CARRIAGE SERVICES INC
Form DEF 14A
April 09, 2014

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 ý
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))
ý Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 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):

ý No fee required.
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CARRIAGE SERVICES, INC.
3040 Post Oak Boulevard, Suite 300
Houston, Texas 77056
April 9, 2014
Dear Stockholder:
I am pleased to invite you to the 2014 Annual Meeting of Stockholders of Carriage Services, Inc. (“Carriage”). The Annual Meeting will be held at the Lakes on Post Oak Conference Center, 3050 Post Oak Boulevard, 2nd Floor, Houston, Texas 77056, on Wednesday, May 21, 2014, at 9:00 a.m., Central Daylight Time. Whether or not you plan to attend the Annual Meeting, I ask that you participate by completing the enclosed proxy card and returning it at your earliest convenience.
At the Annual Meeting, you and our other stockholders will be asked to elect two Class III directors to Carriage’s Board of Directors, to hold an advisory vote to approve Carriage’s named executive officer compensation and to ratify the appointment of Carriage’s independent registered public accounting firm. You will also have the opportunity to hear what has happened in Carriage’s business during 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 our Board of Directors and its committees and our executive management team.
We hope you can join us on May 21st. Whether or not you can attend personally, it is important that your shares are represented at the Annual 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 card promptly.
Sincerely,
MELVIN C. PAYNE
Chairman of the Board
and Chief Executive Officer

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held May 21, 2014

Carriage Services, Inc. (“Carriage”) will hold its Annual Meeting of Stockholders (“Annual Meeting”) at the Lakes on Post Oak Conference Center, 3050 Post Oak Boulevard, 2nd Floor, Houston, Texas 77056, on Wednesday, May 21, 2014, at 9:00 a.m., Central Daylight Time.

Carriage is holding the Annual Meeting to:

- elect two Class III directors to serve for a three-year term expiring at the annual meeting of stockholders in 2017 and until the successors are elected and qualified;
- hold an advisory vote to approve Carriage’s named executive officer compensation;
- ratify the appointment of Grant Thornton LLP as Carriage’s independent registered public accounting firm for the fiscal year ending December 31, 2014; and
- transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Carriage’s Board of Directors has selected March 26, 2014 as the record date for determining stockholders entitled to vote at the Annual Meeting. A list of stockholders as of that date will be available for inspection by stockholders for any purpose germane to the meeting during normal business hours at Carriage’s corporate headquarters, which is located at 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056, at least 10 days before the Annual Meeting.

You are cordially invited to attend the Annual Meeting. Whether or not you plan to attend the Annual Meeting, you are requested to complete, sign and date the accompanying proxy card and return it promptly in the enclosed envelope. If you attend the Annual 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.

By Order of the Board of Directors,

L. William Heiligbrodt
Executive Vice President and Secretary
Houston, Texas
April 9, 2014

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON WEDNESDAY, MAY 21, 2014

The Notice of Annual Meeting of Stockholders, the Proxy Statement and the 2013 Annual Report to Stockholders are available at www.carriageservices.com.

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

PROXY STATEMENT

This Proxy Statement (this "Proxy Statement") is being furnished to you by the Board of Directors (our "Board") of Carriage Services, Inc. ("Carriage," "we," "us" or "our") for use at our 2014 Annual Meeting of Stockholders (our "Annual Meeting").

2014 Annual Meeting Date and Location

Our Annual Meeting will be held at the Lakes on Post Oak Conference Center, 3050 Post Oak Boulevard, 2nd Floor, Houston, Texas 77056, on Wednesday, May 21, 2014, at 9:00 a.m., Central Daylight Time.

About Our Annual Meeting

Why am I receiving these proxy materials?

Our Board is soliciting your proxy to vote at our Annual Meeting because you owned shares of our common stock ("Common Stock") at the close of business on March 26, 2014, the record date for our Annual Meeting (the "Record Date"), and are therefore entitled to vote at our Annual Meeting.

This Proxy Statement, along with a proxy card, is being mailed to our stockholders on or about April 14, 2014. We have also made these materials available to you free of charge on the Internet. This Proxy Statement summarizes the information that you need to know in order to cast your vote at our Annual Meeting. As a stockholder, your vote is very important and our Board strongly encourages you to exercise your right to vote. You do not need to attend our Annual Meeting in person to vote your shares. Whether or not you plan to attend our Annual Meeting, we encourage you to vote your shares by completing, signing, dating and returning the enclosed proxy card in the envelope provided. See "About Our Annual Meeting–How do I vote my shares?" below.

