



**Carriage Services, Inc.**  
(NYSE: CSV)

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

*Simply Put ... Becoming the Best*

[www.CarriageServices.com](http://www.CarriageServices.com)

**KEY POINTS**

Carriage is uniquely positioned because of our strategy as defined by three models:

- Standards Operating Model - focuses on market share, people and operating metrics that drive long-term operating and financial performance.
- 4E Leadership Model - defines the qualities and skills necessary to effectively execute the Standards Operating Model.
- Strategic Portfolio Optimization Model - defines the selective acquisition/disposition strategy using six Strategic Ranking Criteria to assess candidates and differentiate pricing.

We believe effective execution of our models could produce superior shareholder returns starting in 2007 and continuing through 2012 and beyond, as we benefit from an up cycle in deathcare industry consolidation. Superior investment returns will be driven by:

- Operating Leverage – modest increases in same store revenues and Field EBITDA Margins will result in higher growth rates in same store Field EBITDA
- Organizational Overhead Leverage – regional and corporate organizations have fixed cost structures that will not increase proportionate to revenue growth.
- Capital Structure Leverage – highly leveraged capital structure that includes fixed rate mezzanine and senior debt similar to an LBO structure.
- Consolidation Platform Leverage – acquired Field EBITDA will substantially fall to Consolidated EBITDA and be accretive to EPS.
- Consolidated Cash, Free Cash Flow and disposition proceeds will self finance selective growth strategy without new debt or equity.

*Carriage Services is a leading provider of death care services and products in the United States. Carriage operates 134 funeral homes in 27 states and 32 cemeteries in 11 states. Carriage provides a complete range of funeral and cremation services and sells a wide variety of related products and merchandise.*

**Stock Price (November 1, 2007)**

**\$9.40**

**Stock Data**

Fiscal Year-End:	December
Symbol / Exchange:	CSV / NYSE
52 - Week Trading Range:	\$4.61 - \$10.35
Weighted Avg. Diluted Common Shares (In Mill.):	19.6
Market Capitalization (In Mill.):	\$184.11
Total Enterprise Value (In Mill.):	\$404.89
Avg. Daily Volume (3 Mos.):	51,408
Float (In Mill.):	17.2
Insider Ownership:	12.3%
Institutional Ownership:	60.2%

**Financial Data (Amounts in Millions)**

	<b>9/30/2007</b>
Cash & Investments:	\$12.2
Total Assets:	\$606.5
Total Senior Debt:	\$139.2
Total Subordinated Debt:	\$93.8
Total Debt:	\$233.0
Stockholders' Equity:	\$104.3
<b>Trailing Twelve Months Ending 9/30/07</b>	
Revenue from Cont. Ops:	\$162.0
Field EBITDA from Cont. Ops:	\$59.5
Consolidated EBITDA from Cont. Ops.:	\$38.3
Diluted EPS from Cont. Ops.:	\$0.37
Free Cash Flow:	\$9.0

**Company Financial Outlook**

	<b>Four Qtr. Period Ending 9/30/2008</b>
Revenue from Cont. Ops:	\$174.0 - \$178.0
Field EBITDA from Cont. Ops:	\$64.0 - \$66.0
Consolidated EBITDA from Cont. Ops.:	\$42.0 - \$44.0
Diluted EPS from Cont. Ops.:	\$0.46 - \$0.50
Free Cash Flow:	\$14.0 - \$16.0

**Valuation Data (Using Outlook Midpoint)**

Price / Yr. 9/30/08(E) EPS:	19.6X
Enterprise Value / 9/30/08(E) Consolidated EBITDA:	9.4X
Equity Market Cap / 9/30/08 Free Cash Flow:	12.3X



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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 CONSIDERATIONS

Carriage Services is a leading provider of Death Care services and products in the United States. Carriage Services' shares trade on the New York Stock Exchange under the symbol CSV. We operate 134 funeral homes in 27 states and 32 cemeteries in 11 states. Our business can be characterized as one of relative stability, reflected by predictable revenue and cash flow, with incremental growth opportunities via selective acquisitions.

We are now 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

- Focuses on market share, people and operating metrics that drive long term operating and financial performance.
- Designed and weighted to grow market share, volumes and average revenue modestly over time.
- Designed to achieve sustainable Field EBITDA Margins over time.

### 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 achievement of our Being The Best Standards and recognition, such as League Table rankings and regional competition, and by our Being The Best Incentive Bonus Program.

### Strategic Portfolio Optimization Model

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

Effective execution of these three Carriage Models is intended to produce superior shareholder returns starting in 2007 and continuing through our planning horizon of 2012 and beyond as we benefit from an up cycle in deathcare industry consolidation. The superior investment returns will be driven by a combination of unique and simultaneous financial dynamics as follows:

### Operating Leverage

- Relatively fixed cost business; therefore, modest growth in same store revenues and modest increases in Field EBITDA Margins over time will 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 will increase same store volumes and revenues in the intermediate and long term and compound the positive effect of Operating Leverage.

### Organizational Overhead Leverage

- Regional and corporate organizations are aligned with the Standards Operating Model and cost structures are relatively fixed and will not increase proportionate to growth in revenues.
- Variable overhead, primarily incentive compensation related to all three organizational levels (Field, Regional, and Corporate) will increase relative to achievement of performance standards.

### Capital Structure Leverage

- Highly leveraged capital structure that includes mezzanine (TIDES) and senior debt (high yield) similar to an LBO structure.
- TIDES (7% due 2029) and high yield (7½% due 2015) have long term principal maturity dates and fixed low rates, producing a relatively low Cost of Capital of about 10%.
- Annual interest of approximately \$17 million is fixed and easily covered by Consolidated EBITDA, resulting in substantial Consolidated Free Cash Flow that will be used to make selective acquisitions.

### Consolidation Platform Leverage

- Acquired Field EBITDA will substantially fall to Consolidated EBITDA and Consolidated Free Cash Flow and be accretive to EPS as well.
- Consolidated Free Cash Flow after fixed interest and maintenance capital expenditures will grow at a faster rate than revenues, a financial benefit whose momentum will directly accrue to common shareholders.
- Acquisition strategy will be funded by Consolidated Free Cash Flow and disposition proceeds without a need to issue dilutive new shares or issue long-term debt.

Superior long term shareholder returns will be driven by a low share count and increasing Consolidated Free Cash Flow that will self finance our selective acquisition strategy. This should produce high single digit revenue growth that will be leveraged 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 during the next six years as higher death rates based on the aging of the “baby boom” generation becomes more visible. Our long-term financial outlook is as follows:

#### Long Term Outlook – Through 2012

**Revenue growth of 7-9% annually, including acquisitions**

**Consolidated EBITDA growth of 9-11% annually, including acquisitions**

**Consolidated EBITDA Margin range of 24-26%**

**Growth internally funded without new debt or equity**

The following is a hypothetical example of how a moderate number of acquisitions can drive revenue growth while being funded by available cash and consolidated free cash flow.

