qtr 1 2011	Qtr 2 2011	Qtr 3 2011
Same Store Contracts					
Atneed Contracts	3,964	4,123	4,317	3,902	3,696
Preneed Contracts	890	1,026	1,163	1,014	941
Total Same Store Funeral Contracts	4,854	5,149	5,480	4,916	4,637
Acquisition Contracts					
Atneed Contracts	1,233	1,413	1,561	1,498	1,470
Preneed Contracts	295	340	410	344	383
Total Acquisition Funeral Contracts	1,528	1,753	1,971	1,842	1,853
Total Funeral Contracts	6,382	6,902	7,451	6,758	6,490
Funeral Operating Revenue					
Same Store Revenue	\$ 25,478	\$ 27,568	\$ 29,583	\$ 26,134	\$ 24,388
Acquisition Revenue	5,630	6,748	7,578	7,160	7,262
Total Funeral Operating Revenue	\$ 31,108	\$ 34,316	\$ 37,161	\$ 33,294	\$ 31,650
Cemetery Operating Revenue					
Same Store Revenue	\$ 9,030	\$ 8,509	\$ 8,064	\$ 9,089	\$ 7,430
Acquisition Revenue	1,670	1,481	1,672	1,690	1,641
Total Cemetery Operating Revenue	\$ 10,700	\$ 9,990	\$ 9,736	\$ 10,779	\$ 9,071
Financial Revenue					
Preneed Funeral Commission Income	\$ 632	\$ 448	\$ 473	\$ 414	\$ 513
Preneed Funeral Trust Earnings	1,553	1,543	1,473	1,857	1,526
Cemetery Trust Earnings	1,121	1,446	1,661	1,228	983
Preneed Cemetery Finance Charges	372	354	353	336	335
Total Financial Revenue	\$ 3,678	\$ 3,791	\$ 3,960	\$ 3,835	\$ 3,357
Total Revenue	\$ 45,486	\$ 48,097	\$ 50,857	\$ 47,908	\$ 44,078
Field EBITDA					
Same Store Funeral Field EBITDA	\$ 7,807	\$ 9,089	\$ 10,889	\$ 9,294	\$ 8,254
Same Store Funeral Field EBITDA Margin	30.6%	33.0%	36.8%	35.6%	33.8%
Acquisition Funeral Field EBITDA	\$ 847	\$ 1,524	\$ 2,148	\$ 2,027	\$ 2,221
Acquisition Funeral Field EBITDA Margin	15.0%	22.6%	28.3%	28.3%	30.6%
Total Funeral Field EBITDA	\$ 8,654	\$ 10,613	\$ 13,038	\$ 11,321	\$ 10,475
Total Funeral Field EBITDA Margin	27.8%	30.9%	35.1%	34.0%	33.1%
Same Store Cemetery Field EBITDA	\$ 1,885	\$ 1,710	\$ 2,073	\$ 2,554	\$ 1,190
Same Store Cemetery Field EBITDA Margin	20.9%	20.1%	25.7%	28.1%	15.3%
Acquisition Cemetery Field EBITDA	\$ 486	\$ 339	\$ 546	\$ 531	\$ 530
Acquisition Cemetery Field EBITDA Margin	29.1%	22.9%	32.7%	31.4%	31.7%
Total Cemetery Field EBITDA	\$ 2,371	\$ 2,049	\$ 2,619	\$ 3,085	\$ 1,720
Total Cemetery Field EBITDA Margin	22.2%	20.5%	26.9%	28.6%	18.3%
Funeral Financial EBITDA	\$ 1,772	\$ 1,676	\$ 1,603	\$ 1,879	\$ 1,667
Cemetery Financial EBITDA	1,493	1,800	2,014	1,564	1,318
Total Financial EBITDA	\$ 3,265	\$ 3,476	\$ 3,617	\$ 3,443	\$ 2,985
Total Financial EBITDA Margin	91.7%	94.6%	93.5%	93.6%	92.0%
Total Field EBITDA	\$ 14,290	\$ 16,138	\$ 19,275	\$ 17,849	\$ 15,180
Total Field EBITDA Margin	31.4%	33.6%	37.9%	37.3%	34.4%

NON-GAAP UNAUDITED INCOME STATEMENT FROM CONTINUING OPERATIONS
Quarter Trend
For the Five Quarters Ended September 30, 2011
(\$000's)

	Qtr 3 2010	Qtr 4 2010	Qtr 1 2011	Qtr 2 2011	Qtr 3 2011
Overhead					
Total Variable Overhead	\$ 835	\$ 1,203	\$ 1,536	\$ 1,159	\$ 2,167
Total Regional Fixed Overhead	1,021	792	906	1,091	974
Total Corporate Fixed Overhead	3,552	3,813	3,942	3,905	3,856
Total Overhead	\$ 5,408	\$ 5,808	\$ 6,384	\$ 6,155	\$ 6,997
	11.9%	12.1%	12.6%	12.8%	15.9%
Other Income					
	\$ -	\$ -	\$ 7	\$ 357	\$ 481
Consolidated EBITDA	\$ 8,882	\$ 10,330	\$ 12,898	\$ 12,051	\$ 8,664
Consolidated EBITDA Margin	19.5%	21.5%	25.4%	25.2%	19.7%
Special Charges					
Withdrawable trust income	\$ 1,295	\$ 2,040	\$ 1,332	\$ 2,249	\$ 1,300
Gain on Repurchase of Convertible Junior Subordinated Debenture	-	-	(7)	(357)	(481)
Securities Transactions Expenses	-	-	138	323	40
Acquisition Expenses	192	86	88	157	728
Termination Expenses	-	237	117	-	-
Loss on early extinguishment of debt	-	-	-	-	201
Sum of Special Charges	\$ 1,487	\$ 2,363	\$ 1,668	\$ 2,372	\$ 1,788
Non-GAAP Consolidated EBITDA	\$ 10,369	\$ 12,693	\$ 14,566	\$ 14,423	\$ 10,452
Non-GAAP Consolidated EBITDA Margin	22.8%	26.4%	28.6%	30.1%	23.7%
Property Depreciation & Amortization	\$ 2,498	\$ 2,522	\$ 2,398	\$ 2,522	\$ 2,290
Non Cash Stock Compensation	447	363	445	648	491
Interest Expense, net	4,570	3,968	4,532	4,509	4,551
Pretax Income	\$ 2,854	\$ 5,840	\$ 7,191	\$ 6,744	\$ 3,120
Income Tax	1,156	2,365	2,912	2,731	1,264
Non-GAAP Net Income	\$ 1,698	\$ 3,475	\$ 4,272	\$ 4,013	\$ 1,856
	3.7%	7.2%	8.4%	8.4%	4.2%
GAAP Diluted EPS from Continuing Operations	\$ 0.05	\$ 0.12	\$ 0.18	\$ 0.14	\$ 0.04
Non-GAAP Diluted EPS from Continuing Operations	\$ 0.10	\$ 0.19	\$ 0.23	\$ 0.22	\$ 0.10

