

CARRIAGE SERVICES INC

Form DEF 14A

April 18, 2006

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☐
Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
☐ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Pursuant to §240.14a-12

CARRIAGE SERVICES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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SEC 1913 (02-02)

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CARRIAGE SERVICES, INC.
3040 Post Oak Boulevard , Suite 300
Houston, Texas 77056
April 18, 2006

Dear Carriage Stockholder:

I am pleased to invite you to Carriage's Annual Meeting of Stockholders. The meeting will be held at the Lakes on Post Oak Conference Center, 3050 Post Oak Boulevard, 2nd Floor, Houston, Texas 77056 on Thursday, May 25, 2006, at 10:00 a.m., Central Daylight Time. If you cannot be present at the Annual Meeting, I ask that you participate by completing the enclosed proxy and returning it at your earliest convenience.

At the meeting, you and the other stockholders will elect two directors to Carriage's Board of Directors and vote on certain other matters discussed in the accompanying Proxy Statement. You will also have the opportunity to hear what has happened in our business in the past year and to ask questions. I encourage you to read the enclosed Notice of Annual Meeting and Proxy Statement, which contains information about the Board of Directors and its committees and personal information about each of the nominees for the Board.

We hope you can join us on May 25th. Whether or not you can attend personally, it is important that your shares are represented at the Meeting. Please **mark** your votes on the enclosed proxy card, **sign and date** the proxy card, and **return** it to us in the enclosed envelope. Your vote is important, so please return your proxy promptly.

Sincerely,

MELVIN C. PAYNE
Chairman of the Board,
President and Chief Executive Officer

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**CARRIAGE SERVICES, INC.
3040 Post Oak Boulevard, Suite 300
Houston, Texas 77056**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held May 25, 2006**

Carriage Services, Inc. will hold its Annual Meeting of Stockholders at the Lakes on Post Oak Conference Center, 3050 Post Oak Boulevard, 2nd Floor, Houston, Texas, 77056, on Thursday, May 25, 2006, at 10:00 a.m., Central Daylight Time.

We are holding this meeting:

To elect two Class I directors, each to serve for a three-year term expiring at the annual meeting of stockholders in 2009 and until their respective successors are elected and qualified.

To approve our 2006 Long-Term Incentive Plan.

To ratify the selection of KPMG LLP as the independent public accounting firm for Carriage for 2006.

To transact such other business as may properly come before the meeting or any adjournments thereof.

Your Board of Directors has selected March 27, 2006, as the record date for determining stockholders entitled to vote at the meeting. A list of stockholders as of that date will be available for inspection at our corporate headquarters, 3040 Post Oak Boulevard, Suite 300, Houston, Texas for ten days before the meeting.

You are cordially invited to attend the meeting. If you are unable to attend the Meeting, you are requested to sign and date the accompanying proxy card and return it promptly in the enclosed envelope. If you attend the meeting, and wish to do so, you may vote in person regardless of whether you have given your proxy. In any event, a proxy may be revoked at any time before it is exercised.

This Proxy Statement, proxy card and Carriage's 2005 Annual Report to Stockholders are being distributed on or about April 20, 2006.

By Order of the Board of Directors

Joseph Saporito
*Executive Vice President, Chief
Financial Officer and Secretary*

Houston, Texas
April 18, 2006

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GENERAL INFORMATION

Q: Who is soliciting my proxy?

A: We, the Board of Directors of Carriage Services, Inc., are sending you this Proxy Statement in connection with our solicitation of proxies for use at Carriage's 2006 Annual Meeting of Stockholders. Certain directors, officers and employees of Carriage, American Stock Transfer & Trust Company (AST), and Georgeson Shareholder Communications, Inc. (Georgeson) also may solicit proxies on our behalf by mail, phone, fax or in person.

Q: Who is paying for this solicitation?

A: Carriage will pay for the solicitation of proxies, including the cost of preparing and mailing this Proxy Statement. Carriage also will reimburse banks, brokers, custodians, nominees and fiduciaries for their reasonable charges and expenses to forward our proxy materials to the beneficial owners of Carriage stock. No additional fee beyond the \$950 monthly fee paid to AST to act as Carriage's transfer agent, together with AST's out-of-pocket expenses, will be paid to AST. We estimate that Georgeson's fee will total approximately \$20,000 for acting as proxy solicitor in connection with the Meeting.

Q: What am I voting on?