What is the purpose of our Annual Meeting?

At our Annual Meeting, as a stockholder, you will be asked:

- to re-elect David J. DeCarlo and elect Donald D. Patteson, Jr. to our Board as Class III directors;
- to approve, on an advisory basis, our named executive officer compensation;
- to ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014; and
- to transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

In addition, you will have the opportunity to hear what has happened in Carriage's business during the past year and our executive officers will respond to appropriate questions.

Who is entitled to vote at the meeting?

Only our stockholders as of the close of business on the Record Date are entitled to receive notice of our Annual Meeting and to vote at our Annual Meeting. On March 26, 2014, we had 18,468,049 shares of Common Stock issued and outstanding and entitled to vote at our Annual Meeting.

How many votes can I cast?

You are entitled to one vote for each share of Common Stock you owned on the Record Date on all matters presented at our Annual Meeting.

Is my vote important?

Your vote is important regardless of how many shares of Common Stock you own. Please take the time to vote. Please read the instructions below, choose the way to vote that is easiest and most convenient to you and cast your vote as soon as possible.

What is the difference between a stockholder of record and a "street name" holder?

Most stockholders hold their shares through a bank, broker or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned in street name.

- Stockholder of Record. If your shares are registered directly in your name with the American Stock Transfer & Trust Company, our transfer agent, you are considered, with respect to those shares, to be the stockholder of record, and you have the right to grant your voting proxy directly or to vote in person at our Annual Meeting.
- Street Name Stockholder. If your shares are held by a bank, broker or other nominee, you are considered the beneficial owner of shares held in "street name." As the beneficial owner, you have the right to direct your bank, broker or other nominee how to vote your shares and are also invited to attend our Annual Meeting. However, since you are not the stockholder of record, you may not vote these shares in person at our Annual Meeting unless you obtain a legal proxy from the record holder prior to attending our Annual Meeting giving you the right to vote the shares. In order to vote your shares, you will need to follow the directions your bank, broker or other nominee provides to you.

How do I vote my shares?

Stockholders of Record. Stockholders of record may vote their shares or submit a proxy to have their shares voted by one of the following methods:

- By Mail. To vote by proxy by mail, you should mark, sign, date and mail the enclosed proxy card in the prepaid envelope provided. The shares you own will be voted according to the instructions on the proxy card that you provide. 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 each of the Class III director nominees and FOR the other proposals described in this Proxy Statement.
- In Person. If you attend our Annual Meeting, you may vote by delivering your completed proxy card in person or by completing a ballot, which will be available at our Annual Meeting. Attending our Annual Meeting without delivering your completed proxy card or completing a ballot will not count as a vote. Submitting a proxy prior to our Annual Meeting will not prevent you from attending our Annual Meeting and voting in person.

Street Name Stockholder. Street name stockholders may generally vote their shares or submit a proxy to have their shares voted by one of the following methods:

- By Mail. You may indicate your vote by completing, signing and dating your voting instruction card or other information forwarded by your bank, broker or other nominee and returning it to such party in the manner specified in such materials.
- By Methods Listed on Voting Instruction Form. Please refer to your voting instruction form or other information forwarded by your bank, broker or other nominee to determine whether you may submit a proxy by telephone or electronically on the Internet, following the instructions on the voting instruction form or other information provided by the record holder.
- In Person with a Proxy from the Record Holder. You may vote in person at our Annual Meeting if you obtain a legal proxy from your bank, broker or other nominee. Please consult the voting instruction form or other information sent to you by the record holder to determine how to obtain a legal proxy in order to vote in person at our Annual Meeting.

Can I revoke my proxy?

Yes, if you are a stockholder of record, you can revoke your proxy at any time before it is exercised by:

- submitting written notice of revocation to our principal executive offices, which are located at 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056, Attn: Corporate Secretary no later than May 20, 2014;
- submitting a later dated proxy with new voting instructions by mail; or
- attending our Annual Meeting and voting your shares in person.

If you are a street name stockholder and you vote by proxy, you may change your vote by submitting new voting instructions to your bank, broker or other nominee in accordance with such entity's procedures.