MANAGEMENT REORGANIZATION

Mel Payne will head operations and long term vision and strategy

Near Term Goals:

- 1) Lead an updating and roll out of Carriage's Standards Operating Model with a goal over the next five years of achieving same store revenue growth of 3% annually at sustainable Field EBITDA Margins as appropriate for each business.
- 2) Lead a portfolio optimization process whereby businesses that cannot grow revenue over time at the standard portfolio growth rate will be sold and the proceeds allocated to our acquisition program for reinvestment in higher revenue growth and return businesses.
- 3) Lead a complete revamping of Training and Development as a strategic function focused more heavily on recruiting and/or developing Managing Partners with 4E Leadership skills and local staff with motivations and skills to provide high value personal services and sales to our client families.

Bill Heiligbrodt will head growth and financing strategies, legal and investor relations

Near Term Goals:

- 1) Lead the development and execution of a much more advanced Strategic Acquisition Model that will directly link to our Standards Operating Model to create a long term Value Creation Model within the Carriage portfolio of funeral and cemetery businesses.
- 2) Lead the investor relations effort to attract new long term shareholders by explaining the value of Carriage's Operating Model when properly executed and the compounding value creation dynamic of adding high quality acquisitions that can quickly be integrated successfully into the Standards Operating Model framework.
- 3) Lead the revision of our external reporting to a consistent Non-GAAP valuation format that is transparently reconciled to GAAP in press releases and in our Company and Investment Profile.

FIVE YEAR GOALS

Long term shareholder returns are driven by improvements in operating performance, a low share count, long term low fixed rate capital structure and strong Free Cash Flow. Carriage's Free Cash Flow provides most of the financing for our selective acquisition strategy. These elements in combination produce high single digit revenue growth that leverages into increasing and sustainable Consolidated EBITDA Margins and double digit rates of growth in Consolidated EBITDA and diluted EPS. There is also the possibility of Enterprise Value and EPS multiple expansion as higher death rates based on the aging of the "baby boom" generation become more visible.

Our long-term financial outlook, which is also our five year strategic plan, is as follows:

Long Term Outlook – Through 2015 (Base Year 2010)

Revenue growth of 6-7% annually, including acquisitions

Consolidated EBITDA growth of 8-10% annually, including acquisitions

Consolidated EBITDA Margin range of 24-26%

EPS growth of 15%-20% annually, including acquisitions

2010 RECORD PERFORMANCE

Carriage completed another record year in 2010. For the year ended December 31, 2010, Carriage completed six acquisitions and reported the following results compared to the comparable period of 2009:

- Record Total Revenue of \$184.9 million, an increase of 4.1% compared to \$177.6 million in 2009;
- Record Consolidated EBITDA of \$42.1 million, an increase of 1.3% compared to \$41.6 million in 2009;
- Record Net Income of \$8.1 million, an increase of 14.6% compared to \$7.0 million in 2009;
- Record EPS of \$0.45 per diluted share, an increase of 12.5% compared to \$0.40 per diluted share in 2009;
- Record Free Cash Flow of \$18.6 million, an increase of 31.0% compared to adjusted free cash flow of \$14.2 million in 2009.

3Q11 Highlights

Financial highlights of the third quarter of 2011 as compared to the third quarter of 2010 include:

- Total Revenue of \$44.1 million, a decrease of 3.0% compared to \$45.5 million;
- Consolidated EBITDA of \$8.7 million, a decrease of 2.2% compared to \$8.9 million;
- Net Income of \$0.8 million, a decrease of 11.1% compared to \$0.9 million;
- Diluted EPS of \$0.04 per share, and after adjusting for special charges, Non-GAAP Diluted EPS of \$0.10, which was consistent with Q3 2010;
- Free Cash Flow of \$7.2 million, an increase of 6.8% million over Q3 2010;
- Quarterly cash dividend payment of 2.5¢ per share on September 1, 2011.