A: (1) The election of Melvin C. Payne and Joe R. Davis to the Board of Directors as Class I directors.
(2) The approval of our 2006 Long-Term Incentive Plan.
(3) The ratification of the selection of KPMG LLP as the independent public accounting firm for Carriage for 2006.

Q: Who can vote?

A: Stockholders as of the close of business on March 27, 2006 are entitled to vote at the Annual Meeting.

Q: How do I vote?

A: You may vote your shares either in person or by proxy. To vote by proxy, you should mark, date, sign and mail the enclosed proxy card in the prepaid envelope. Giving a proxy will not affect your right to vote your shares if you attend the Annual Meeting and want to vote in person — by voting in person you automatically revoke your proxy. You also may revoke your proxy at any time before the meeting by giving the Secretary written notice of your revocation or by submitting a later-dated proxy. If you return your proxy card but do not mark your voting preference, the individuals named as proxies will vote your shares **FOR** the election of the nominees for director and **FOR** the other proposal described in this Proxy Statement.

Q: How does the Board recommend I vote on the proposals?

A: The Board recommends a vote **FOR** each of the director nominees and the other proposals.

Q: Is my vote confidential?

A: Proxy cards, ballots and voting tabulations that identify individual stockholders are mailed or returned directly to Carriage and handled in a manner intended to protect your voting privacy. Your vote will not be disclosed *except*: (1) as needed to permit Carriage to tabulate and certify the vote; (2) as required by law; or (3) in limited circumstances, such as a proxy contest in opposition to the Board (which is not currently anticipated).

Additionally, all comments written on the proxy card or elsewhere will be forwarded to management, but your identity will be kept confidential unless you ask that your name be disclosed.

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Q: How many shares can vote?

A: As of the record date, March 27, 2006, Carriage had outstanding 18,493,718 shares of Common Stock. Each share of Common Stock is entitled to one (1) vote.

Q: What happens if I withhold my vote for an individual director?

A: Because the individual directors are elected by a plurality of the votes cast at the meeting, a withheld vote will not have an effect on the outcome of the election of an individual director.

Q: Can I vote on other matters?

A: Carriage's By-laws limit the matters presented at an annual meeting to those in the notice of the meeting and those otherwise properly presented before the meeting. We do not expect any other matter to come before the meeting. If any other matter is presented at the Annual Meeting, your signed proxy gives the individuals named as proxies authority to vote your shares on such matters at their discretion.

Q: When are stockholder proposals due for the annual stockholders meeting in 2007?

A: To be considered for inclusion in the proxy statement for Carriage's 2007 annual meeting, a stockholder proposal must be received at Carriage's offices no later than December 1, 2006. A stockholder proposal submitted outside the processes of Rule 14a-8 of the SEC, if received by Carriage after February 15, 2007, will be considered untimely for presentation at Carriage's 2007 annual meeting of stockholders.

Q: How do I nominate someone to be a Carriage director?

A: A stockholder may recommend nominees for director by giving the Secretary a written notice not less than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting. For the annual meeting in 2007, the deadline will be February 24, 2007, based upon this year's meeting occurring on May 25th. The notice must include the full name, age, business and residence address, principal occupation or employment of the nominee, the number of shares of Common Stock that the nominee beneficially owns, any other information about the nominee that must be disclosed in proxy solicitations under Rule 14(a) of the Securities Exchange Act of 1934, and the nominee's written consent to the nomination and to serve, if elected.

Q: How can I communicate directly with a Carriage director?

A: Stockholders and other interested parties may contact any member of our Board or Committee thereof via U.S. mail, by addressing any correspondence to the Board, the applicable Committee, the non-management directors as a group or any individual director by either name or title, in care of Carriage Services, Inc., 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056; Attn: Corporate Secretary. In the case of communications addressed to the non-management directors, the Corporate Secretary will send appropriate stockholder communications to the Lead Director. In the case of communications addressed to a committee of the Board, the Corporate Secretary will send appropriate stockholder communications to the Chairman of such committee.

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RECORD DATE AND VOTING SECURITIES

Only holders of record of the Common Stock at the close of business on March 27, 2006, the record date for the Meeting, are entitled to notice of and to vote at the Meeting. On that date, Carriage had outstanding 18,493,718 shares of Common Stock, each of which is entitled to one vote.