### Hypothetical Revenue Build

*For Example Purposes - Data Not Supported by Actual Detailed Operational or Strategic Plans*

*Amounts In Millions*

	Revenue						
	2006	2007	2008	2009	2010	2011	2012
Existing Revenue <sup>(1)</sup>	\$ 151.0	\$ 154.8	\$ 158.6	\$ 162.6	\$ 166.7	\$ 170.8	\$ 175.1
2007 Acquired Revenue <sup>(2)</sup>		14.2	20.0	20.5	21.0	21.5	22.1
2008 Acquired Revenue <sup>(2)</sup>			10.0	10.3	10.6	10.9	11.3
2009 Acquired Revenue <sup>(2)</sup>				10.0	10.3	10.6	10.9
2010 Acquired Revenue <sup>(2)</sup>					10.0	10.3	10.6
2011 Acquired Revenue <sup>(2)</sup>						10.0	10.3
2012 Acquired Revenue <sup>(2)</sup>							10.0
	<b>\$ 151.0</b>	<b>\$ 169.0</b>	<b>\$ 188.6</b>	<b>\$ 203.4</b>	<b>\$ 218.6</b>	<b>\$ 234.1</b>	<b>\$ 250.3</b>
<b>Acquisition Financing</b>							
Beginning Cash	\$ 25.0	\$ 42.0	\$ 9.2	\$ 8.8	\$ 12.8	\$ 21.8	\$ 35.8
Acquisitions Cost	-	(42.6)	(21.0)	(21.0)	(21.0)	(21.0)	(21.0)
Cash Flow <sup>(3)</sup>	17.0	9.8	20.6	25.0	30.0	35.0	41.0
Ending Cash	\$ 42.0	\$ 9.2	\$ 8.8	\$ 12.8	\$ 21.8	\$ 35.8	\$ 55.8

*(1) Assumes 2.5% annual growth*

*(2) Assumes 3.0% annual growth*

*(3) Free cash flow assumes no cash taxes & no growth capital expenditures*

## FINANCIAL OUTLOOK

To better understand how improved execution of the Standards Operating Model and Strategic Portfolio Optimization Model will drive future operating results, we provide a rolling twelve month outlook that reflects the positively 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 table on the following page depicts our current Outlook for the four quarter period ending September 30, 2008, which is intended to estimate results from continuing operations based upon same-store funeral volumes, preneed cemetery sales and acquisitions. We believe it is appropriate to present a range of outcomes because of the uncertainties in estimating volumes, preneed sales, average revenue per service, margins and other key factors.

Our rolling four quarter Outlook is based upon the following key assumptions:

- The upper end of the Outlook range assumes funeral same-store volumes are flat compared to the most recent four quarters and the lower end assumes a 2% decrease.
- The average revenue per funeral contract is assumed to increase approximately 2.5% annually. This increase assumes the cremation rate of our business will increase by 100 basis points year over year.

- Includes estimated results from acquired businesses in Corpus Christi, Texas (closed January 2007), Camarillo, California (closed April 2007), Boise, Idaho (closed June 2007), Santa Fe, New Mexico (closed June 2007), Springfield, Massachusetts (closed August 2007) and Riverside County, California (to close in the fourth quarter of 2007). Excludes divestitures identified as of September 30, 2007 and classified as Discontinued Operations.
- No borrowings on our \$35 million bank credit facility.
- Approximately \$10.0 million of capital expenditures, of which \$3.0 million is designated for growth opportunities.
- Use free cash flow (cash flow from operations less capital expenditures) to acquire additional businesses if and when available on acceptable terms.

### Rolling Four Quarter Outlook - Period Ending September 30, 2008

(Amounts in Millions, Except Per Share Amounts)

	Range	Range Midpoint	Midpoint as % of Revenue
Revenues	\$174.0 - \$178.0	\$176.0	100.0%
Field EBITDA	\$64.0 - \$66.0	\$65.0	36.9%
Variable Overhead	\$3.9	\$3.9	2.0%
Regional Fixed Overhead	\$3.1	\$3.1	2.0%
Corporate Fixed Overhead	\$14.5	\$14.5	8.0%
Total Overhead	\$22.0	\$22.0	12.0%
Consolidated EBITDA	\$42.0 - \$44.0	\$43.0	24.4%
Interest	\$17.5	\$17.5	10.0%
Depreciation & Amortization	\$10.3	\$10.3	6.0%
Income Taxes	\$5.8 - \$6.2	\$6.0	3.0%
Net Earnings from Cont. Operations	\$8.7 - \$9.7	\$9.2	5.0%
Diluted Earnings Per Share	\$0.46 - \$0.50	\$0.48	-
Free Cash Flow	\$14.0 - \$16.0	\$15.0	9.0%

## TREND REPORTING

We now report our consolidated same store field operating and financial results both on a multi-year and most recent rolling four quarters basis to reflect long term trends, and by quarter for the most recent five quarters to reflect short term trends and seasonality. Just as we report internally for each of our businesses under the Standards Operating Model, these field level results highlight trends in volumes, revenues, Field EBITDA (controllable profit) and Field EBITDA Margin (controllable profit margin). Trend reporting allows us to focus on the key operational and financial results relevant to the longer term performance and valuation of our portfolio of deathcare businesses.

We will maintain separate reporting for our same store continuing operations (adjusted for dispositions as they occur) and our new acquisition portfolio to show how the execution of both our Standards Operating Model and our Strategic Portfolio Optimization Model will change the sustainable revenue and earning power profile of Carriage Services. The following trend reports reflect results through the third quarter of 2007.

**UNAUDITED INCOME STATEMENT FROM CONTINUING OPERATIONS**  
**Annual Trend**  
**For the Four Years Ended December 31, 2006 and Four Quarters Ended September 30, 2007**  
**(\$000's)**