REVENUE & CASH FLOW FORECAST

The Ability to Substantially Self-Finance Acquisitions

Amounts In Million - except per share amounts

	Annualized Revenue Estimates						CAGR
	2010A	2011	2012	2013	2014	2015	
Existing Revenue	\$181.1	\$185.5	\$189.0	\$192.8	\$196.7	\$200.6	
2010 Acquired Revenue	3.8	10.0	10.2	10.4	10.6	10.8	
2011 Acquired Revenue		5.0	10.0	10.2	10.4	10.6	
2012 Acquired Revenue			5.0	10.0	10.2	10.4	
2013 Acquired Revenue				5.0	10.0	10.2	
2014 Acquired Revenue					5.0	10.0	
2015 Acquired Revenue						5.0	
	\$184.9	\$200.5	\$214.2	\$228.4	\$242.9	\$257.6	6.9%
Consolidated EBITDA Margin	22.8%	23.7%	24.5%	25.0%	25.5%	26.0%	
Consolidated EBITDA	\$42.1	\$47.5	\$52.5	\$57.1	\$61.9	\$67.0	9.7%
Free Cash Flow	\$18.6	\$20.0	\$20.8	\$23.3	\$25.6	\$28.3	8.7%
Beginning Cash	\$3.6	\$1.3	\$2.4	\$1.0	\$1.0	\$1.0	
Debt Reduction	0.5	1.1	0.5	0.5	0.5	0.5	
Debt Borrowings	(0.6)	–	(4.9)	(4.0)	(1.5)	–	
Dividends	–	1.4	1.9	1.9	1.9	2.0	
Growth Cap-ex	3.6	4.0	5.0	5.0	5.0	5.0	
Acquisition Cost	19.0	20.0	20.0	20.0	20.0	20.0	
Excess Trust Fund Withdrawals	–	(8.6)	(1.2)	(1.2)	(1.2)	(1.2)	
Other	(1.6)	1.0	1.0	1.0	1.0	1.0	
Ending Cash / (Borrowings)	\$1.3	\$2.4	\$1.0	\$1.0	\$1.0	\$2.0	
Diluted Earnings per Share	\$0.45	\$0.54	\$0.66	\$0.75	\$0.83	\$0.92	15.3%

Five Year Take-away points:

- **39% Increase in Revenue**
- **59% Increase in Consolidated EBITDA**
- **104% Increase in EPS**

CAPITAL STRUCTURE FACILITATES GROWTH

There are four primary components in our capital structure: (1) \$130 million of 7⁷/₈% senior notes that have a 2015 maturity, (2) a \$60 million revolving credit facility with an accordion provision for an additional \$15 million that matures in October 2014, (3) \$89.8 million in outstanding 7% convertible junior subordinated debentures which have the ability to defer payments of interest and have a 2029 maturity (TIDES), and (4) common stock. At September 30, 2011, the credit facility was undrawn.

Our capital structure includes relatively low fixed rate mezzanine and senior debt similar to an LBO structure. In addition, our senior notes and TIDES require no principal reductions until maturity. Consequently, we are using our cash and Free Cash Flow to selectively acquire funeral home and cemetery businesses and to fund internal growth projects such as cemetery inventory development. Every \$300,000 of Field EBITDA either acquired or produced from same store operations approximates \$0.01 per share of net earnings.

Capital Structure Metrics Forecast

Amounts In Million - except per share amounts

	2010	2011	2012	2013	2014	2015	CAGR
Consolidated EBITDA	\$42.1	\$47.5	\$52.5	\$57.1	\$61.9	\$67.0	9.7%
Senior Debt	\$136.0	\$132.7	\$144.0	\$146.6	\$145.1	\$142.1	0.9%
Convertible Subordinated Security	92.9	91.5	91.5	91.5	91.5	91.5	
Stockholders' Equity	119.7	130.4	142.5	156.5	172.3	190.0	9.7%
Enterprise Value (Book)	\$348.6	\$354.6	\$378.1	\$394.6	\$408.9	\$423.6	4.0%
EV/Consolidated EBITDA Multiple	8.3x	7.5x	7.2x	6.9x	6.6x	6.3x	(5.2)%
Senior Debt/Consolidated EBITDA	3.2x	2.8x	2.7x	2.6x	2.3x	2.1x	(8.1)%
Total Debt/Equity	1.9x	1.7x	1.7x	1.5x	1.4x	1.2x	(8.5)%
Diluted Shares Outstanding	17.9	18.4	18.6	18.9	19.2	19.5	1.7%

Five Year Take-away points:

- Declining Leverage Multiples
- Increasing Book Value of Shareholder Equity

CARRIAGE’S THREE MODELS

We are uniquely positioned to attract the best talent and the best independent businesses to our Company because we can differentiate our strategy within the deathcare industry, as defined by the following three models:

Standards Operating Model

Our “Being the Best” standards focus on market share, people and operating and financial metrics that drive long-term performance. To date, the Standards Operating Model has driven significant changes in our organization, leadership and operating practices. Most importantly, the Standards Operating Model allows us to determine the sustainable revenue growth and earning power of our portfolio of deathcare businesses. The funeral and cemetery standards are designed to drive longer-term performance by growing market share and creating new heritage and producing consistent, modest revenue growth and a sustainable, increasing level of earnings and cash flow. The standards are not designed to produce maximum short-term earnings because Carriage does not believe such performance is sustainable without ultimately stressing the business, which often leads to declining market share, revenues and earnings.

The Standards Operating Model eliminated the use of financial budgets (budget and control model) which freed up enormous amounts of time to work on growing each local business and improving the quality and skills of the staff. Standards Achievement is the measure by which we judge the success of each business. All Standards are measured monthly except for our two people standards, which are judged quarterly using both qualitative and quantitative metrics.

- *Standards Council* – The Standards Operating Model was originally developed by a group of former owner partners and top managers (termed the “Standards Council”). The Standards Council studied and evaluated the key drivers of success at Carriage’s best businesses over a five-year period. Their work led to the development of the Standards Operating Model and the related incentive compensation plan. At the end of each year the Standards Council members for each of our three Regions meet, review and approve the Standards Achievement and related incentive compensation awards for each business.
- *Incentives Aligned with Standards* – Each Managing Partner participates in a variable annual bonus plan whereby they earn a percentage of their business’ calendar year earnings based upon the actual standards achieved for that year. Each Managing Partner has the opportunity to share in the earnings of the business as long as the performance exceeds our minimum standard of 50% of Total Standards Achievement for that calendar year.
- *League Tables* – League tables are published each month within Carriage ranking the Managing Partners and their business by percentage of Standards Achievement (maximum 100%) from top to bottom.