The presence at the Meeting, in person or by proxy, of the holders of a majority of the total voting power of the issued and outstanding shares of Common Stock is necessary to constitute a quorum to transact business. In the absence of a quorum at the Meeting, the Meeting may be adjourned without notice other than announcement at the Meeting until a quorum shall be formed.

With respect to the election of directors, stockholders may vote (a) in favor of the nominees or (b) to withhold votes as to the nominees. If a quorum is present at the Meeting, the nominees for the Class I directors will be elected by a plurality vote. Votes withheld, or abstentions, will be treated as present for purposes of determining a quorum; however, because directors are elected by a plurality, votes withheld will not affect the outcome of the election. With respect to each proposal (and any other matter properly brought before the Meeting) other than the election of directors, the affirmative vote of the holders of a majority of the voting power present or represented by proxy at the Meeting will be required for approval, except as noted below in regards to the adoption of the 2006 Long-Term Incentive Plan. Abstentions will have the effect of a vote against any of these proposals.

Under the rules of the New York Stock Exchange (NYSE), the proposal to elect the directors and the ratification of the appointment of KPMG LLP as the independent public accounting firm are considered discretionary items. This means that brokerage firms may vote in their discretion on these matters on behalf of clients who have not furnished voting instructions at least fifteen days before the date of the Meeting. In contrast, the proposal to approve the 2006 Long-Term Incentive Plan is a non-discretionary item. This means brokerage firms that have not received voting instructions from their clients on this matter may not vote on this proposal. These so-called broker non-votes will not be considered in determining the number of votes necessary for approval and, therefore, will have no effect on the outcome of the vote for this proposal.

To satisfy the NYSE listing requirements, the approval of the 2006 Long-Term Incentive Plan will require an affirmative vote of a majority of the votes cast on the proposal, provided that the total number of votes cast on the proposal represents over 50% of the Common Stock entitled to vote on the proposal.

All properly signed proxies received prior to the Meeting will be voted in accordance with the choices specified. If no choice has been specified in the proxy, the shares will be voted in favor of all proposals described in this Proxy Statement and in the discretion of the persons named in the proxy in connection with any other business that may properly come before the Meeting. A stockholder giving a proxy may revoke it at any time before it is voted at the Meeting by filing with the Secretary an instrument revoking it, by signing and delivering to the Secretary a proxy bearing a later date, or by voting in person at the Meeting after giving notice to the Chairman of the Meeting of the stockholder's intention to vote in person notwithstanding the fact that the stockholder previously delivered a proxy.

**SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS
AND CERTAIN BENEFICIAL OWNERS**

The following table sets forth, as of March 27, 2006, the number of shares beneficially owned and percent of the Common Stock held by: (i) each director and director nominee of Carriage, (ii) the Chief Executive Officer, (iii) the other executive officers named in the Summary Compensation Table set forth under Executive Compensation below, and (iv) all current executive officers and directors of Carriage as a group. Under the rules of the Securities and Exchange Commission (SEC), a person is deemed to own beneficially all securities as to which that person owns or shares voting or investment power, as well as all securities which such person may acquire within 60 days through the exercise of currently available conversion rights or options. Each person named in the table below has sole voting and investment power with respect to the shares indicated, except as otherwise stated in the notes to the table.

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	Common	Stock	Number of Shares Beneficially Owned	Percent of Common Stock
Beneficial Owner	Stock	Options⁽¹⁾		
Melvin C. Payne	896,545	360,000	1,256,545	6.6%
Joe R. Davis	34,428	12,000	46,428	*
Ronald A Erickson (2)	7,000	74,000	81,000	*
Vincent D. Foster	35,967	84,000	119,967	*
Mark F. Wilson (3)	291,621	74,000	365,621	1.9%
Joseph Saporito	154,833		154,833	*
George Klug	62,490	35,000	97,490	*
James J. Benard	68,285	47,124	115,409	*
Charles D. Sidun	35,427	1,500	36,927	*
All directors and executive officers as a group (9 persons)	1,586,596	687,624	2,274,220	11.9%

* Indicates less than one percent.

(1) The ownership of Stock Options shown in the table includes shares which may be acquired within 60 days upon exercise of outstanding stock options granted under our stock option plans by each of the persons and groups. All options are currently 100% vested except for Mr. Foster 10,000 shares vested (67%) out of 15,000 granted on 11-4-99, and

Mr. Sidun
1,500 shares
vested (50%)
out of 3,000
granted on
1-29-04.