What is the effect of broker non-votes and what vote is required to approve each proposal?
If you hold your shares in "street name," you will receive instructions from your bank, broker or other nominee describing how to vote your shares. If you do not instruct your bank, broker or other nominee how to vote your shares, they may vote your shares as they decide as to each matter for which they have discretionary authority under the rules of the New York Stock Exchange (the "NYSE").
There are also non-discretionary matters for which banks, brokers and other nominees do not have discretionary authority to vote unless they receive timely instructions from you. When a bank, broker or other nominee does not have discretion to vote on a particular matter and you have not given timely instructions on how the bank, broker or other nominee should vote your shares, a "broker non-vote" results. Although any broker non-vote would be counted as present at the meeting for purposes of determining a quorum, it would be treated as not entitled to vote with respect to non-discretionary matters.
Abstentions occur when stockholders are present at our Annual Meeting but fail to vote or voluntarily withhold their vote for any of the matters upon which the stockholders are voting. Abstentions will have no effect on the election of directors but will have the effect of a vote against the other proposals being considered at the meeting.
If your shares are held in street name and you do not give voting instructions, pursuant to NYSE Rule 452, the record holder will not be permitted to vote your shares with respect to Proposal 1 (Election of Class III Directors) or Proposal 2 (Advisory Vote to Approve Named Executive Officer Compensation), and your shares will be considered "broker non-votes" with respect to these proposals. If your shares are held in street name and you do not give voting instructions, the record holder will nevertheless be entitled to vote your shares with respect to Proposal 3 (Ratification of the Appointment of Grant Thornton LLP) in the discretion of the record holder.

- Proposal 1 (Election of Class III Directors): To be elected, each director nominee must receive the affirmative vote of a plurality of the votes of the shares of Common Stock present in person or represented by proxy at our Annual Meeting and entitled to vote on the proposal. This means that the director nominees with the most votes will be elected. Votes may be cast in favor of or withheld from the election of each nominee. Votes that are withheld from a director's election will be counted toward a quorum, but will not affect the outcome of the vote on the election of a director. Broker non-votes will have no effect on the outcome of the vote for directors.
- Proposal 2 (Advisory Vote to Approve Named Officer Executive Compensation): Approval of this proposal requires the affirmative vote of the holders of at least a majority of the outstanding shares of Common Stock present in person or represented by proxy at our Annual Meeting and entitled to vote on the proposal. Abstentions will be counted in determining the total number of shares "entitled to vote" on this proposal and will have the same effect as a vote "Against" this proposal. Broker non-votes will have no effect on the outcome of the vote on this proposal. While this vote is required by law, it will neither be binding on us, our Board or our Compensation Committee, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, us, our Board or our Compensation Committee. However, our Compensation Committee will take into account the outcome of the vote when considering future executive compensation decisions.
- Proposal 3 (Ratification of the Appointment of Grant Thornton LLP): Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014 requires the affirmative vote of the holders of at least a majority of the outstanding shares of Common Stock present in person or represented by proxy at our Annual Meeting and entitled to vote on the proposal. Abstentions will be counted in determining the total number of shares "entitled to vote" on this proposal and will have the same effect as a vote "Against" this proposal.

Our Board has appointed Melvin C. Payne, our Chief Executive Officer and Chairman of the Board, and L. William Heiligbrodt, our Executive Vice President and Secretary, as the management proxy holders for our Annual Meeting. For stockholders who have their shares voted by duly submitting a proxy by mail, or in person at our Annual Meeting, the management proxy holders will vote all shares represented by such valid proxies as our Board recommends, unless a stockholder appropriately specifies otherwise.
Our Board recommends that you vote:

- FOR the election of the two Class III director nominees;
- FOR the approval, on an advisory basis, of our named executive officer compensation; and

- FOR the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014.

What is a quorum?

A quorum is the presence at our Annual Meeting, in person or by proxy, of the holders of a majority of the outstanding shares of our Common Stock entitled to vote on a matter at our Annual Meeting. There must be a quorum for our Annual Meeting to be held. If a quorum is not present, our Annual Meeting may be adjourned or postponed from time to time until a quorum is reached. Proxies received but marked as abstentions or broker non-votes will be included in the calculation of votes considered to be present at our Annual Meeting.

Who will bear the cost of soliciting votes for our Annual Meeting?

We will bear the entire cost of soliciting proxies, including the cost of the preparation, assembly, printing and mailing of this Proxy Statement, the proxy card and any additional information furnished to our stockholders in connection with our Annual Meeting. In addition to this solicitation by mail, certain directors, officers and employees may also solicit proxies on our behalf by use of mail, telephone, facsimile, electronic means, in person or otherwise. These persons will not receive any additional compensation for assisting in the solicitation but may be reimbursed for reasonable out-of-pocket expenses in connection with the solicitation. We reimburse banks, brokers, custodians, nominees and fiduciaries for their reasonable charges and expenses to forward our proxy materials to the beneficial owners of our Common Stock.