4E Leadership Model

The Standards Operating Model requires strong leadership to grow an entrepreneurial, high-value, personal service and sales business at sustainable Field EBITDA Margins. Our 4E Leadership Model is based upon principles established by Jack Welch during his tenure at General Electric, and is based upon **4E** qualities essential to succeed in a high performance culture: **E**nergy to get the job done; the ability to **E**nergize others; the **E**dge necessary to make difficult decisions; and the ability to **E**xecute and produce results. To achieve a high level of standards in a business year after year, we must have “A Players” in charge who have the 4E leadership skills to grow the business by hiring, training and developing highly motivated and productive teams that produce results.

Our Managing Partners participate in a variable bonus plan in which they earn a percentage of their business’ earnings based upon the actual standards achieved. We believe our Managing Partners have the opportunity to be compensated at close to the same level as if they owned the business. We currently employ the strongest group of operational leaders in the Company’s history, and the bonus plan fosters a growing reputation that “A Players” can thrive and be rewarded and recognized in our performance-based culture.

Strategic Acquisition Model

We believe a primary driver of higher revenue and profits in the future will be the execution of our Strategic Acquisition Model using nine strategic ranking criteria to assess acquisition and divestiture candidates. As we execute this strategy over the next five years, we will acquire larger, higher margin strategic businesses. All businesses will be prequalified to be able to perform under our Standards Operating Model. We believe we can execute our acquisition strategy without material incremental investment in our consolidation platform infrastructure or additional fixed regional and corporate overhead. Consequently, the sustained earning power of our portfolio as defined by our Consolidated EBITDA Margin should incrementally increase over time as we execute the Strategic Acquisition Model.

We have learned that the long term growth or decline of a local, branded deathcare business is reflected by nine criteria that correlate strongly with 5 – 10 year performance in volumes (market share), revenues and sustainable Field EBITDA Margins. We use these criteria to rank the strategic position of each of our existing businesses and acquisition candidates according to:

1. Size of Business;
2. Size of Market;
3. Market Characteristics;
4. Competitive Standing;
5. Demographics;
6. Strength of Brand;
7. Barriers to Entry.
8. Business Trends; and
9. Performance.

CARRIAGE PRENEED FUNERAL AND CEMETERY BUSINESS STRATEGY

On July 20, 2011, Carriage Services, Inc. announced that it received a total of \$8.5 million in cash withdrawals from its affiliated preneed cemetery trusts in California (\$8.1 million) and Nevada (\$0.4 million). The \$8.1 million from the trust funds in California was released by the bank Trustee for withdrawal following the completion of the 2010 audit of preneed cemetery merchandise and service trusts for Carriage's five cemetery businesses in California. The \$0.4 million from the trust funds in Nevada was released upon state regulatory review of the calculation of excess income for Carriage's three cemeteries in Las Vegas, Nevada. It was determined that these trusts had substantial excess realized income over the state mandated amounts and that \$8.5 million was available for withdrawal upon request by the Company. The Company can use this additional capital for any purpose. The withdrawal increased Carriage's Consolidated Free Cash Flow by \$8.5 million for the third quarter.

Going forward the Company has established a policy for the preneed cemetery trusts in these two states of withdrawing monthly the investment income now being generated from the trust portfolios, which is estimated to be approximately \$100,000, thereby increasing Carriage's Consolidated Free Cash Flow by approximately \$1.2 million annually. The Company's policy will be to withdraw the income as long as the trust market values equal or exceed the statutory required amounts and use the cash for higher return purposes. The trust fund investments will also be reviewed quarterly for unrealized net gains (in excess of unrealized losses) that can be withdrawn upon realization without putting the Company at risk of injecting cash into these trusts to cover market losses.

Preneed Funeral

The business goal and purpose of Carriage's preneed funeral strategy is to defend and grow future market share by offering client families in the communities where we operate an opportunity to lock in today's prices and to preplan and choose the products and services that adequately commemorate their lives without the distress of an imminent death. The financial strategy related to our preneed program is to prefund preneed funerals using either a trust or third party insurance product whose investment return growth over time will exceed the increase in delivery costs at the time of death in order to sustain and protect our gross profit on the sale.

As a matter of business strategy, Carriage has elected to have its preneed funeral strategy either aggressive, moderate or passive depending on the unique competitive dynamics in each market. We have generally aggressive preneed funeral programs in markets where we have aggressive programs being used by competitors, which only occurs in a small percentage of our stand alone funeral markets. Instead, we have emphasized decentralized management and an emphasis on atneed market share gains and the maintenance of pricing power which have been the major performance drivers of our Standards Operating Model and five year same store volume and revenue trends. We believe our business strategy and Models have produced long term same store volume, revenue and sustainable Field EBITDA Margins (cash earnings power) that are unmatched by any other consolidator, public or private.

Approximately 20% of our total funeral volumes and revenues have been presold, with about 8% of total funeral revenues represented by presold trust contracts and about 12% by presold insurance contracts. Our preneed funeral revenue and earnings represented by trust contracts have been increasing more rapidly than those represented by insurance contracts (generally a 2-3% growth factor) because of the excess realized net gains (over losses) and much higher recurring income as a result of our successful trust fund repositioning strategy during the 2008/2009 market and financial crisis. Nevertheless, our recognized preneed funeral trust revenue and earnings have greatly lagged the actual preneed funeral trust performance, especially in 2010 and the first six months of 2011, because our accounting methodology requires a death (delivery) to occur and the related cash in the trust to be withdrawn before revenue and earnings are recognized.