(2) Mr. Erickson's
holdings consist
of 7,000 shares
of Common
Stock held by
Mr. Erickson's
adult son who
lives in his
household,
David S.
Erickson.

(3) Mr. Wilson's
holdings include
238,417 shares
of Common
Stock held by
the Mark F.
Wilson and
Anne Pedersen
Wilson Living
Trust; 31,629
shares of
Common Stock
held by the
Wilson Trust B
U/A/D 9/9/77
by Francis
Wilson; and
31,629 shares of
Common Stock
held by the
Wilson Trust C
U/A/D 9/9/77
by Francis
Wilson.

Stock Ownership of Certain Beneficial Owners

As of March 27, 2006, the persons named below were, to our knowledge, the only beneficial owners of more than 5% of the outstanding Common Stock, determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, other than directors and executive officers whose beneficial ownership is described in the above table.

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Beneficial Owner	Number of Shares Beneficially Owned	Percent of Common Stock
FMR Corp. (1) 82 Devonshire Street Boston, MA 0209	2,783,392	15.1%
Dimensional Fund Advisors, Inc. (2) 1299 Ocean Ave., 11th. Floor Santa Monica, CA 90401	1,467,450	7.9%
First Wilshire Securities Management, Inc. (3) 600 South Lake Street, Suite 100 Pasadena, CA 91106	1,414,240	7.7%
Zazove Associates, LLC (4)(6) 940 Southwood Incline Village, NV 89451	1,307,748	7.1%
The Northwestern Mutual Life Insurance Company (5)(7) 720 East Wisconsin Avenue Milwaukee, WI 53202	961,475	5.2%
Total	6,152,366	32.5%

(1) Based solely on
schedule 13G
filed with the
SEC on
February 14,
2006.

(2) Based solely on
schedule 13G
filed with the
SEC on
February 6,
2006.

(3) Based solely on
schedule 13F
filed with the
SEC on
December 31,
2005.

- (4) Based solely on schedule 13G filed with the SEC on January 25, 2006.
- (5) Based solely on schedule 13G filed with the SEC on February 7, 2006.
- (6) Includes the potential conversion of the TIDES convertible preferred securities of Carriage Services Capital Trust, which are convertible into 1,267,348 shares of Common Stock.
- (7) Includes the potential conversion of the TIDES convertible preferred securities of Carriage Services Capital Trust, which are convertible into 561,151 shares of Common Stock.

PROPOSAL NO. 1
ELECTION OF DIRECTORS

We currently have five directors on our Board who each serve staggered three-year terms. At the Meeting, the stockholders will elect two individuals to serve as Class I directors for a new three-year term expiring on the date of the 2009 annual meeting and until their successors are duly elected and qualified. Our Corporate Governance Committee has recommended that we nominate Melvin C. Payne and Joe R. Davis for re-election at the Meeting to serve as the Class I directors for a new three-year term. Proxies may be voted for the Class I directors. The biography

descriptions for Messrs. Payne and Davis are set forth below.

We recommend that you vote FOR the election of the nominees listed in Proposal No. 1 as Class I Directors. The individuals named as proxies will vote the enclosed proxy FOR the election of the nominees unless you direct them to withhold your votes for the nominees.

You may not cumulate your votes in the election of directors. You may withhold authority to vote for the nominees for director. If the nominees become unable to serve as directors before the Meeting (or decide not to serve), the individuals named as proxies will vote FOR such other nominees as we may designate as a replacement or substitute for those who become unavailable.

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The following table sets forth the name, age and title of the persons who have been nominated for election as Class I directors and our other current directors and executive officers.

Name	Age	Title
Nominees for and Existing Class I Directors		
(Current term expiring at 2006 annual meeting and new term expiring at 2009 annual meeting)		
Melvin C. Payne	63	Chairman of the Board, Chief Executive Officer, President and Director
Joe R. Davis(1)(2)(3)	63	Director
Continuing Class II Directors		
(Term expiring at 2007 annual meeting)		
Vincent D. Foster(1)(2)(3)	49	Director
Mark F. Wilson	59	Director
Continuing Class III Director		
(Term expiring at 2008 annual meeting)		
Ronald A. Erickson(2)(3)	69	Director
Executive Officers who are not Directors		
Joseph Saporito	52	Executive Vice President, Chief Financial Officer and Secretary
George J. Klug	61	Senior Vice President of Information Systems and Chief Information Officer
James J. Benard	49	Senior Vice President of Sales & Cemetery Operations
(1) Member of Compensation Committee		
(2) Member of Audit Committee		
(3) Member of Corporate Governance Committee		
Messrs. Davis, Foster and Erickson are independent		

within the
meaning of
NYSE's
Corporate
Governance
Guidelines.