	Pro forma <sup>(1)</sup> Year 2003		Pro forma <sup>(1)</sup> Year 2004		Actual Year 2005		Actual Year 2006		Actual Trailing 4 Qtrs. 9/30/2007	
<b>CONTINUING OPERATIONS</b>										
<b>Same Store Contracts</b>										
Atneed Contracts	17,880	79.8%	17,402	79.8%	17,353	79.6%	16,870	78.6%	16,409	78.3%
Preneed Contracts	4,515	20.2%	4,412	20.2%	4,436	20.4%	4,597	21.4%	4,538	21.7%
Total Same Store Funeral Contracts	22,395	100.0%	21,814	100.0%	21,789	100.0%	21,467	100.0%	20,947	100.0%
<b>Acquisition Contracts</b>										
Atneed Contracts	-		-		53	64.6%	194	67.1%	921	68.3%
Preneed Contracts	-		-		29	35.4%	95	32.9%	428	31.7%
Total Acquisition Funeral Contracts	-		-		82	100.0%	289	100.0%	1,349	100.0%
New Store Openings	-		-		-		104		464	
<b>Total Funeral Contracts</b>	<b>22,395</b>		<b>21,814</b>		<b>21,871</b>		<b>21,860</b>		<b>22,760</b>	
<b>Same Store Interments</b>										
Atneed Interments	2,506	27.7%	2,324	26.3%	2,006	24.4%	2,100	25.0%	2,120	26.9%
Preneed Interments	6,554	72.3%	6,529	73.7%	6,213	75.6%	6,285	75.0%	5,766	73.1%
Total Same Store Cemetery Interments	9,060	100.0%	8,853	100.0%	8,219	100.0%	8,385	100.0%	7,886	100.0%
<b>Acquisition Interments</b>										
Atneed Interments	-		-		-		-		196	25.2%
Preneed Interments	-		-		-		-		583	74.8%
Total Acquisition Cemetery Interments	-		-		-		-		779	100.0%
<b>Total Cemetery Interments</b>	<b>9,060</b>		<b>8,853</b>		<b>8,219</b>		<b>8,385</b>		<b>8,665</b>	
<b>Same Store Revenue</b>										
Funeral Operations Revenue	\$ 105,499	75.3%	\$ 106,399	74.0%	\$ 108,649	73.0%	\$ 110,778	73.6%	\$ 112,230	69.3%
Preneed Commission and Other Revenue	1,608	1.1%	1,319	0.9%	2,295	1.5%	2,267	1.5%	2,217	1.4%
Total Funeral Same Store Revenue	107,107	76.4%	107,718	74.9%	110,944	74.6%	113,045	75.2%	114,447	70.6%
Cemetery Operations Revenue	29,755	21.2%	33,203	23.1%	33,940	22.8%	32,107	21.3%	33,821	20.9%
Cemetery Financial Revenue	3,304	2.4%	2,912	2.0%	3,615	2.4%	4,052	2.7%	4,407	2.7%
Total Same Store Cemetery Revenue	33,059	23.6%	36,115	25.1%	37,555	25.2%	36,159	24.0%	38,228	23.6%
<b>Total Same Store Revenue</b>	<b>140,166</b>	<b>100.0%</b>	<b>143,833</b>	<b>100.0%</b>	<b>148,499</b>	<b>99.8%</b>	<b>149,204</b>	<b>99.2%</b>	<b>152,675</b>	<b>94.2%</b>
<b>Acquisition Revenue</b>										
Funeral Operations Revenue	-		-		303	0.2%	1,212	0.8%	6,622	4.1%
Cemetery Operations Revenue	-		-		-		-		2,578	1.6%
Cemetery Financial Revenue	-		-		-		-		157	0.1%
<b>Total Acquisition Revenue</b>	<b>-</b>		<b>-</b>		<b>303</b>	<b>0.2%</b>	<b>1,212</b>	<b>0.8%</b>	<b>9,357</b>	<b>5.8%</b>
<b>Total Revenue from Continuing Operations</b>	<b>\$ 140,166</b>	<b>100.0%</b>	<b>\$ 143,833</b>	<b>100.0%</b>	<b>\$ 148,802</b>	<b>100.0%</b>	<b>\$ 150,416</b>	<b>100.0%</b>	<b>\$ 162,032</b>	<b>100.0%</b>
<b>Field EBITDA from Continuing Operations</b>										
Same Store Funeral Field EBITDA	\$ 37,201	77.2%	\$ 37,382	76.5%	\$ 39,419	76.6%	\$ 41,862	79.1%	\$ 43,197	72.6%
Same Store Funeral Field EBITDA Margin	34.7%		34.7%		35.5%		37.0%		37.7%	
Same Store Cemetery Field EBITDA	11,011	22.8%	11,458	23.5%	11,963	23.2%	10,645	20.1%	13,181	22.2%
Same Store Cemetery Field EBITDA Margin	33.3%		31.7%		31.9%		29.4%		34.5%	
<b>Total Same Store Field EBITDA</b>	<b>48,212</b>	<b>100.0%</b>	<b>48,840</b>	<b>100.0%</b>	<b>51,382</b>	<b>99.8%</b>	<b>52,507</b>	<b>99.2%</b>	<b>56,378</b>	<b>94.8%</b>
<b>Total Same Store Field EBITDA Margin</b>	<b>34.4%</b>		<b>34.0%</b>		<b>34.6%</b>		<b>35.2%</b>		<b>36.9%</b>	
Acquisition Funeral Field EBITDA	-		-		92	0.2%	407	0.8%	2,498	4.2%
Acquisition Funeral Field EBITDA Margin	-		-		30.4%		33.6%		37.7%	
Acquisition Cemetery Field EBITDA	-		-		-		-		613	1.0%
Acquisition Cemetery Field EBITDA Margin	-		-		-		-		23.8%	
<b>Total Acquisition Field EBITDA</b>	<b>-</b>		<b>-</b>		<b>92</b>	<b>0.2%</b>	<b>407</b>	<b>0.8%</b>	<b>3,111</b>	<b>5.2%</b>
<b>Total Acquisition Field EBITDA Margin</b>	<b>-</b>		<b>-</b>		<b>30.4%</b>		<b>33.6%</b>		<b>33.2%</b>	
<b>Total Field EBITDA from Continuing Operations</b>	<b>48,212</b>	<b>100.0%</b>	<b>48,840</b>	<b>100.0%</b>	<b>51,474</b>	<b>100.0%</b>	<b>52,914</b>	<b>100.0%</b>	<b>59,489</b>	<b>100.0%</b>
<b>Total Field EBITDA Margin from Continuing Operations</b>	<b>34.4%</b>		<b>34.0%</b>		<b>34.6%</b>		<b>35.2%</b>		<b>36.7%</b>	
<b>Overhead</b>										
Total Variable Overhead	1,846	11.6%	1,910	11.5%	2,245	12.5%	3,402	17.4%	4,365	20.6%
Total Regional Fixed Overhead	2,721	17.1%	2,892	17.4%	3,247	18.0%	2,977	15.2%	3,160	14.9%
Total Corporate Fixed Overhead	11,378	71.4%	11,825	71.1%	12,501	69.5%	13,170	67.4%	13,711	64.6%
<b>Total Overhead</b>	<b>15,945</b>	<b>100.0%</b>	<b>16,627</b>	<b>100.0%</b>	<b>17,993</b>	<b>100.0%</b>	<b>19,549</b>	<b>100.0%</b>	<b>21,236</b>	<b>100.0%</b>
	11.4%		11.6%		12.1%		13.0%		13.1%	
<b>Consolidated EBITDA from Continuing Operations</b>	<b>\$ 32,267</b>	<b>(2)</b>	<b>\$ 32,213</b>	<b>(2)</b>	<b>\$ 33,481</b>	<b>(2)</b>	<b>\$ 33,365</b>	<b>(2)</b>	<b>\$ 38,253</b>	<b>(2)</b>
<b>Consolidated EBITDA Margin from Continuing Operations</b>	<b>23.0%</b>		<b>22.4%</b>		<b>22.5%</b>		<b>22.2%</b>		<b>23.6%</b>	
<b>Total Depreciation &amp; Amortization</b>	<b>9,159</b>		<b>9,285</b>		<b>9,065</b>		<b>8,688</b>		<b>9,333</b>	
<b>Interest, Net</b>	<b>17,773</b>		<b>16,908</b>		<b>18,090</b>		<b>17,106</b>		<b>16,908</b>	
<b>Refinancing Costs</b>	<b>-</b>		<b>-</b>		<b>6,933</b>		<b>-</b>		<b>-</b>	
<b>Special Charges/Other (Gains) Losses</b>	<b>(657)</b>		<b>(940)</b>		<b>698</b>		<b>331</b>		<b>113</b>	
<b>Team Partners Incentive Expense</b>	<b>60</b>		<b>110</b>		<b>276</b>		<b>1,151</b>		<b>255</b>	
<b>Pretax Income</b>	<b>5,932</b>		<b>6,850</b>		<b>(1,581)</b>		<b>6,089</b>		<b>11,644</b>	
<b>Benefit for Income Taxes due to a Valuation Adjustment</b>	<b>-</b>		<b>(810)</b>		<b>-</b>		<b>-</b>		<b>-</b>	
<b>Income Tax</b>	<b>2,301</b>		<b>2,643</b>		<b>(456)</b>		<b>2,375</b>		<b>4,624</b>	
<b>Net income from Continuing Operations</b>	<b>\$ 3,631</b>		<b>\$ 5,017</b>		<b>\$ (1,125)</b>		<b>\$ 3,714</b>		<b>\$ 7,020</b>	
	2.6%		3.5%		-0.8%		2.5%		4.3%	
<b>Diluted EPS-from continuing operations</b>	<b>\$ 0.22</b>		<b>\$ 0.29</b>		<b>\$ (0.06)</b>		<b>\$ 0.20</b>		<b>\$ 0.37</b>	

<sup>(1)</sup> Effective January 1, 2005, the company changed its accounting method to expense preneed selling costs incurred for the origination of prearranged funeral and cemetery sales contracts. Results of operations for the years ended December 31, 2003 and 2004 are presented on a proforma basis applying the new accounting method.

<sup>(2)</sup> Reclassified special charges (gains) and Team Partner Incentive expense to improve comparability of periods presented.