Preneed Cemetery

The cemetery business is different from the funeral business in that the cemetery business is more of a sales driven business whereas the funeral business is primarily a service driven business. The primary business strategy for the cemetery business is to build family heritage in our cemeteries by selling property, whose purpose is to provide future sales to other family members. This business strategy is driven in large part by sales of property on a preneed basis through a full time, highly motivated and incentivized local sales team. Approximately 55% of Carriage's recognized Cemetery Revenue comes from preneed sales with the other 45% provided by atneed revenue and financial revenue from several sources including two types of trust funds. Along with the purchases of cemetery property, the families typically purchase merchandise such as markers and monuments, and services, none of which are recognizable until death and delivery. Preneed sales of cemetery property are recorded as revenue at the time that 10% or more of the sales price is received in cash. Preneed sales of cemetery merchandise and services and the related merchandise and service trust funds are highly regulated by each state. Most states require all or a significant portion of the cash collected held in trust until the cemetery delivers the merchandise and service. The states also regulate when you may withdraw the income earned from the merchandise and service trust funds. The majority of the states allow the income withdrawals only at the time of delivery which has been the primary reason that the income is recognized for GAAP at delivery. Approximately 40% of Carriage's cemetery revenues are generated in California, and California regulations allow the withdrawal of income monthly once you reach the statutory required amounts. Since Carriage has reached that point, the California withdrawal rules will provide an increase in Consolidated Free Cash Flow now and going forward.

EXECUTIVE TEAM

Our management team, headed by founder Mel Payne, is characterized by a dynamic culture that reacts quickly and proactively to address changing market conditions and emerging trends. This culture has been critical to recent successful efforts and will provide an important advantage as the deathcare industry evolves. We are committed to operating an efficient corporate organization and strengthening corporate and local business leadership. Our Being the Best operating model will ensure this commitment at all levels of the organization. The funeral and cemetery divisions are reorganized into three Regions, each headed by a Regional Partner. This change engenders more cooperation and synergy between our funeral and cemetery operations and supports the goal of market-share and volume growth in our most significant markets. The three Regional Partners report to Jay Dodds in his role of Chief Operating Officer. The following are bios for the executive team.

Melvin C. Payne, a management founder of Carriage, has been Chairman of the Board and Chief Executive Officer since December 1996, prior to which he had been a director and Chief Executive Officer since Carriage's inception in 1991. Prior to co-founding Carriage, Mr. Payne spent ten years in the private company turnaround business involving numerous industries. Prior to his turnaround career, Mr. Payne spent ten years in the corporate lending business, initially with Prudential Insurance Company and later with Texas Commerce Bank in Houston.

L. William Heiligbrodt, was appointed to serve as a full-time Executive Officer as the Vice Chairman, Executive Vice President and Secretary on September 1, 2011. From February 2009 until this appointment, Mr. Heiligbrodt was an independent director of the Company who served on the Audit Committee, the Corporate Governance Committee, and was the Chairman of the Compensation Committee and the Executive Committee. Mr. Heiligbrodt also served as the Company's Lead Director. Prior to his recent appointment Mr. Heiligbrodt was a private investor and managing partner in a family business. From February 1999 to February 2003, he served as a consultant to Service Corporation International, a funeral services corporation ("SCI"). Mr. Heiligbrodt was the President and Chief Operating Officer of SCI until February 1999 and he had served in various management positions with SCI since February 1990. Prior to joining SCI, Mr. Heiligbrodt served as President of Provident Services, Inc. from March 1988 to February 1990. Prior to that, he served for five years as Vice Chairman and Chief Executive Officer of WEDGE Group Incorporated. Before Wedge Group Inc., Mr. Heiligbrodt served as Chairman of Texas Commerce Bank, Houston and Vice Chairman of Texas Commerce Bancshares, Inc. and a Director of both companies.

Terry E. Sanford is the Executive Vice President and Chief Financial Officer of Carriage. Having joined the Company in 1997 as the Financial Controller, Mr. Sanford was promoted in 2000 to Vice President and Corporate Controller and in 2006 to Chief Accounting Officer and Treasurer and in September 2008 to his current position. Mr. Sanford's work history prior to joining Carriage included senior financial positions in manufacturing, financial services and consumer products companies and public accounting. Mr. Sanford is a CPA and possesses a BBA in Accounting and an MBA in Finance.

George J. Klug has been with the Company since July 2001 and has served as Senior Vice President of Information Systems and Chief Information Officer of Carriage since May 2002. Before joining Carriage, Mr. Klug served from 1997 to 2000 as Vice President of Information Technology at Allright Corporation, an owner operator of parking facilities both national and international. Prior to Allright, Mr. Klug served as Vice President of Information Technology for various retail companies including Oshmans, Sportstown, and Zaks. He also has a background in operations and accounting and has been in management positions for almost 40 years.

DIRECTORS

David J. DeCarlo was nominated in April 2011 and elected to the Board of Directors at the Annual Meeting of Stockholders. He has had more than 23 years of experience in the death care industry, having served as an executive officer in various roles for Matthews International (Matthews), a leading worldwide supplier of death care products. Prior to retiring from Matthews as Vice Chairman of the Board in 2008, Mr. DeCarlo had previously served as President of the Bronze Division, Group President of the Memorialization Group and a member of the Board of Directors for twenty-two years. Before joining Matthews in 1985, Mr. DeCarlo held diverse management and executive roles in finance, manufacturing, operations, sales, marketing and management information systems at several Fortune 500 companies. Mr. DeCarlo has an MBA in Finance, a Masters of Arts in Economics and Statistics, and a Ph.D. in Applied Economics and Finance (all but dissertation) from the Wharton School of Finance and University of Pennsylvania, as well as a Bachelor of Science degree in industrial Management from West Virginia University.

Donald D. Patteson, Jr. was elected in August 2011 to the Board of Directors. Mr. Patteson is the founder and Chairman of the Board of Directors of Sovereign Business Forms, Inc. a consolidator in the wholesale manufacturing of custom business forms and related products segment of the printing industry. Prior to founding Sovereign in August 1996, he served as Managing Director of Sovereign Capital Partners, an investment firm specializing in leveraged buyouts. Mr. Patteson also previously served as President and Chief Executive Officer of WBC Holdings, Inc., a consolidator in the rent-to-own industry, and was President and Chief Executive Officer of Temple Marine Drilling, Inc./R.C. Chapman Drilling Co., Inc., a consolidation and workout subsidiary of GE Capital in the drilling industry. He was President, Chief Executive Officer and Director of Temple Drilling and held various other positions of executive and financial management in the offshore drilling industry. Mr. Patteson began his business career with Arthur Andersen's management consulting practice.