Set forth below
is a brief
description of
the business
experience of
the directors and
executive
officers of our
company.

Directors (listed in same order as table set forth above)

Melvin C. Payne, a management founder of Carriage, has been Chairman of the Board and Chief Executive Officer since December 1996. Prior to that date, he was the President, Chief Executive Officer and a director of Carriage since its inception in 1991. Mr. Payne resumed the additional position of President in December 2000.

Joe R. Davis has been a director of Carriage since 2003. He has been the Chief Executive Officer and Chairman of the Board of Consolidated Graphics Inc. (CGX) since he founded it in 1985. Mr. Davis serves on the Executive Committee of CGX's Board of Directors.

Vincent D. Foster became a director of Carriage in November 1999. Mr. Foster is a Senior Managing Director of Main Street Capital Partners, LLC, which manages two investment funds, Main Street Mezzanine Fund, LP and Main Street Capital II, LP, each of which is a licensed small business investment corporation, and served as Senior Managing Director of Main Street Equity Ventures II, L.P. (and its predecessor firm), a venture capital firm, from 1997 through 2002. From September 1988 through October 1997, Mr. Foster was a partner of Andersen Worldwide and Arthur Andersen LLP, where he served as the director of the corporate finance practice and the mergers and acquisitions practice in the southwestern United States. Mr. Foster has served as a director of the Houston, Texas chapter of the National Association of Corporate Directors, of which he is a founding member, since

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July 2002. Mr. Foster is a director of Quanta Services, Inc., and served as its nonexecutive Chairman of the Board of Directors from February 1998 through May 2002. Mr. Foster is also a director of Team, Inc. and serves on its audit committee, and he serves as a director, nonexecutive Chairman of the Board and member of the compensation committee of U.S. Concrete, Inc.

Mark F. Wilson became a director in January 1997 when CNM merged with Carriage. Mr. Wilson served as the President of CNM from 1988 until its merger with Carriage in January 1997, when he became President of our California operations. CNM owned and operated nine Wilson & Kratzer Funeral Homes and the Rolling Hills Memorial Park Cemetery in Alameda and Contra Costa Counties, California. In connection with the CNM merger, Carriage agreed to increase the Board of Directors by one member and appoint Mr. Wilson as a director. Mr. Wilson served as Senior Vice President of Cemetery Operations for our Western Region from November 2000 until November 2001, at which time Jim Benard became head of our Cemetery Operations, while Mr. Wilson maintained his role as President of our California operations. Mr. Wilson left the Board in 2003 (during which time he maintained Board meeting visitation rights) but was again elected to the Board in 2004. Mr. Wilson also serves on the Board of Directors of Muir Heritage Land Trust, and is a director and member of the compensation committee of Mechanics Bank, Richmond, California.

Ronald A. Erickson has been a director of Carriage since it went public in August 1996. Mr. Erickson is Chief Executive Officer of Holiday Companies, Minneapolis, Minnesota, a family business consisting primarily of gasoline/convenience stores. He serves as Chairman of the Board and as a director of Gander Mountain Company, a publicly traded company engaged in the sporting goods business. Mr. Erickson is also a director (and member of the board's compensation and governance committees) of Andersen Corporation, a privately held manufacturer of windows and patio doors.

Executive Officers Who Are Not Directors

Joseph Saporito has been Executive Vice President, Chief Financial Officer and Secretary of Carriage since December 2004, and served as Senior 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 was a partner of Andersen Worldwide and Arthur Andersen LLP for 15 years and served as Division Head of the Houston Commercial Audit Division.

George J. Klug has been Senior Vice President of Information Systems and Chief Information Officer of Carriage since May 2002. Before joining Carriage as Vice President of Information Technology in July 2001, Mr. Klug served as Vice President of Information Technology at Allright Corporation from 1997 to 2000. Prior to joining Allright, Mr. Klug served as Vice President of Information Technology for various retail companies, including Oshmans, Sportstown and Zaks.