**UNAUDITED INCOME STATEMENT FROM CONTINUING OPERATIONS**  
**Quarter Trend**  
**For the Five Quarters Ended September 30, 2007**  
**(\$'000's)**

	Actual Qtr 3 2006		Actual Qtr 4 2006		Actual Qtr 1 2007		Actual Qtr 2 2007		Actual Qtr 3 2007	
<b>CONTINUING OPERATIONS</b>										
<b>Same Store Contracts</b>										
Atneed Contracts	4,014	79.4%	4,148	78.2%	4,399	78.0%	3,961	77.2%	3,901	80.1%
Preneed Contracts	1,044	20.6%	1,155	21.8%	1,238	22.0%	1,173	22.8%	972	19.9%
Total Same Store Funeral Contracts	5,058	100.0%	5,303	100.0%	5,637	100.0%	5,134	100.0%	4,873	100.0%
<b>Acquisition Contracts</b>										
Atneed Contracts	43	67.2%	52	65.8%	184	68.1%	248	67.4%	437	69.1%
Preneed Contracts	21	32.8%	27	34.2%	86	31.9%	120	32.6%	195	30.9%
Total Acquisition Funeral Contracts	64	100.0%	79	100.0%	270	100.0%	368	100.0%	632	100.0%
New Store Openings	18		86		120		126		132	
<b>Total Funeral Contracts</b>	<b>5,140</b>		<b>5,468</b>		<b>6,027</b>		<b>5,628</b>		<b>5,637</b>	
<b>Same Store Interments</b>										
Atneed Interments	526	26.8%	508	24.1%	583	28.0%	537	27.9%	492	27.9%
Preneed Interments	1,437	73.2%	1,602	75.9%	1,502	72.0%	1,391	72.1%	1,271	72.1%
Total Same Store Cemetery Interments	1,963	100.0%	2,110	100.0%	2,085	100.0%	1,928	100.0%	1,763	100.0%
<b>Acquisition Interments</b>										
Atneed Interments	-		-		39	24.5%	81	30.1%	76	21.7%
Preneed Interments	-		-		120	75.5%	188	69.9%	275	78.3%
Total Acquisition Cemetery Interments	-		-		159	100.0%	269	100.0%	351	100.0%
<b>Total Cemetery Interments</b>	<b>1,963</b>		<b>2,110</b>		<b>2,244</b>		<b>2,197</b>		<b>2,114</b>	
<b>Same Store Revenue</b>										
Funeral Operations Revenue	\$ 25,909	74.0%	\$ 27,875	74.4%	\$ 30,411	71.6%	\$ 27,857	67.1%	\$ 26,087	64.2%
Preneed Commission and Other Revenue	636	1.8%	448	1.2%	642	1.5%	625	1.5%	502	1.2%
Total Funeral Same Store Revenue	26,545	75.8%	28,323	75.6%	31,053	73.1%	28,482	68.6%	26,589	65.5%
Cemetery Operations Revenue	7,452	21.3%	7,285	19.5%	8,768	20.6%	9,408	22.7%	8,360	20.6%
Cemetery Financial Revenue	763	2.2%	1,423	3.8%	930	2.2%	733	1.8%	1,321	3.3%
Total Cemetery Same Store Revenue	8,215	23.5%	8,708	23.3%	9,698	22.8%	10,141	24.4%	9,681	23.8%
<b>Total Same Store Revenue</b>	<b>34,760</b>	<b>99.3%</b>	<b>37,031</b>	<b>98.9%</b>	<b>40,751</b>	<b>96.0%</b>	<b>38,623</b>	<b>93.0%</b>	<b>36,270</b>	<b>89.3%</b>
<b>Acquisition Revenue</b>										
Funeral Operations Revenue	252	0.7%	413	1.1%	1,322	3.1%	1,786	4.3%	3,101	7.6%
Cemetery Operations Revenue	-		-		371	0.9%	1,014	2.4%	1,193	2.9%
Cemetery Financial Revenue	-		-		20	0.0%	87	0.2%	50	0.1%
<b>Total Acquisition Revenue</b>	<b>252</b>	<b>0.7%</b>	<b>413</b>	<b>1.1%</b>	<b>1,713</b>	<b>4.0%</b>	<b>2,887</b>	<b>7.0%</b>	<b>4,344</b>	<b>10.7%</b>
<b>Total Revenue from Continuing Operations</b>	<b>\$ 35,012</b>	<b>100.0%</b>	<b>\$ 37,444</b>	<b>100.0%</b>	<b>\$ 42,464</b>	<b>100.0%</b>	<b>\$ 41,510</b>	<b>100.0%</b>	<b>\$ 40,614</b>	<b>100.0%</b>
<b>Field EBITDA from Continuing Operations</b>										
Same Store Funeral Field EBITDA	\$ 9,318	81.8%	\$ 11,031	78.3%	\$ 12,721	75.6%	\$ 10,479	70.5%	\$ 8,966	65.4%
Same Store Funeral Field EBITDA Margin	35.1%		38.9%		41.0%	36.8%	33.7%		33.7%	
Same Store Cemetery Field EBITDA	2,028	17.8%	2,856	20.3%	3,713	22.1%	3,453	23.2%	3,159	23.0%
Same Store Cemetery Field EBITDA Margin	24.7%		32.8%		38.3%	34.0%	32.6%		32.6%	
<b>Total Same Store Field EBITDA</b>	<b>11,346</b>	<b>99.6%</b>	<b>13,887</b>	<b>98.5%</b>	<b>16,434</b>	<b>97.7%</b>	<b>13,932</b>	<b>93.7%</b>	<b>12,125</b>	<b>88.4%</b>
<b>Total Same Store Field EBITDA Margin</b>	<b>32.6%</b>		<b>37.5%</b>		<b>40.3%</b>	<b>36.1%</b>	<b>36.1%</b>		<b>33.4%</b>	
Acquisition Funeral Field EBITDA	42	0.4%	208	1.5%	311	1.8%	605	4.1%	1,374	10.0%
Acquisition Funeral Field EBITDA Margin	16.7%		50.4%		23.5%	33.9%	44.3%		44.3%	
Acquisition Cemetery Field EBITDA	-		-		76	0.5%	325	2.2%	212	1.5%
Acquisition Cemetery Field EBITDA Margin	-		-		20.5%	32.1%	17.8%		17.8%	
<b>Total Acquisition Field EBITDA</b>	<b>42</b>	<b>0.4%</b>	<b>208</b>	<b>1.5%</b>	<b>387</b>	<b>2.3%</b>	<b>930</b>	<b>6.3%</b>	<b>1,586</b>	<b>11.6%</b>
<b>Total Acquisition Field EBITDA Margin</b>	<b>16.7%</b>		<b>50.4%</b>		<b>22.6%</b>	<b>32.2%</b>	<b>32.2%</b>		<b>36.5%</b>	
<b>Total Field EBITDA from Continuing Operations</b>	<b>11,388</b>	<b>100.0%</b>	<b>14,095</b>	<b>100.0%</b>	<b>16,821</b>	<b>100.0%</b>	<b>14,862</b>	<b>100.0%</b>	<b>13,711</b>	<b>100.0%</b>
<b>Total Field EBITDA Margin from Continuing Operations</b>	<b>32.5%</b>		<b>37.6%</b>		<b>39.6%</b>	<b>35.8%</b>	<b>35.8%</b>		<b>33.8%</b>	
<b>Overhead</b>										
Total Variable Overhead <sup>(2)</sup>	993	19.7%	955	18.9%	1,061	20.0%	1,226	23.2%	1,123	20.1%
Total Regional Fixed Overhead	748	14.8%	764	15.1%	787	14.8%	723	13.7%	886	15.9%
Total Corporate Fixed Overhead	3,307	65.5%	3,343	66.0%	3,456	65.2%	3,345	63.2%	3,567	64.0%
<b>Total Overhead</b>	<b>5,048</b>	<b>14.4%</b>	<b>5,062</b>	<b>13.5%</b>	<b>5,304</b>	<b>12.5%</b>	<b>5,294</b>	<b>12.8%</b>	<b>5,576</b>	<b>13.7%</b>
<b>Consolidated EBITDA from Continuing Operations</b>	<b>\$ 6,340</b>		<b>\$ 9,033</b>		<b>\$ 11,517</b>		<b>\$ 9,568</b>		<b>\$ 8,135</b>	
<b>Consolidated EBITDA Margin from Continuing Operations</b>	<b>18.1%</b>		<b>24.1%</b>		<b>27.1%</b>		<b>23.0%</b>		<b>20.0%</b>	
<b>Total Depreciation &amp; Amortization</b>	<b>2,030</b>		<b>2,153</b>		<b>2,479</b>		<b>2,294</b>		<b>2,407</b>	
<b>Interest, Net</b>	<b>4,216</b>		<b>4,188</b>		<b>4,174</b>		<b>4,158</b>		<b>4,388</b>	
<b>Special Charges/Other (Gains) Losses<sup>(1)</sup></b>	<b>188</b>		<b>113</b>		<b>-</b>		<b>-</b>		<b>-</b>	
<b>Team Partners Incentive Expense<sup>(2)</sup></b>	<b>710</b>		<b>255</b>		<b>-</b>		<b>-</b>		<b>-</b>	
<b>Pretax Income</b>	<b>(804)</b>		<b>2,324</b>		<b>4,864</b>		<b>3,116</b>		<b>1,340</b>	
<b>Income tax</b>	<b>(304)</b>		<b>943</b>		<b>1,873</b>		<b>1,200</b>		<b>608</b>	
<b>Net income from Continuing Operations</b>	<b>\$ (500)</b>		<b>\$ 1,381</b>		<b>\$ 2,991</b>		<b>\$ 1,916</b>		<b>\$ 732</b>	
	<b>-1.4%</b>		<b>3.7%</b>		<b>7.0%</b>		<b>4.6%</b>		<b>1.8%</b>	
<b>Diluted EPS-from continuing operations</b>	<b>\$ (0.03)</b>		<b>\$ 0.07</b>		<b>\$ 0.16</b>		<b>\$ 0.10</b>		<b>\$ 0.04</b>	