Richard W. Scott is a seasoned financial services executive with over thirty years of capital markets experience. Since January 2009, he has served as the Senior Vice President and Chief Investment Officer of Loews Corporation and from 2001 to 2008, was a senior executive in Insurance Portfolio Management, with AIG Investments including service as the Chief Investment Officer-Insurance Operations. His career has included extensive executive and professional responsibility for all aspects of fixed income and insurance portfolio management on both domestic and global platforms, as well as extensive experience as a mergers and acquisition and capital markets professional.

Melvin C. Payne, refer to *Executive Team* on page 21 for a complete biography.

L. William Heiligbrodt, refer to *Executive Team* on page 21 for a complete biography.

THIRD QUARTER OF 2011 RESULTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Revenues	\$ 45.5	\$ 44.1	\$ 136.8	\$ 142.8
Net income attributable to common shareholders	\$ 0.9	\$ 0.8	\$ 5.9	\$ 6.7
Diluted earnings per share	\$ 0.05	\$ 0.04	\$ 0.33	\$ 0.36
Special items (pre-tax)	\$ 1.5	\$ 1.8	\$ 2.6	\$ 5.8
Non-GAAP net income attributable to common shareholders including special items	\$ 1.7	\$ 1.9	\$ 7.5	\$ 10.1
Non-GAAP diluted earnings per share including special items	\$ 0.10	\$ 0.10	\$ 0.42	\$ 0.55
Diluted weighted average shares outstanding	17.7	18.5	17.8	18.4
Free Cash Flow	\$ 0.4	\$ 7.2	\$ 11.5	\$ 19.9

Our third quarter revenue declined by \$1.4 million, our year to date revenue increased by \$6 million or 4.4% to \$142.8 million. Our year to date same store funeral volumes and revenues were flat, as was the same store average revenue per funeral contract. Revenue from funeral operations acquired during 2010 and 2011 increased funeral acquisition revenue by \$1.6 million in the third quarter and \$6.7 million in the first nine months of 2011. Cemetery revenue declined by \$1.6 million or 15.2% in the third quarter and \$0.9 million or 2.9% for the nine months. Financial revenue declined by \$321,000 for the third quarter but increased by almost \$200,000 year to date.”

Funeral Field EBITDA Margins increased substantially in the third quarter and nine months in both our same store and acquisition portfolios, resulting in an increase in Total Funeral Field EBITDA of \$1.8 million or 21% in the third quarter and \$4.3 million or 14% for the first nine months. Total Cemetery Field EBITDA and Cemetery Field EBITDA Margins declined in the third quarter but increased by \$400,000 and 210 basis points (to 25.1%) respectively for the nine months. Financial EBITDA declined by \$280,000 in the third quarter but increased slightly for the nine months. Total Field EBITDA increased by \$0.9 million for the third quarter primarily due to an increase of 300 basis points in Field EBITDA Margin, while Total Field EBITDA for the nine months increased \$4.9 million or 10.3% due to higher funeral acquisition revenue and an increase of 190 basis points in the Total Field EBITDA Margin to 36.6%.

Overhead increased substantially in the third quarter and nine months, in large part due to special items that are included in GAAP results that will now be specifically scheduled below our GAAP reported results and reconciled, along with Non-GAAP withdrawable trust income, with our Non-GAAP reported results. Starting with this release, we will report Non-GAAP and GAAP results, but believe the recurring Non-GAAP performance to be more relevant for valuation purposes.

Non-GAAP Consolidated EBITDA increased \$100,000 for the quarter but increased \$4.4 million or 12.6% for the nine months to \$39.4 million from \$35.0 million. The Non-GAAP Consolidated EBITDA Margin increased 200 basis points in the 2011 nine month period to 27.6% from 25.6% in 2010. Management views Non-GAAP Consolidated EBITDA as the approximate cash earning power of our portfolio of operating assets, which is available to service debt and tax obligations, to invest in maintenance of our existing portfolio and acquisition of new operating businesses, and to return capital to shareholders through dividends and share repurchases.

Our Non-GAAP EPS performance of 10¢ in the third quarter was equal to last year. However, the Non-GAAP EPS of 55¢ for the nine months was 13¢ or 31% higher than last year's same period, primarily as a result of much higher withdrawable trust income this year of \$4.9 million compared to \$2.9 million last year.

Lastly, and most importantly, we produced Free Cash Flow of \$19.9 million in the first nine months of 2011 compared to \$11.5 in 2010, enabling us to self-finance the \$10.3 million cash used for funeral acquisitions in 2011, repurchase \$2.2 million of convertible subordinated debentures at a significant discount, invest \$2.4 million in existing portfolio growth projects, and still build cash by \$3 million during the first nine months to \$4.3 million at September 30, 2011. Because of our confidence in our ability to produce strong and growing Free Cash Flow, our Board earlier today approved a \$5 million stock repurchase program and our regular quarterly cash dividend.

Acquisitions

We acquired Grantham Funeral Homes on August 16, 2011 for approximately \$4.0 million. Grantham Funeral Homes perform approximately 250 funeral services annually and are forecast to generate annual revenue of approximately \$1.6 million and annual Funeral Field EBITDA of approximately \$0.6 million upon integration completion.

We acquired Franklin & Downs Funeral Home on September 29, 2011 for approximately \$1.2 million. Franklin & Downs Funeral Home performs approximately 450 funeral services annually and is forecast to generate annual revenue of approximately \$1.3 million and Funeral Field EBITDA of approximately \$0.3 million upon integration completion. Carriage leases the funeral home facilities for approximately \$142,000 annually.

Subsequent to the third quarter, we announced the acquisition of Carman Funeral Home and Roberson Funeral Home in Northeast Kentucky for \$2.5 million.