James J. Benard was Senior Vice President of Sales and Cemetery Operations for Carriage from November 2001 through December 2005, at which time he assumed the role of Regional Managing Partner for our Cemetery/Combination Region. Mr. Benard joined Carriage in 1998 as a Regional Vice President of Sales. He has over 26 years of professional funeral home and cemetery experience. Prior to joining Carriage, he was affiliated with Service Corporation International in various roles for ten years. Mr. Benard is a member of the International Cemetery and Funeral Association.

Organization and Committees of the Board

During 2005, Carriage's Board met four times and acted by unanimous written consent two times. Each of the directors attended all of the meetings of the Board. The functions of the Audit, Compensation and Corporate Governance Committees of the Board, and the number of meetings held during 2005, are described below.

The Compensation Committee reviews and makes recommendations to the Board concerning the compensation of Carriage's executive officers and approves grants to all officers and employees under our stock incentive plans. The members of the Compensation Committee are Vincent D. Foster, Chairman and Joe R. Davis. In 2005, the Compensation Committee held two meetings (and both Committee members were present) and acted by unanimous consent two times. See the report of the Compensation Committee on page 14 of this Proxy Statement.

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The Audit Committee evaluates, appoints and engages Carriage's independent audit firm and reviews the plan, scope and results of the audit with the auditors and Carriage's officers. The Audit Committee also reviews with the auditors the principal accounting policies and internal accounting controls of Carriage. The members of the Audit Committee are Vincent D. Foster, Chairman, Joe R. Davis and Ronald A. Erickson. The Audit Committee met five times during 2005. Each member of the Audit Committee was present at all meetings, except that Mr. Davis did not attend one special meeting. See the report of the Audit Committee on page 20 of this Proxy Statement.

In 2003, Carriage's Board adopted a new written charter to be the governing instrument for the Audit Committee, which was amended in 2004. A copy of the amended charter is available on our website at <http://www.carriageservices.com>. The NYSE, upon which our Common Stock is traded, requires that each of its listed companies maintain an independent audit committee. None of the members of our Audit Committee has a relationship with Carriage that may interfere with the exercise of his independence from management or Carriage. No member of our Audit Committee is or has been in the last three years an employee of Carriage or in a business relationship with Carriage. Also, no immediate family member related to a member of our Audit Committee is an executive officer of Carriage or any of its affiliates. See below, under the heading "Corporate Governance Principles," for a specific description of independence which we apply to our independent directors.

In addition to the independence standard, the NYSE requires that each member of the Audit Committee be financially literate and at least one member must have accounting or related financial management expertise. Each member of our Audit Committee is financially literate. Mr. Foster, the Committee's financial expert, is a certified public accountant with over 20 years of public accounting experience. Currently, Mr. Foster is a managing director of two small business investment corporations for which he reviews and analyzes financial statements as part of his daily functions.

The Corporate Governance Committee provides oversight with respect to our corporate governance guidelines, which includes reviewing the structure of the full Board and making recommendations regarding the size of the Board and the number and classification of directors. The Corporate Governance Committee also conducts a search for suitable and qualified candidates to serve as directors when the terms of office are up for election at each year's annual meeting of stockholders, and submits the names of candidates for such positions for consideration by the Board. The members of the Corporate Governance Committee are Joe R. Davis, Chairman, Vincent D. Foster and Ronald A. Erickson. The Corporate Governance Committee met once in 2005 (and all Committee members were present) and did not take any action by unanimous consent.

Corporate Governance Guidelines

We have long been committed to integrity, reliability and transparency in our disclosures to the public. In early 2003, before the corporate governance listing standards of the NYSE and adopted regulations of the Securities and Exchange Commission (the "SEC") became effective, we adopted new charters for our Board committees, a set of corporate governance guidelines, and a code of business conduct and ethics for our directors, officers and employees, and we moved to increase the independence of our Board members. In 2004, following the final release of the NYSE and SEC rules, we amended the committee charters and corporate governance guidelines, and the corporate governance guidelines and the charter for the Corporate Governance Committee were again modified in early 2005. All of these materials as well as our code of business conduct and ethics are accessible through the Investor Relations Section of our website at <http://www.carriageservices.com>, or you may receive copies without charge by writing to us at Carriage Services, Inc., 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056, Attn: Investor Relations.