Where can I find the voting results?

We will report the voting results in a Current Report on Form 8-K with the U.S. Securities and Exchange Commission (the “SEC”) within four business days of our Annual Meeting.

May I propose actions for consideration at next year’s annual meeting or nominate individuals to serve as directors?

You may submit proposals for consideration at future annual meetings. See “Stockholder Proposals for the 2015 Annual Meeting” for information regarding the submission of stockholder proposals at next year’s annual meeting.

How do I get directions to the Annual Meeting?

For directions to the Annual Meeting, please contact our Corporate Secretary at (713) 332-8400.

CORPORATE GOVERNANCE

General

We are committed to integrity, reliability and transparency in our disclosures to the public. To evidence this commitment, our Board has adopted charters for its committees, Corporate Governance Guidelines and a Code of Business Conduct and Ethics. These documents provide the framework for our corporate governance. A complete copy of the current version of each of these documents is accessible through our website at www.carriageservices.com or you may receive copies free of charge by writing to us at Carriage Services, Inc., 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056, Attn: Investor Relations. Our Board regularly reviews corporate governance developments and modifies our governance documents as it deems appropriate.

Independence

Our Corporate Governance Guidelines require that our Board composition comply with the NYSE listing standards, including the requirement that a majority of our Board consist of independent directors. Our Board has affirmatively determined that Messrs. Fingerhut, Patteson and Scott do not have a material relationship with Carriage and, therefore, are "independent" as defined under the NYSE's listing standards.

Mr. Payne is not independent because he is an employee of the Company and currently serves as the Chief Executive Officer and Chairman of our Board. Mr. DeCarlo is not independent because he is an employee of the Company and currently serves as President and Vice Chairman of our Board. Mr. Heiligbrodt is not independent because he is an employee of the Company and currently serves as our Executive Vice President and Secretary.

Board Leadership Structure and Executive Sessions

On March 3, 2014, L. William Heiligbrodt resigned from the Board. Mr. Heiligbrodt has served as the Vice Chairman of the Board, Executive Vice President and Secretary of the Company since September 2011 and served as a non-employee director of the Company from February 2009 to September 2011. Mr. Heiligbrodt will continue to serve as the Executive Vice President and Secretary of the Company. David J. DeCarlo was appointed Vice Chairman of the Board and President of the Company effective March 3, 2014. Mr. DeCarlo has served as a non-employee director of the Company since September 2011.

Our Board adheres to a flexible approach on the question of whether to separate or combine the roles of Chairman and Chief Executive Officer. Our Board believes that these are matters that should be discussed and determined by our Board from time to time and that they depend upon the current performance of Carriage and the experience, knowledge and temperament of our Chief Executive Officer. Currently, our Board has combined the roles of Chairman and Chief Executive Officer in Mr. Payne. Our Board currently is of the view that it is in the best interest of Carriage and its stockholders for our Chief Executive Officer also to serve as the Chairman of our Board. Our Board believes this arrangement permits a clear, unified strategic vision for Carriage that ensures alignment between our Board and management, provides clear leadership for Carriage and helps ensure accountability for our performance.

Our Board's goal is to achieve the optimal model for effective oversight of our management. It believes that there is no single, generally accepted approach to providing Board leadership, and that each of the possible leadership structures for a board must be considered in the context of the individuals involved and the specific circumstances facing a company. Accordingly, given the dynamic and competitive environment in which Carriage operates, the right Board leadership structure may vary as circumstances warrant.

Our Board believes that its current leadership structure provides independent Board leadership and engagement while deriving the benefit of having our Chief Executive Officer also serve as Chairman of our Board. As the individual with primary responsibility for managing our day-to-day operations and with in-depth knowledge and understanding of Carriage, our Board believes that Mr. Payne is best positioned to lead our Board through reviews of key business and strategic issues. Having an independent Lead Director (as discussed in more detail below) provides independent oversight of management, including risk oversight, while avoiding the risk of confusion regarding our Board's oversight responsibilities and the day-to-day management of business operations.

Our corporate governance practices have provided balance and accountability to the unified role of Chairman and Chief Executive Officer. This is evidenced by a majority of experienced, independent directors, including a Lead Director with responsibilities on behalf of the independent directors, key Board committees comprised entirely of independent directors, and strong and effective governance principles.