These acquisitions are expected to add materially to our new acquisition portfolio performance (those businesses acquired since the beginning of 2007) and the company's diluted EPS in 2011 and thereafter. We have established a policy of announcing acquisitions when we have closed the transaction and integrating expected proforma results of newly announced acquisitions into our Rolling Four Quarter Outlook in conjunction with the subsequent quarterly earnings release.

Free Cash Flow

Carriage produced Free Cash Flow of \$7.2 million for the three months ended September 30, 2011, an increase of \$6.8 million compared to \$0.4 for the corresponding period in 2010. The increase in Free Cash Flow is primarily due to the \$8.5 million cash withdrawal from its affiliated preneed cemetery trusts as previously disclosed. The sources and uses of cash for the nine months ended September 30, 2010 and 2011 consisted of the following (in millions):

	<u>2010</u>	<u>2011</u>
Cash flow provided by operations	\$ 16.5	\$ 25.3
Cash used for maintenance capital expenditures	<u>(5.0)</u>	<u>(5.4)</u>
Free Cash Flow	\$ 11.5	\$ 19.9
Cash at beginning of year	3.6	1.3
Borrowing (payments) against bank credit facility	5.0	(0.6)
Acquisitions	(16.8)	(10.3)
Cash used for dividends	—	(0.9)
Cash used for the repurchase of convertible junior subordinated debenture	(0.6)	(2.2)
Cash used for growth capital expenditures – funeral homes	(0.2)	(0.5)
Cash used for growth capital expenditures – cemeteries	(1.6)	(1.9)
Payment of loan origination fees	—	(0.3)
Other investing and financing activities, net	<u>0.4</u>	<u>(0.2)</u>
Cash at September 30th	<u>\$ 1.3</u>	<u>\$ 4.3</u>

At September 30, 2011, no amounts were outstanding on the bank credit facility.

Effective August 11, 2011, the Company entered into a new secured revolving credit facility with Wells Fargo Bank, N.A. which contains commitments for an aggregate of \$60.0 million with an accordion provision for up to an additional \$15.0 million. Prior to this transaction, the Company had a \$40 million senior secured revolving credit facility that was scheduled to mature in November 2012. The new credit facility matures in October 2014 and under certain conditions may be extended to October 2016. During the third quarter of 2011, the Company recorded a charge of approximately \$201,000 to write-off the remaining unamortized loan fees on the prior credit facility.

Trust Fund Performance

We executed a major asset reallocation starting in early August 2011 after the U.S. downgrade by S&P and the European sovereign debt crisis reemerged. We reduced our discretionary equity portfolio cost basis by \$26.1 million, realizing about \$2.0 million in losses. The proceeds were invested primarily into high yield fixed income and preferred stocks, which increased by 23% the recurring income on our discretionary portfolio from \$7.9 million on August 5, 2011 to \$9.7 million on November 2, 2011.

Shown below are consolidated performance metrics for the combined trust fund portfolios (preneed funeral, cemetery merchandise and services, and cemetery perpetual care) at key dates.

Investment Performance						
Timeframe	Investment Performance		Index Performance			
	Discretionary	Total Trust	DJIA	S&P 500	NASDAQ	50/50 index Benchmark
5 years ended 12/31/10	64.7%	60.7%	24.4%	25.8%	39.6%	12.4%
3 years ended 12/31/10	47.7%	44.6%	1.7%	4.5%	20.3%	11.3%
1 year ended 12/31/10	21.2%	18.4%	16.7%	15.1%	16.9%	10.8%
9 months ended 9/30/11	-10.2%	-10.8%	-5.7%	-8.7%	-9.0%	-1.0%

⁽¹⁾ Investment performance includes realized income and unrealized appreciation (depreciation).

CSV Trust Funds: Portfolio Profile				
Asset Class	9/30/2011		9/30/2011	
	Discretionary Trust Funds		Total Trust Funds	
	MV	%	MV	%
Equities	\$ 59,638	40%	\$ 71,967	35%
Fixed Income	\$ 87,781	59%	\$ 111,944	58%
Cash	\$ 2,141	1%	\$ 14,916	7%
Total Portfolios	\$ 149,560	100%	\$ 198,827	100%

FINANCIAL OUTLOOK

To better understand how improved execution of the Standards Operating Model and Strategic Acquisition Model will drive future operating results, we provide a rolling twelve month outlook after each quarter that reflects the trending progress we are making toward achieving the sustainable earning power of our portfolio of operating assets. We believe that a rolling forecast updated for acquisitions and dispositions will result in a more timely and accurate near term Outlook that is not constrained by a fixed and arbitrary “finish line” at the end of each calendar year.

The following table depicts our current Outlook for the four quarter period ending September 30, 2012. Our short term Rolling Four Quarter Outlook ranges are intended to approximate what we believe will be the sustainable earning power of our portfolio of deathcare assets over time as our three models are effectively executed. We have learned that it is better to be “roughly right” than “precisely wrong” when forecasting our future results because of the uncertainties in estimating key drivers of short term and long term performance, including funeral contract volumes, cremation mix, preneed sales, preneed maturities and deliveries, average revenue per service, financial revenue and overhead items and the timing and integration of new acquisitions. Other variables include the outstanding amounts under our bank credit facility, preneed trust fund income withdrawals, the effective tax rate, which is currently estimated to be approximately 40% and the estimated number of diluted shares outstanding, which is currently estimated to be approximately 18.4 million.

Rolling Four Quarter Outlook	
Period Ending September 30, 2012	
<i>(Amounts in Millions, Except Per Share Amount)</i>	
	Range
Revenues	\$208 - \$212
Field EBITDA	\$74.9 - \$76.3
Field EBITDA Margin	36.0%
Total Overhead	\$25.0 - \$25.5
Consolidated EBITDA	\$49.9 - \$50.8
Consolidated EBITDA Margin	24.0%
Interest	\$18.2
Depreciation & Amortization	\$12.2
Income Taxes	\$7.9 - \$8.3
Net Income	\$11.6 - \$12.1
Diluted Earnings Per Share	\$0.63 - \$0.66
Free Cash Flow	\$20.5 - \$21.5

- Increase in same store Funeral Revenue averages and same store Funeral Field EBITDA Margins;
- Increase in acquired Funeral Revenue and acquired Funeral Field EBITDA from the 2010 and 2011 acquisitions;
- Increase in Financial Revenue and Financial EBITDA from trust funds; and
- Increase in Cemetery Revenue, Cemetery Field EBITDA and Cemetery Field EBITDA Margins.