<sup>(1)</sup> Includes charges for remediation at Rolling Hills Cemetery of \$704K (Q3) 2006 and \$110K (Q4) 2006 which were reclassified from field expenses.

<sup>(2)</sup> Reclassified Team Partners expense from Total Variable Overhead in 2006

### Same Store Funeral Operations

Our same store volumes have declined gradually each year from 22,395 in 2003 to 21,467 in 2006 (compound annual decline of 1.4%) consistent with a period of weak death rates nationally and the loss of market share primarily in our Central Region funeral operations. Our same store volumes decreased 2.4% for the trailing four quarters ended September 30, 2007 as recent death rates have been particularly weak in our Eastern and Western Regions, while the Central Region has reversed its previous trend by reporting slightly higher volumes in 2007. As our Standards Operating Model and Managing Partner “Being the Best” incentive program is heavily weighted on growth in the number of client families served (funeral contracts), we expect the modest historical same store decline to stabilize during the next five years and same store volumes to increase during the following five years because of favorable future demographic trends which would produce substantial operating leverage benefits to our financial performance.

Our same store funeral operations have steadily increased its revenue from \$107.1 million in 2003 to \$113.0 million in 2006 (compound annual increase of 1.9%). For the trailing four quarters ended September 30, 2007, same store funeral revenues increased only 1.2% because of the weak death rates during most of this year. We are targeting to achieve at least a 2 – 2.5% annual revenue increase in the future from our same store portfolio as volumes stabilize and our average revenue per funeral increases over time. During the third quarter, revenues from funeral same store operations increased 0.7%, same store funeral contracts decreased 3.7% and preneed commissions decreased 21% compared to the third quarter of 2006. Since we maintain atneed pricing power on approximately 80% of our services, our goal is to continuously improve the quality and skill set of our personnel and the value of their services to our client family customers so that we can target a modest growth rate in revenues even in the face of weak death rates, higher cremation rates and reduced preneed activities.

After implementing our funeral Standards Operating Model in 2004, our same store funeral Field EBITDA Margin increased by 230 basis points from 34.7% in 2004 to 37.0% in 2006. This multi-year increasing same store funeral Field EBITDA Margin trend has continued in 2007, as our same store funeral Field EBITDA Margin increased 70 basis points to 37.7% for the trailing four quarters ended September 30, 2007 compared to 2006 which is primarily attributable to improved Central Region performance.

### Same Store Cemetery Operations

We believe that cemetery interments reflect the market share of our cemetery portfolio much like funeral contracts reflect market share of our funeral home portfolio. Whereas approximately 21% of our funeral contracts originated from a preneed sale, consistent with our selective preneed funeral strategy, 73% of our interments originated from preneed sales. Therefore, it is imperative to have a consistent and high level of preneed property sales performance over time to build new cemetery heritage and future market share. Otherwise our cemetery interment volumes and market share are relatively stable and produce a consistent stream of atneed revenue at high gross margins.

Our same store cemetery financial performance from 2003 through 2006 was characterized by increasing revenues but slightly declining Field EBITDA Margins. However, this performance was highly concentrated in only two of our California cemeteries, including Rolling Hills, whose performance declined during 2006 for reasons we previously reported. We have experienced significantly improved Field EBITDA Margin performance during 2007 as reflected by the 510 basis point increase for the trailing four quarters ending September 30, 2007 compared to full year 2006.

Cemetery same store operating revenues increased 12.2% to \$8.4 million in the third quarter of 2007 compared to the prior year quarter on the strength of higher preneed sales of interment rights. The third quarter 2007 increase in our same store cemetery Field EBITDA of \$1.1 million and Field EBITDA Margin of 790 basis points to 32.6% was primarily attributable to improving performance at Rolling Hills, our Central Region cemeteries and gains on trust investments.

We have moved quickly over the last year to recruit and support new operating and sales leadership in our larger and more strategically located cemeteries, and we are not finished with this initiative. Our goal is to diversify our property offerings and to build broader and deeper teams of “A player” sales leaders and counselors that can sustain consistent, modest

growth in preneed property sales which will be evident in positive quarterly operating and financial trend comparisons during the fourth quarter of 2007 and into 2008.

### Field EBITDA & Margins

Our 2007 quarterly Total Field EBITDA Margin trend has continued positively, as we achieved a 130 basis point increase in Total Field EBITDA Margin in the third quarter compared to 2006. We expect continued positive Total Field EBITDA Margin trend comparisons during the balance of 2007 and into 2008.

Our Total Field EBITDA increased each year from \$48.2 million in 2003 to \$52.9 million in 2006 (excluding the remediation charge at Rolling Hills), a compound annual increase of 2.3% over the three year period. For the trailing four quarters ended September 30, 2007, our Total Field EBITDA increased \$6.6 million or 12.4% to \$59.5 million and the total Field EBITDA Margin increased 150 basis points to 36.7% compared to 2006. We expect the recently higher Total Field EBITDA growth trend to continue over the next few years because of a gradual increase in same store revenues, improving Field EBITDA Margins and the increasing contribution of acquisitions.

### Acquisitions

We acquired Seaside Memorial Park and Funeral Home and Corpus Christi Funeral Home in early January 2007 and are well along with integration of operations with our existing Rose Hill Cemetery operation. These businesses complement each other and are producing synergies that should lead to market share, revenue and profit growth at sustainable Field EBITDA Margins, especially in the Hispanic market segment which is forecast to grow substantially over the next ten years in their markets. We expect that generally it will take 12-18 months to complete the integration of newly acquired businesses and make the necessary changes to bring them to a level of performance that aligns with our Standards Operating Model.

During the second quarter of 2007 we closed on two acquisitions of combination businesses: Conejo Mountain Funeral Home and Memorial Park (Conejo Mountain) in Camarillo, California on April 1, 2007, and Cloverdale Funeral Home and Memorial Park and Terrace Lawn Memorial Gardens (Cloverdale) in Boise, Idaho on June 12, 2007. Conejo Mountain performs approximately 390 cemetery interments and 275 funeral services annually. This acquisition represents our entry into Southern California and positions us to pursue other opportunities in the greater Los Angeles market. Cloverdale performs approximately 600 funeral services and 400 cemetery interments annually. This acquisition complements our existing funeral operations in Boise and the adjacent markets of Caldwell, Meridian and Nampa, which together perform approximately 1,050 funeral services annually. We have also closed on two "tuck-in" acquisitions of funeral homes, which complement our "Best in Market" existing funeral businesses in Santa Fe, New Mexico (June 2007) and in the Springfield, Massachusetts market (August 2007).