In accordance with our Corporate Governance Guidelines, our independent 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 our Corporate Governance Guidelines, our Board established the position of Lead Director, who is required to be qualified as independent and appointed by a majority of the independent directors. The Lead Director's role is to facilitate the functioning of our Board independently of management and to enhance the quality of our Board's governance. The Lead Director presides at the executive sessions of the independent directors. David J. DeCarlo was our Lead Director in 2013 through March 3, 2014. Richard W. Scott currently serves as our Lead Director.

Board's Oversight of Risk

Our Board is responsible for overseeing our company's management of risk. Our Board strives to effectively oversee our company's enterprise-wide risk management in a way that balances managing risks while enhancing the long-term value of our company for the benefit of our stockholders. Our Board understands that its focus on effective risk oversight is critical to setting Carriage's tone and culture towards effective risk management. To administer its oversight function, our Board seeks to understand Carriage's risk philosophy by having discussions with management to establish a mutual understanding of Carriage's overall appetite for risk. Our Board maintains an active dialogue with management about existing risk management processes and how management identifies, assesses and manages our most significant risk exposures. Our Board expects frequent updates from management about Carriage's most significant risks so as to enable it to evaluate whether management is responding appropriately.

Our Board relies on each of its committees to help oversee the risk management responsibilities relating to the functions performed by such committees. Our Audit Committee periodically discusses with management Carriage's major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies. Our Compensation Committee helps our Board to identify our exposure to any risks potentially created by our compensation programs and practices. (For additional information about the relationship of our compensation policies and practices to risk management, please see "Executive Compensation Policies and Practices as they Relate to Our Risk Management.") Our Corporate Governance Committee oversees risks relating to our corporate compliance programs and assists our Board and management in promoting an organizational culture that encourages commitment to ethical conduct and a commitment to compliance with the law. Each of these committees is required to make regular reports of its actions and any recommendations to our Board, including recommendations to assist our Board with its overall risk oversight function. During each regularly scheduled Board meeting each year, the full Board also reviews our company's long-term strategic plans for a particular division and the principal issues, including foreseeable risks that division expects to face in the future.

We believe that the oversight function of our Board and its committees combined with its active dialogue with management about effective risk management provides our company with the appropriate framework to help ensure effective risk oversight.

Director Nomination Process

Our Corporate Governance Committee is responsible for reviewing the requisite skills and characteristics of new Board members as well as the composition of our Board as a whole. Nominees for directorship are selected by our Corporate Governance Committee in accordance with the policies and principles in the charter of our Corporate Governance Committee, a copy of which is available free of charge on our website at www.carriageservices.com. Our Corporate Governance Committee believes that the minimum qualifications for serving as a director are that a nominee demonstrates an ability to make a meaningful contribution to our Board's oversight of our business and affairs and has 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 our Board, as well as other relevant factors such as conflicts of interest and other commitments, would enhance our 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 two 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. Although we do not have a formal policy on board diversity, when considering board candidates, our Corporate Governance Committee strives to achieve a balance of knowledge, experience, and perspective such that our Board reflects a diversity of backgrounds and experiences.

Our Corporate Governance Committee identifies candidates by asking our current directors and executive officers to notify our Corporate Governance Committee if they become aware of individuals who meet the criteria described above. Our Corporate Governance Committee also has the authority to engage firms that specialize in identifying director candidates. Our Corporate Governance Committee will also consider candidates recommended by stockholders in the same manner in which our Corporate Governance Committee considers candidates identified by the committee. A stockholder may recommend nominees for director by giving our Corporate Secretary a written notice not less than 90 days prior to the anniversary date of the immediately preceding annual meeting. For our 2015 Annual Meeting of Stockholders, the deadline will be February 20, 2015, based upon this year's meeting occurring on May 21st. The notice must include the name and address of the stockholder giving notice and the number of shares of Common Stock beneficially owned by the stockholder. The notice must also include the full name, age, business 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 Regulation 14A of the Securities Exchange Act of 1934 (the “Exchange Act”), and the nominee's written consent to the nomination and to serve, if elected. Please see “Stockholder Proposals for the 2014 Annual Meeting.”

Once our Corporate Governance Committee has identified a potential candidate, it collects and reviews available information regarding the individual, and if our Corporate Governance Committee determines that the candidate warrants further consideration, our Corporate Governance Committee Chair, or another Committee member, will contact the person. Generally, if the individual expresses a willingness to be considered for election to our Board, our Corporate Governance Committee will request information from the candidate, review the individual’s qualifications, and conduct one or more interviews with the candidate. When our Corporate Governance Committee has completed this process, it tenders its recommendation to our full Board for consideration.