Estimates involved in forecasting Free Cash Flow for the four quarter period ending September 30, 2012 include approximately \$6.8 million in maintenance capital expenditures and approximately \$4.8 million in cash taxes. The estimates also include Company’s new policy of withdrawing realized gains and income on a monthly basis from

certain cemetery merchandise and services trust funds which are estimated to be \$1.2 million for the rolling four quarter period.

CAUTIONARY STATEMENT ON FORWARD LOOKING STATEMENTS

In addition to historical information, this Company & Investment Profile contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements typically are identified by terms expressing our future expectations or projections of revenues, earnings, earnings per share, cash flow, market share, capital expenditures, effects of operating and acquisition initiatives, gross profit margin, debt levels, interest costs, tax benefits and other financial items. All forward-looking statements, although made in good faith, are based on assumptions about future events and are therefore inherently uncertain, and actual results may differ materially from those expected or projected. Forward-looking statements speak only as of the date of this report, and we undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur. Readers should carefully review the Cautionary Statements described in this and other documents we file from time to time with the Securities and Exchange Commission, including Annual Reports on Form 10-K and Current Reports on Form 8-K filed by Carriage in the future. A copy of the Company's Form 10-K, and other Carriage Services information and news releases, are available at www.carriageservices.com.

DISCLOSURE OF NON-GAAP PERFORMANCE MEASURES

We report our financial results in accordance with generally accepted accounting principles ("GAAP"). However, this investment profile uses the following Non-GAAP financial measures "free cash flow" and "EBITDA". Both free cash flow, cash provided by operating activities less maintenance capital expenditures, and EBITDA are used by investors to value common stock. The Company considers free cash flow to be an important indicator of its ability to generate cash for acquisitions and other strategic investments. The Company has included EBITDA in this investment profile because it is widely used by investors to compare the Company's financial performance with the performance of other death care companies. The Company also uses Field EBITDA and Field EBITDA Margin to monitor and compare the financial performance of the individual funeral and cemetery field businesses. EBITDA does not give effect to the cash the Company must use to service its debt or pay its income taxes and thus does not reflect the funds actually available for capital expenditures. In addition, the Company's presentation of EBITDA may not be comparable to similarly titled measures other companies report. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported operating results or cash flow from operations or any other measure of performance as determined in accordance with GAAP. Reconciliations of the Non-GAAP financial measures to GAAP measures are provided at the back of the investment profile.

Reconciliation of Non-GAAP Financial Measures (unaudited)**Reconciliation of Net Income to Non-GAAP Net Income for the three and nine months ended September 30, 2010 and 2011:**

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Net Income	\$ 859	\$ 792	\$ 5,932	\$ 6,679
Special items, net of tax	839	1,064	1,520	3,466
Non-GAAP Net Income	\$ 1,698	\$ 1,856	\$ 7,452	\$ 10,145

Reconciliation of Net Income to Non-GAAP Consolidated EBITDA for the three and nine months ended September 30, 2010 and 2011 and the estimated rolling four quarters ended September 30, 2012 (presented at approximately the midpoint of the range identified in the release)(in 000's):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Net income	\$ 859	\$ 792	\$ 5,932	\$ 6,679
Provision for income taxes	508	539	4,038	4,546
Pre-tax earnings	1,367	1,331	9,970	11,225
Interest expense, including loan cost amortization	4,570	4,551	13,696	13,594
Noncash stock compensation	447	491	1,359	1,584
Depreciation & amortization	2,498	2,290	7,450	7,209
Special items	1,487	1,788	2,554	5,826
Non-GAAP Consolidated EBITDA	\$ 10,369	\$ 10,452	\$ 35,029	\$ 39,438

	Rolling Four Quarter Outlook September 30, 2012 E
Net income	\$ 11,900
Provision for income taxes	8,100
Pre-tax earnings	20,000
Interest expense, including loan cost amortization	18,200
Depreciation & amortization, including stock compensation	12,200
Consolidated EBITDA	\$ 50,400
Revenue	\$ 210,000
Consolidated EBITDA Margin	24.0%

Reconciliation of Diluted EPS to Non-GAAP Diluted EPS for the three and nine months ended September 30, 2010 and 2011:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Diluted EPS	\$ 0.05	\$ 0.04	\$ 0.33	\$ 0.36
Effect of special items	0.05	0.06	0.09	0.19
Non-GAAP Diluted EPS	\$ 0.10	\$ 0.10	\$ 0.42	\$ 0.55

Reconciliation of cash provided by operating activities to Free Cash Flow (in 000's):

	Three months ended September 30,	
	2010	2011
Cash provided by operating activities	\$ 2,032	\$ 9,176
Less maintenance capital expenditures	(1,611)	(2,002)
Free Cash Flow	\$ 421	\$ 7,174

Reconciliation of cash provided by operating activities to Free Cash Flow (in 000's):

	Nine months ended September 30,	
	2010	2011
Cash provided by operating activities	\$ 16,549	\$ 25,270
Less maintenance capital expenditures	(5,049)	(5,365)
Free Cash Flow	\$ 11,500	\$ 19,905

Reconciliation of Consolidated EBITDA to Free Cash Flow for the estimated rolling four quarters ending September 30, 2012 (in 000's):

	Rolling Four Quarter Outlook
	September 30, 2012 E
Consolidated EBITDA	\$ 50,400
Interest paid	(17,800)
Cash Income taxes	(4,800)
Maintenance capital expenditures	(6,800)
Free Cash Flow	\$ 21,000