Independence. Our corporate governance guidelines require that our Board composition comply with the NYSE rules, including the requirement that a majority of our Board consist of independent directors. Under the NYSE rules, a director qualifies as "independent" if the Board determines that he or she has no material relationship with Carriage (either directly or as a shareholder, partner or officer of an organization that has a relationship with Carriage). Further, under the NYSE guidelines, a director will not be considered independent if:

The director is, or in the past three years has been, an employee of Carriage, or has an immediate family member who is or in the past three years has been, an executive officer of Carriage;

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The director or an immediate family member (other than an immediate family member who is a non-executive employee) receives, or in the past three years has received, more than \$100,000 per year in direct compensation from Carriage (other than director fees and pension or other forms of deferred compensation for prior service that is not contingent in any way on continued service);

The director is, or in the past three years has been, affiliated with or employed by, or has an immediate family member who is or in the past three years has been, affiliated with or employed in a professional capacity by a present or former auditor of Carriage;

The director is, or in the past three years has been, an executive officer, or has an immediate family member who is, or in the past three years has been, an executive officer of another company where any of Carriage's present executives serves on that company's compensation committee; or

The director is, or in the past three years has been, an executive officer or an employee, or has an immediate family member who is, or in the past three years has been, an executive officer of another company that makes payments to, or receives payments from, Carriage for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

Our Corporate Governance Committee reviewed our Board composition in early 2006, and determined that three of five of our directors meet the independence standards set forth above. In addition, all directors serving on our Audit, Compensation and Corporate Governance Committees satisfy these independence requirements.

Executive Sessions; Lead Director. In accordance with our corporate governance guidelines, the non-management directors meet in executive session at least quarterly, outside of the presence of management directors or other members of management, both with the independent auditors and then without anyone else present. In connection with the 2005 amendments to our corporate governance guidelines, the Board established the position of Lead Director, who is required to be qualified as independent and will be appointed by a majority of the non management directors. The Lead Director's role is to facilitate the functioning of the Board independently of management and to enhance the quality of the Board's governance. The Lead Director is required to be a member of the Corporate Governance Committee and, among other things, will preside at the executive sessions of the non-management directors. In May 2005, Mr. Foster, Chairman of the Audit Committee, was appointed Lead Director.

Board Composition. The Corporate Governance Committee is responsible for reviewing the requisite skills and characteristics of new Board members as well as the composition of the Board as a whole. Nominees for directorship will be selected by the Corporate Governance Committee in accordance with the policies and principles in its charter. The Corporate Governance Committee believes that the minimum qualifications for serving as a director are that a nominee demonstrate an ability to make a meaningful contribution to the Board's oversight of our business and affairs and have a reputation for ethical conduct. Nominees for director will include individuals who, taking into account their diversity, age, skills, and experience in the context of the needs of the Board, as well as other relevant factors such as conflicts of interest and other commitments, would enhance the Board's ability to manage and direct our affairs and business. No director may serve on more than five other public company boards or on the audit committee for more than three other public companies. We have not established term limits as we do not wish to risk losing the contribution of directors who have been able to develop, over a period of time, increasing insight into our business and operations. However, we have determined that no director may be nominated to a new term if he or she would be age 75 or older at the time of the election.

The Corporate Governance Committee identifies candidates by asking our current directors and executive officers to notify the Committee if they become aware of individuals who meet the criteria described above. The Corporate Governance Committee has the authority to engage firms that specialize in identifying director candidates, although we have not heretofore engaged such a firm. The Corporate Governance Committee will also consider candidates recommended by stockholders. Once the Corporate Governance Committee has identified a potential candidate, the Committee collects and reviews available information regarding the individual, and if the Committee determines that

the candidate warrants further consideration, the Committee Chair or another Committee member will contact the person. Generally, if the individual expresses a willingness to be considered for election to the Board, the Corporate Governance Committee will request information from the candidate, review the

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individual's qualifications, and conduct one or more interviews with the candidate. When the Corporate Governance Committee has completed this process, it tenders its recommendation to the full Board for consideration.

Board's Interaction With Stockholders. Our Chief Executive Officer and other corporate officers are responsible for establishing effective communications with our stockholders. It is our policy that management speaks for Carriage. This policy does not preclude independent directors from meeting with stockholders, but where appropriate, management should be present at such meetings. Stockholders may submit communications to directors by writing in care of Carriage Services, Inc., 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056; Attn: Joseph Saporito, Executive Vice President and Secretary.