No third party search firm was engaged in 2013.

Board’s Interaction with Stockholders

Our Chief Executive Officer and other corporate officers are responsible for establishing effective communication 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 and other interested parties may contact any member of our Board or any of its committees via U.S. mail, by addressing any correspondence to our Board, the applicable committee, the independent 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 independent directors, our Corporate Secretary will send appropriate stockholder communications to the Lead Director. In the case of communications addressed to a committee of our Board, our Corporate Secretary will send appropriate stockholder communications to the Chairman of such committee.

Annual Evaluations; Succession Planning

We have an annual process for our Board and each committee to perform self-evaluations. These are conducted through written questionnaires compiled on a confidential basis by the Chairman of our Corporate Governance Committee with summary results presented to our full Board annually. In addition, our Compensation Committee performs an annual evaluation of our Chief Executive Officer’s performance.

As part of our long-range planning, our Corporate Governance Committee is charged with evaluating the succession of our Chief Executive Officer, both in the event of an 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 deathcare 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 our assets. We do not presently believe that there will be any occasion requiring any changes in or waivers under the code, for the benefit of our senior financial officers, 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. A copy of our Code of Business Conduct and Ethics is available free of charge on our website at www.carriageservices.com.

Organization and Committees of Our Board

During 2013, our Board met four times and acted by unanimous written consent ten additional times. Each of the directors attended all of the meetings of our Board. During 2013, our Board had, and appointed the members of, Compensation, Audit, Corporate Governance and Executive Committees, identified in the table below. The functions of each committee, and the number of meetings held during 2013, are described below. Refer to the "Recent Events" in this section below for changes and status of Committees as of the Record Date.

Director	Compensation	Audit	Corporate Governance	Executive
Melvin C. Payne(*)				X
L. William Heiligbrodt(**)				Chairman
David J. DeCarlo(I) (***)	Chairman	X	X	X
Barry K. Fingerhut(I)	X	X	X	
Donald D. Patteson, Jr.(I)	X	Chairman	X	
Richard W. Scott(I)	X	X	Chairman	

(*) Chairman of our Board, Chief Executive Officer and Director.
(**) Vice Chairman, Executive Vice President, Secretary and Director.
(***) On March 6, 2013, David J. Decarlo was appointed as the Chairman of the Executive Committee by the Board.
(I) Independent Director.

Compensation Committee. Pursuant to the charter of our Compensation Committee, the purposes of our Compensation Committee are to:

- review, evaluate and approve our officer compensation plans, policies and programs;
- recommend to our Board director compensation plans, policies and programs;
- produce the Compensation Committee Report on executive compensation for inclusion in our proxy statement for our annual meeting of stockholders;
- otherwise discharge our Board’s responsibilities relating to compensation of our officers and directors, including approval of grants to officers and employees under our stock incentive plans; and
- perform such other functions as our Board may assign from time to time.

In connection with these purposes, our Board has charged our Compensation Committee with the overall responsibility for establishing, implementing and monitoring the compensation for our executive officers. In general, executive compensation matters are presented to our Compensation Committee or raised with our Compensation Committee in one of the following ways: (1) at the request of our Compensation Committee Chairman or two or more members of the Compensation Committee or two members of our Board, (2) in accordance with our Compensation Committee’s agenda, which is reviewed by our Compensation Committee members and other directors on an annual basis, (3) by our Chief Executive Officer or (4) by our Compensation Committee’s outside compensation consultant, if a consultant is engaged by our Compensation Committee.

Our Compensation Committee makes all final decisions regarding executive officer compensation. Mr. Payne’s role as our Chairman of the Board and Chief Executive Officer in determining executive compensation is to make recommendations on compensation decisions for those other than himself based on the individual performance of each executive officer and our overall performance. Management’s role in determining executive compensation includes:

- developing, summarizing and presenting information and analysis to enable our Compensation Committee to execute its responsibilities, as well as addressing specific requests for information from our Compensation Committee;
- attending our Compensation Committee’s meetings as requested in order to provide information, respond to questions and otherwise assist our Compensation Committee;
- developing individual executive officer bonus plans for consideration by our Compensation Committee and reporting to our Compensation Committee regarding achievement against the bonus plans; and

- preparing stock award recommendations for our Compensation Committee’s approval.