In October 2007, we signed an agreement to acquire the Evans Brown Mortuary Group in Southern California, consisting of four funeral homes located in southeast Los Angeles in rapidly growing Riverside County, which together perform approximately 1,200 funeral services annually. The Evans Brown acquisition, scheduled to close in the fourth quarter, is expected to add materially to our new acquisition portfolio performance during the four quarter outlook period ending September 30, 2008, so we have increased our twelve month Outlook performance accordingly.

We have established five year goals to change the sustainable revenue and earning power profile of our deathcare portfolio through effective execution of our Strategic Portfolio Optimization Model. We will report on this progress by showing the trends in revenue and Field EBITDA from same store operations that we acquired in the early growth phase of Carriage in the 1990's versus the trends in our new acquisition portfolio. We will report results from acquired businesses in the acquisition section for at least three full years if not longer to ensure consistent comparable long-term trends. For the third quarter of 2007, 10.7% of our total revenue and 11.6% of our Total Field EBITDA was from the businesses acquired since the fourth quarter of 2005. Such businesses contributed \$0.04 per diluted share to our third quarter earnings before considering any allocation of overhead or interest.

We are encouraged by the current level of acquisition activity and the quality and size of the candidates. Our selection process is rigorous using our six Strategic Ranking Criteria and ROIC Model and as a result we have declined numerous opportunities to acquire both independents and smaller consolidators, not because of price but because of strategic fit. We will integrate expected proforma results on newly announced acquisitions into our rolling four quarter outlook in conjunction with our quarterly earnings release.

### Overhead

We have organized corporate and regional overhead into three categories, two of which are primarily fixed and one of which is variable (primarily incentive compensation). Our corporate fixed overhead increased approximately \$2.3 million between 2003 and the trailing four quarters ended September 30, 2007 because of two significant and opposite events. First, we reorganized and streamlined our operations organization over this period, culminating in the combination of our funeral and cemetery sales and operations into three geographic regions in August 2006 within our regional structure, thereby eliminating the heads of funeral and cemetery operations in our corporate office. This streamlined organization process has allowed us to effectively use a single operations support group now included in corporate fixed overhead rather than maintaining a separate corporate support organization for funeral and cemetery operations each with a division head in Houston. We estimate that the new operations organizational structure resulted in an approximate \$1.2 million decrease in corporate fixed overhead from 2003 to 2006.

Second, during this period we significantly upgraded our IT systems; successfully prepared to publicly report on internal controls; developed a fully staffed internal audit department; upgraded our Human Resources and brought our legal functions in house under a new General Counsel; and reorganized our preneed trust and investment activities. As a result, costs of our corporate support departments increased approximately \$3.5 million during this period which resulted in a net increase in corporate fixed overhead of \$2.3 million, a compounded annual increase of 5.1%. These costs and investments were necessary additions to our support infrastructure which are allowing us to more effectively execute our Standards Operating Model while maintaining a flat regional operations organization. In addition, we are now well positioned to execute a growth strategy while supporting newly acquired businesses to improve their operations, people, market share and financial results consistent with our Standards Operating Model.

We believe that for periods subsequent to 2007 our Regional and Corporate fixed overhead categories will increase no more than merit increases and inflation over time and will not grow as a fixed percent of revenue as we add new acquisitions to our portfolio. During the third quarter of 2007, total overhead increased \$528 thousand or 10.5% when compared to the third quarter of 2006. Variable overhead included approximately \$200 thousand of additional legal fees related to uninsured claims and approximately \$100 thousand of additional incentive compensation. Corporate fixed overhead included approximately \$200 thousand of additional costs related to support personnel added in our human resources and legal groups.

### Carriage Consolidation Platform

Because of the improved same store operating performance and the addition of accretive acquisitions, we achieved a Consolidated EBITDA Margin of 20.0% in the third quarter of 2007 compared to 18.1% in the third quarter of 2006. For the trailing four quarters ended September 30, 2007, we achieved a Consolidated EBITDA Margin of 23.6% compared to 22.2% in 2006, an increase of 140 basis points and close to our sustainable earning power range of 24-26%. We expect positive quarterly Consolidated EBITDA Margin trend comparisons to continue for the fourth quarter and into 2008 because of improved same store operating results and acquisitions.

As we add acquisitions, new Field EBITDA acquired should substantially fall to Consolidated EBITDA and Pre-Tax Free Cash Flow and be accretive to EPS as well. As we leverage our new growth over our mostly fixed cost platform, we expect our Consolidated EBITDA Margin to increase to within our annual sustainable earning power range of 24 – 26%.

**Cash Flow**

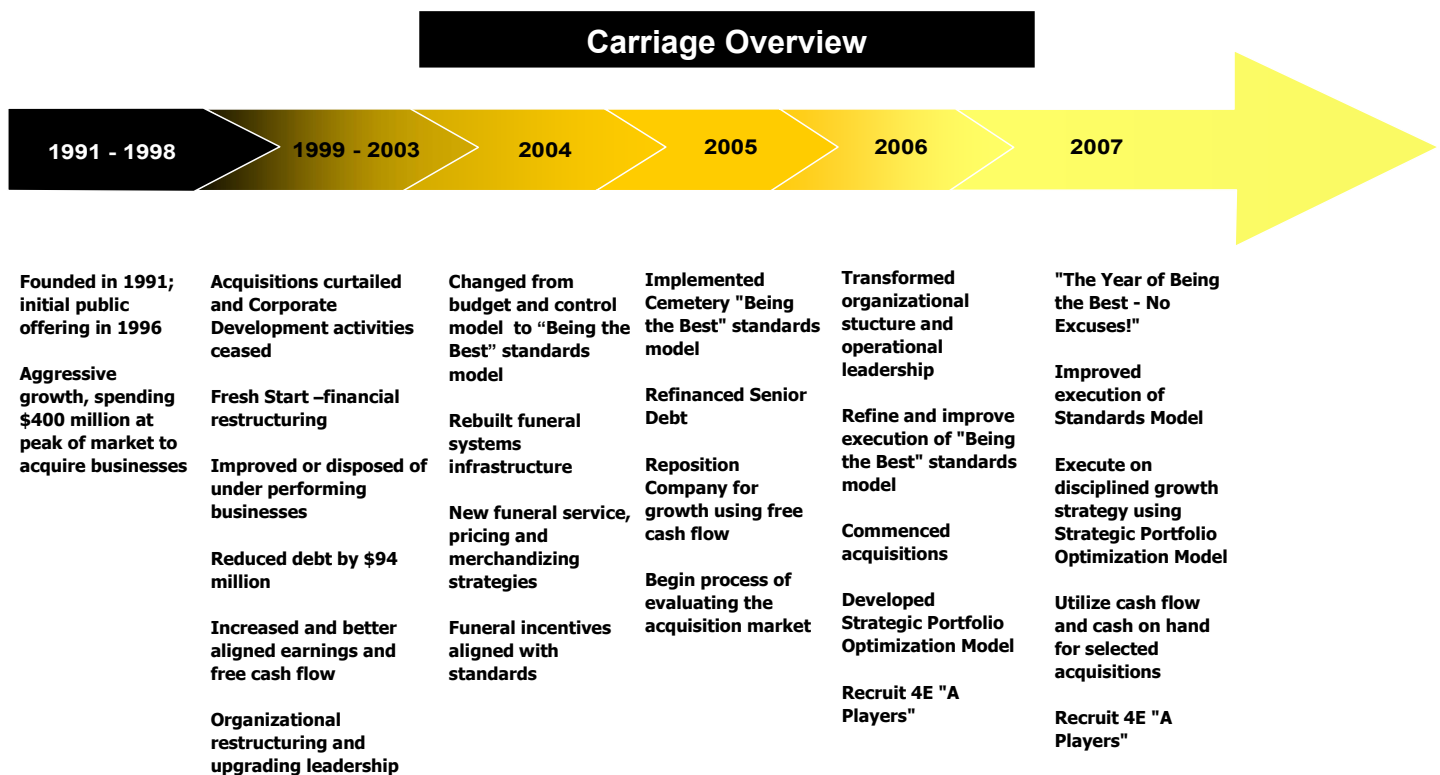
We reported negative free cash flow from continuing operations of \$3.6 million in the third quarter of 2007 compared to negative free cash flow of \$2.6 million in the third quarter of 2006. In addition to being the seasonably weakest quarter of the year, the semiannual interest payment on the senior notes of \$5.1 million is paid in the third quarter. In addition, funeral and cemetery preneed activities used \$1.8 million of working capital in the third quarter.