Board and CEO Evaluation. In 2004, we instituted an annual process for the Board and each Committee to perform self-evaluations. These are conducted through written questionnaires compiled on a confidential basis by the Chairman of the Corporate Governance Committee with summary results presented to the full Board annually. In addition, the Compensation Committee performs an annual evaluation of the Chief Executive Officer's performance. As part of the long-range planning, the Corporate Governance Committee is charged with evaluating Chief Executive Officer succession, both in the event of emergency and upon retirement.

Business Conduct and Ethics. Our code of business conduct and ethics requires all of our directors, officers and employees to adhere to certain basic principles to uphold our mission to be the most professional, ethical and highest quality service organization in the death care industry. Our code requires them to comply with the law, avoid conflicts of interest, compete fairly and honestly, maintain a safe and healthy work environment, and preserve company assets. We do not presently believe that there would be any occasion requiring any changes in or waivers under the code, but in the event of exceptional circumstances in which such a change or waiver becomes necessary, it would require Board approval and, where appropriate, prompt public disclosure. Our code includes specific compliance procedures and a mechanism for reporting violations through our Human Resources Department. You can access our code of business conduct and ethics on our website at <http://www.carriageservices.com>.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires Carriage's directors and executive officers, and persons who own more than 10% of a registered class of Carriage's equity securities, to file with the SEC and the NYSE reports of ownership and changes in ownership of Common Stock and other equity securities of Carriage on Forms 3, 4 and 5. Executive officers, directors and greater than 10% beneficial owners are required by SEC regulations to furnish Carriage with copies of all Forms 3, 4 and 5 they file.

Based solely on a review of the copies of such reports furnished to Carriage or written representations, Carriage believes that all filing requirements applicable to its executive officers, directors and greater than 10% beneficial owners were complied with during 2005, except as follows: Joe R. Davis, Ronald A. Erickson, Vincent D. Foster and Mark F. Wilson each filed their respective Form 4 on May 13, 2005 to report a grant of 6,000 stock options each that occurred effective May 10, 2005; Mark F. Wilson filed his Form 5 on February 7, 2006 to report sales of 689 shares of common stock that occurred between April 6, 2005 and April 15, 2005; and Melvin C. Payne filed his Form 4 on January 11, 2006 to report a gift of 2,800 shares of common stock that occurred effective December 27, 2005.

CERTAIN TRANSACTIONS

Mark Wilson is a prior owner of a business that Carriage acquired in 1997. As an incentive, we entered into an arrangement with him to pay him 10% of the amount by which the annual field level cash flow exceeds predetermined targets on certain businesses in his geographic region through 2006, with a final amount payable in 2007 equal to a multiple of six times the average of the last three years' payments. The business purpose of the arrangement was to incentivize Mr. Wilson to provide Carriage with high quality acquisition targets and to have input in the competitive strategies of those businesses post-acquisition so that cash flows grow over time. The incentives earned by Mr. Wilson totaled approximately \$276,000 for 2005. The final payment will be determined at the conclusion of 2006 and is currently estimated to be in the range of \$1.0 million to \$1.3 million.

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The following table sets forth information regarding the compensation for the years ended December 31, 2005, 2004 and 2003, with respect to the Chief Executive Officer and the four other most highly compensated executive officers of Carriage whose total annual salary and bonus during 2005 exceeded \$100,000 (collectively, the Named Executive Officers).

Name and Principal Position	Year	Annual Compensation		Other Annual Compensation ⁽¹⁾	Restricted Stock Awards ⁽²⁾	Long Term Compensation Awards	All Other Compensation ⁽³⁾
		Salary	Bonus			Securities Underlying Options	
Melvin C. Payne Chairman of the Board, Chief Executive Officer and President	2005	\$414,712	\$112,000				\$26,069
	2004	\$400,000	\$300,000		\$299,400		\$23,453
	2003	\$399,808	\$190,000				\$21,075
Joseph Saporito Executive Vice President, CFO and Secretary	2005	\$269,808	\$111,000 ⁽⁴⁾				\$ 7,023
	2004	\$259,615	\$180,000		\$224,550		\$ 3,152
	2003	\$239,885	\$120,000		\$466,000		\$ 1,153
James J. Benard⁽⁵⁾ Sales & Cemetery Operations	2005	\$219,808	\$ 40,000				\$ 750
	2004	\$209,808	\$ 90,000		\$149,700		\$ 2,995
	2003	\$200,000					