Pursuant to its charter, our Compensation Committee has authority to, in its sole discretion, to retain and determine funding for independent legal counsel, as well as other experts and advisors, including the authority to retain, approve the fees

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payable to, amend the engagement with and terminate any compensation consultant to be used in the evaluation of the compensation of our executive officers and directors as it deems necessary or appropriate to fulfill its responsibilities. In connection with its 2013 engagement of Pearl Meyer & Partners, LLC., the Compensation Committee assessed the independence of Pearl Meyer & Partners, LLC. pursuant to applicable SEC and NYSE rules and concluded that Pearl Meyer & Partners, LLC.'s work for the Compensation Committee does not raise any conflict of interest.

To the extent permitted by applicable law, our Compensation Committee may delegate some or all of its authority under its charter to its chairman, any one of its members or any subcommittees it may form when it deems such action appropriate.

In 2013, our Compensation Committee met four times and acted by unanimous written consent five additional times. Each member of our Compensation Committee was present at all meetings. Our Compensation Committee is governed by the Compensation Committee Charter, which is available free of charge on our website at www.carriageservices.com.

All members of our Compensation Committee meet the heightened standards of independence with respect to compensation committee members in the NYSE's listing standards and applicable SEC rules.

Audit Committee. Pursuant to the charter of our Audit Committee, the purposes of our Audit Committee are to:

- assist our Board in fulfilling its oversight responsibilities regarding the:
  - integrity of our financial statements;
  - qualifications and independence of the independent registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other review or attestation services for Carriage;
  - performance of our internal audit function and independent auditors;
  - compliance by Carriage with legal and regulatory requirements;
- annually prepare the Audit Committee Report for inclusion in our proxy statement for our annual meeting of stockholders; and
- perform such other functions as our Board may assign to our Audit Committee from time to time.

In connection with these purposes, our Audit Committee annually selects, engages and evaluates the performance and ongoing qualifications of, and determines the compensation for, our independent registered public accounting firm, reviews our annual and quarterly financial statements and confirms the independence of our independent registered public accounting firm. Our Audit Committee also meets with our management and external registered public accounting firm regarding the adequacy of our financial controls and our compliance with legal, tax and regulatory matters and significant internal policies. While our Audit Committee has the responsibilities and powers set forth in its charter, it is not the duty of our Audit Committee to plan or conduct audits, to determine that our financial statements are complete and accurate or to determine that such statements are in accordance with accounting principles generally accepted in the United States and other applicable rules and regulations. Our management is responsible for the preparation of our financial statements in accordance with accounting principles generally accepted in the United States and our internal controls. Our independent registered public accounting firm is responsible for the audit work on our financial statements. It is also not the duty of our Audit Committee to conduct investigations or to assure compliance with laws and regulations and our policies and procedures. Our management is responsible for compliance with laws and regulations and compliance with our policies and procedures.

Our Audit Committee met six times during 2013. Each member of our Audit Committee was present at all meetings. See "Audit Committee Report" below for additional information regarding our Audit Committee. Our Audit Committee is governed by the Audit Committee Charter, which is available free of charge on our website at www.carriageservices.com.

All members of our Audit Committee are independent as that term is defined in the NYSE's listing standards and by Rule 10A-3 promulgated under the Exchange Act. Our Board has determined that each member of our Audit Committee is financially literate and that Mr. Patteson has the necessary accounting and financial expertise to serve as Chairman. Our Board has also determined that Mr. Patteson is an "audit committee financial expert" following a determination that he met the criteria for such designation under the SEC's rules and regulations. For information regarding Mr. Patteson's business experience, please read "Proposal No. 1: Election of Directors."

Corporate Governance Committee. Pursuant to the charter of our Corporate Governance Committee, the purposes of our Corporate Governance Committee are to:

- assist our Board by identifying individuals qualified to become Board members, and to recommend to our Board the director nominees for the next annual meeting of stockholders;

- recommend to our Board the Corporate Governance Guidelines applicable to Carriage;
- lead our Board in its annual review of the performance of our Board and its committees and of our senior management;
- recommend to our Board director nominees for each committee; and
- perform such other functions as our Board may assign to our Corporate Governance Committee from time to time.

Our Corporate Governance Committee met once in 2013 and acted by unanimous written consent two additional times. All committee members were present at such meeting.