Free cash flow from continuing operations totaled \$1.1 million for the nine months ended September 30, 2007 compared to \$4.2 million for the first nine months of 2006. Though cash flow from operating activities has increased year to date by \$0.5 million to \$9.5 million compared to the prior year period, cash used for capital expenditures totaled \$8.4 million, approximately \$3.5 million higher than the prior year. Growth capital expenditures totaled \$3.3 million for the nine months ended September 30, 2007 and include amounts spent on new funeral home properties, cemetery property development and improvements to the businesses acquired in 2007. Maintenance capital expenditures totaled \$5.1 million year to date 2007 compared to \$4.9 million in 2006. In addition, during the first quarter of 2007 we made a final \$1.4 million long-term incentive payment to a former director and former owner of a business we acquired in 1997. We have also made relocation loans and other working capital advances this year totaling \$0.8 million.

**COMPANY STRATEGY**

Carriage Services is a leading provider of professional funeral and cemetery services and products in the United States. We operate two types of businesses: funeral homes which account for approximately 75 percent of total revenue, and cemeteries which account for approximately 25 percent of total revenue. We operate 134 funeral homes in 27 states and 32 cemeteries in 11 states, primarily serving suburban markets, and we believe our market position is first or second in most of these markets.

We believe 2006 was a transformational year. Our Standards Operating Model, which measures the sustainable revenue growth and earning power of our portfolio of deathcare businesses, led to the development of a Strategic Portfolio Optimization Model during 2006 that guides our acquisition and disposition strategy. Both models, when executed effectively, should drive longer term increases in revenue, earnings and free cash flow. We believe 2007 will be a year of substantially improved execution of the Standards Operating Model and our theme is “Year of Being the Best – No Excuses.”



Key elements of our company strategy include the following:

**Standards Operating Model**

The “Being the Best” standards enable us to focus on market share, people and operating metrics that drive long-term operating and financial 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.

## Key Elements of Being the Best

Our Standards Operating Model is based upon lessons learned from our best businesses and best operators. We analyzed the long-term performance our best businesses (approximately 20% by number) and developed operating and financial standards, taking into consideration size and cremation mix, organized around three primary areas – market share, people and operating and financial metrics. We introduced a more decentralized, entrepreneurial and local operating model and aligned its incentive compensation structure with the new standards. These standards and incentives challenge and reward our Managing Partners who thrive on growing their local business and being accountable for results.

- Balanced Operating Model* – We believe a decentralized structure works best in the deathcare industry. The Standards Operating Model focuses on key drivers of a successful funeral business, organized around three primary areas – market share, people and operating and financial metrics. Successful execution is highly dependent on strong local leadership, intelligent risk taking, entrepreneurial empowerment and corporate support aligned with the key drivers.
- Incentives Aligned with Standards* – Empowering Managing Partners to do the right things in their operations and local communities, and providing appropriate support with operating and financial practices, will enable long-term growth and sustainable profitability. Each Managing Partner participates in a variable bonus plan whereby they earn a percentage of their business’ earnings based upon the actual standards achieved. Each Managing Partner has the opportunity to share in the earnings of the business as long as the performance exceeds our minimum standards.
- The Right Local Leadership* - Successful execution of the new operating model is highly dependent on strong local leadership as defined by our 4E Leadership Model, intelligent risk taking and entrepreneurial empowerment. Over time, how a managing partner executes against the “Being the Best” Standards set forth will be the primary performance indicator.



### “Simple Will Set You Free”

In January 2007, we streamlined our cemetery standards in favor of a simpler model consisting of fewer quantitative and qualitative measures. This simpler standards model is designed to focus cemetery Managing Partners and Sales Managers on fundamental key drivers necessary to operate and grow their business.

*Quantitative Measures* - We developed preneed property sales and Operating Margin range forecasts for each cemetery business taking into account varying sizes, locations and the historical performance of each business. These are the two quantitative standards on which each Managing Partner and Sales Manager will be judged. Operating Margin percent is a true definition of sustained earnings power of the business, meaning that property, merchandise and services must be sold in sufficient quantity and at adequate margins, operating costs must be managed tightly, marker and monument orders and installations made accurately and timely, deliveries and trust withdrawals made timely and the quality of sales must be high enough and the collections process effective enough to prevent excessive cancellations and large bad debt issues that impact profitability.

*Qualitative Standards* – The qualitative standards are focused on evaluating the quality of leadership using the 4E Leadership Model that Carriage adopted in 2006. Each Managing Partner and Sales Manager is also judged on the quality of staff and on their ability to continuously upgrade staff.

The weightings for each standard were designed to create a partnership between the Managing Partner and the Sales Manager. The Sales Manager and sales team must achieve the preneed property dollar forecast in order for the business to achieve the Operating Margin, and the Managing Partner must manage the operating costs and run a first class operation in support of more property sales and new heritage. And both the Managing Partner and Sales Manager must work constantly and effectively on their respective people or neither will be able to achieve their respective standards.

#### **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 ever and a growing reputation that “A players” can thrive and be rewarded and recognized in our performance based culture.

#### **Strategic Portfolio Optimization Model**

While we consistently generated industry leading Consolidated EBITDA Margins over the past two years, we believe a primary driver of higher margins in the future will be the execution of our Strategic Portfolio Optimization Model using six 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 and sell smaller, lower margin non-strategic businesses. We believe we can do so without 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 the next five years.

We have learned that the long term growth or decline of a local, branded deathcare business is reflected by six criteria that correlate strongly with 5 – 10 year performance in volumes (market share), revenues and sustainable Field EBITDA Margins. During 2006 we used these criteria to rank the strategic position of each of our businesses according to:

1. Size of Business
2. Size of Market
3. Competitive Standing
4. Demographics
5. Strength of Brand
6. Barriers to Entry

These criteria were weighted to determine an overall ranking for each business. Generally we can separate our existing portfolio into two groups: A, B and C ranked businesses located in strategic markets and B and C ranked businesses located in non-strategic markets. Our analysis showed that over the five year period 2001-2005, we achieved substantial revenue and Field EBITDA growth from our A, B and strong C businesses in strategic markets because modest volume growth combined with modest average revenue increases produced higher sustainable Field EBITDA Margins. These businesses take maximum advantage of the operating leverage of higher revenues over a large fixed cost business

structure. On the other hand, most of this five year growth in revenue and earnings from our A, B and C businesses in strategic markets was lost by declines in our portfolio of B and C businesses in non-strategic markets.

As a result, we have established five year goals to transform and significantly improve the sustainable revenue and earning power profile of our portfolio by acquiring concentrated groups of primarily higher ranked businesses in 10 to 15 demographically attractive markets and to exit smaller markets where we have no competitive advantage or growth opportunity. Execution of this Strategic Portfolio Optimization Model was initiated during 2006 with the sale of our two non-strategic Indiana businesses and the acquisitions during the first half of 2007 of three large A ranked combination businesses in Corpus Christi, Texas, Camarillo, California and Boise, Idaho. The Camarillo acquisition established a platform business in the southern California market around which we plan to buy and/or build a group of high quality deathcare operations similar to our concentration in the northern California markets around San Francisco and San Jose and now in the greater Boise market.

### **Organizational Structure**

Historically, we operated our portfolio through two divisions, funeral and cemetery, because conventional wisdom in our industry generally separated the dominant service culture of the funeral business from the dominant sales culture of the cemetery business. However, we now find that our Standards Operating Model promotes cooperation between our funeral homes and cemeteries in a local market. During 2006, we combined our funeral and cemetery businesses to bring our “deathcare operations” together under common leadership and a common mission of “Being the Best” as defined by our Standards Operating Model. We also simplified and aligned our Cemetery Standards with our Funeral Standards.

This new organizational structure is very flat with only one layer of leadership/management between our COO and our Managing Partners in charge of each business. We believe strongly that our deathcare operating model, which focuses on growth of each business through strong local leadership and entrepreneurial principles, is a competitive advantage compared to other industry consolidators. Our lean yet supportive organizational structure is designed to help our Managing Partners respond quickly to local market changes and opportunities and thereby achieve a high level of their Standards.

### **CAPITAL STRUCTURE FACILITATES GROWTH**

There are four primary components in our capital structure: (1) \$130 million of senior notes that have a 2015 maturity, (2) a revolving credit facility that is currently undrawn, (3) \$93.75 million in outstanding convertible junior subordinated debentures which have the ability to defer payments of interest and have a 2029 maturity (TIDES), and (4) common stock.

Our highly leveraged 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 principle reductions until maturity. Consequently, we will use our cash and consolidated free cash flow to selectively acquire businesses with no additional debt or equity that, over time, will both increase earnings and free cash flow and de-lever the company. We are the only company in our sector that has a relatively low number of outstanding common shares such that selective acquisitions can have a meaningful positive impact on operating and financial results.

### **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. In 2006, the funeral and cemetery divisions were 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 Mel Payne in the 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. Beginning in 2006, Mr. Payne assumed the additional role of Chief Operating Officer. Prior to December 1996, he had been the Chief Executive Officer and a director of Carriage since its inception in 1991. Mr. Payne resumed the additional position of President in December 2000. Mr. Payne serves on the Board of Directors of Sovereign Business Forms, Inc., a private company in the business forms manufacturing industry.

**Joseph Saporito** has been Executive Vice President, Chief Financial Officer and Secretary since September 2002. Mr. Saporito, a certified public accountant, has responsibility for the financial and administrative functions of Carriage. Prior to joining Carriage, he served as Division Head of the Commercial Audit Division of the Houston office of Arthur Andersen LLP, where he was a partner for 15 years.

**George Klug** has been Senior Vice President and Chief Information Officer since May 2002. He joined Carriage in July 2001 to align the technology functions with the company's business plan. 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 30 years.

**Terry Sanford** is the Senior Vice President, Chief Accounting Officer and Treasurer. Having joined Carriage in 1997 as the financial controller, Mr. Sanford was promoted to Vice President and Corporate Controller and in 2006 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. He is a CPA and possesses an MBA in finance.

**J. Bradley Green** is the Vice President and General Counsel. He joined Carriage in October 2006. Prior to joining Carriage, Mr. Green was a litigation attorney, focusing his practice on employment and commercial litigation. From 1998 to 2002, Mr. Green held legal and human resource positions, including General Counsel, at a Fortune 1000 company that had operations in 42 countries. Prior to that, Mr. Green was a litigation attorney at a national law firm, focusing on the field of labor and employment law.

**Kevin Musico** is Vice President of Corporate Development and joined Carriage in June 2007. Prior to joining Carriage, Mr. Musico served as Vice President at Alderwoods Group, Inc. for six years in various executive roles, including Mergers and Acquisitions and Corporate Development.

**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.

**Cautionary Statements**

Certain statements made herein or elsewhere by, or on behalf of, the Company that are not historical facts are intended to be forward-looking statements with the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are based on assumptions that the Company believes are reasonable; however, many important factors, as discussed under "Cautionary Note," "Risk Factors" and "Forward-Looking Statements" in the Company's Annual Report and Form 10-K for the year ended December 31, 2006, could cause the Company's results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by, or on behalf of, the Company. The Company assumes no obligation to update or publicly release any revisions to forward-looking statements made herein or any other forward-looking statements made by, or on behalf of, the Company. A copy of the Company's Form 10-K, and other Carriage Services information and news releases, are available at [www.carriageservices.com](http://www.carriageservices.com).

**DISCLOSURE OF NON-GAAP PERFORMANCE MEASURES**

We report our financial results in accordance with generally accepted accounting principles ("GAAP"). However, management believes the presentation of non-GAAP financial measures provides useful information to management and investors regarding various financial and business trends relating to the Company's financial condition and results of operations, and that when GAAP financial measures are viewed in conjunction with the non-GAAP financial measures, investors are provided with a more meaningful understanding of the Company's ongoing operating performance. In addition, these non-GAAP financial measures are among the primary indicators management uses as a basis for evaluating performance, allocating resources, and planning and forecasting future periods. To the extent this document contains historical and certain forward-looking non-GAAP financial measures, we have also provided corresponding GAAP financial measures for comparative purposes.

Continuing operations refers to the businesses that are owned and not held for sale as of the most recent reported results for all periods and will differ from the results for the period as previously reported. Businesses sold, disposed or held for sale are reported in discontinued operations for all periods presented.

We refer to the term "EBITDA" and "free cash flow" in various places of our financial discussion. EBITDA is defined by us as net income from continuing operations before interest expense and other financing costs, income tax expense, and depreciation and amortization expense. Free cash flow is defined by us as cash provided by operations less capital expenditures. EBITDA and free cash flow are not measures of operating performance under generally accepted accounting principles, or GAAP, and should not be considered in isolation nor construed as an alternative to operating profit, net income (loss) or cash flows from operating, investing or financing activities, each as determined in accordance with GAAP. You should also not consider EBITDA or free cash flow as measures of liquidity. Moreover, since EBITDA and free cash flow are not measures determined in accordance with GAAP and thus are susceptible to varying interpretations and calculations, EBITDA and free cash flow as presented, may not be comparable to similarly titled measures presented by other companies.

**Reconciliation of Non-GAAP Financial Measures**

**Reconciliation of Net Income from continuing operations to EBITDA from continuing operations for the following periods (in 000's):**

	<b>Three months ended 9/30/2006</b>	<b>Three months ended 9/30/2007</b>	<b>12 Months Ended 9/30/2007</b>
Net income (loss) from continuing operations	\$ (500)	\$ 732	\$ 7,020
Provision (benefit) for income taxes	(304)	608	4,624
Pre-tax earnings (loss) from continuing operations	(804)	1,340	11,644
Net interest expense, including loan cost amortization	4,216	4,388	16,908
Depreciation & amortization	2,030	2,407	9,333
Other	898	—	368
EBITDA from continuing operations	<u>\$ 6,340</u>	<u>\$ 8,135</u>	<u>\$ 38,253</u>
Revenue from continuing operations	\$ 35,012	\$ 40,614	\$ 162,032
EBITDA margin from continuing operations	18.1%	20.0%	23.6%

**Reconciliation of cash provided by (used in) operating activities from continuing operations to free cash flow (in 000's):**

	<b>Three months ended 9/30/2006</b>	<b>Three months ended 9/30/2007</b>
Cash provided by operating activities from continuing operations	\$ (91)	\$ (787)
Less capital expenditures from continuing operations	(2,495)	(2,777)
Free cash flow from continuing operations	<u>\$ (2,586)</u>	<u>\$ (3,564)</u>

	<b>Nine months ended 9/30/2006</b>	<b>Nine months ended 9/30/2007</b>	<b>Twelve months ended 9/30/2007</b>
Cash provided by operating activities from continuing operations	\$ 9,006	\$ 9,503	\$ 7,869
Less capital expenditures from continuing operations	(4,853)	(8,375)	1,128
Free cash flow from continuing operations	<u>\$ 4,153</u>	<u>\$ 1,128</u>	<u>\$ 8,987</u>

**Reconciliation of estimated net income to free cash flow for the twelve months ending September 30, 2008 (in 000's):**

Net income	\$ 9,200
Tax expense	6,000
Interest expense, net	17,500
Depreciation and amortization	10,300
EBITDA	<u>\$ 43,000</u>
Interest paid	17,300
Cash taxes	700
Capital expenditures	10,000
Free cash flow	<u>\$ 15,000</u>