Executive Committee. Our Executive Committee acts on behalf of our Board in between meetings of our Board, assures coordination of activity among the various committees of our Board, and serves as a sounding board for the Chairman of the Board in the overall management of the business and affairs of Carriage. Our Executive Committee met two times in 2013 and acted by unanimous written consent four additional times. All committee members were present at each meeting except Melvin C. Payne was not present for the meeting held on September 12, 2013. As discussed in "Recent Events" in this section below, the Executive Committee was dissolved as of March 3, 2014. Due to the relatively small size of our Board, the need for an Executive Committee as a liaison to the Board was deemed unnecessary.

Attendance at Annual Stockholder Meetings

Each of our directors is expected to devote sufficient time and attention to his duties and to attend all Board, committee and stockholders' meetings. Although we do not have a formal policy requiring them to do so, we encourage our directors to attend the annual meeting of stockholders and expect that they will do so. All of our then current directors attended the 2013 Annual Meeting of Stockholders.

Recent Events

On March 3, 2014, David J. DeCarlo joined our executive leadership team as President and Vice Chairman of the Board. Mr. DeCarlo will lead Strategic and Corporate Development, Supply and Project Development and Operations Support including Information Technology and Human Resources. L. William Heiligbrodt is now our Executive Vice President and Secretary and has resigned from the Board. Mr. Heiligbrodt will lead Treasury and Finance, Accounting and Reporting, Legal and Investor Relations. Additionally, the Executive Committee was dissolved as of March 3, 2014. Due to the relatively small size of our Board, the need for an Executive Committee as a liaison to the Board was deemed unnecessary.

The current members of each committee as of the Record Date are identified in the following table:

Director	Compensation	Audit	Corporate Governance
Melvin C. Payne(*)			
David J. DeCarlo(**)			
Barry K. Fingerhut(I)	X	X	Chairman
Donald D. Patteson, Jr.(I)	X	Chairman	X
Richard W. Scott(I)	Chairman	X	X

(*) Chairman of our Board, Chief Executive Officer and Director.

(**) Vice Chairman, President and Director.

(I) Independent Director.

DIRECTOR COMPENSATION

General

We compensate our directors through cash payments, including retainers and meeting attendance fees, and through stock-based awards. Our Director Compensation Policy provides that any new director will receive, upon appointment to our Board, a grant of $100,000 in shares of our Common Stock. Common Stock grants are issued under our Second Amended and Restated 2006 Long-Term Incentive Plan.

Our Director Compensation Policy provides for the following cash payments, including retainers and meeting attendance fees, and stock-based awards: (a) the chairman of our Audit Committee is entitled to a retainer of $17,500 and the chairman of each of the Compensation, Corporate Governance and Executive Committees is entitled to an annual cash retainer of $15,000; (b) the Lead Director of our Board is entitled to an annual cash retainer of $115,000; and (c) each independent director of our Board is entitled to an annual cash retainer of $40,000 paid on a quarterly basis and an annual equity retainer of $75,000 payable in shares of Common Stock. Additionally, each independent director is entitled to $2,000 for each regular or special meeting of the full Board, our Audit Committee and the Executive Committee attended in person or by phone. Members of the other committees and their chairmen receive $1,600 for each committee meeting held in person or by phone that such director attends.

In addition to the annual compensation paid to our Directors, as described above, in August 2012, the Compensation Committee granted special performance-based stock awards (“PBS Awards”) to each of our outside directors along with the Named Executive Officers and certain other employees. The PBS Awards were intended to further align the interests of these directors with the interests of our stockholders by rewarding them for their contributions toward transforming Carriage from a “good” deathcare operating and consolidation company to a “great” high-performance service and sales company. To the extent vested, each PBS Award represented the right to receive a specified number of shares of our Common Stock, subject to the grantee's payment, with respect to each share of Common Stock subject to such PBS Award, of an amount equal to the greater of (a) the then-current market price per share of our Common Stock on the date such PBS Award was granted plus $0.50 or (b) $9.00. Each PBS Award would have vested if on or before the fifth anniversary of the applicable grant date, the closing price of our Common Stock was greater than or equal to $21.50 on any three days, whether or not consecutive, within a period of 30 consecutive calendar days, subject to the grantee's continuous employment or service relationship with us through such date (the “Price Vesting Date”). However, if the Price Vesting Date occurred prior to the first anniversary of the grant date, then each PBS

Award would not vest until the first anniversary of such grant date, subject to the grantee's continued employment or service relationship with us through the first anniversary of the applicable grant date.

During 2014, our outside Directors received the following cash out payments with respect to the termination of their Awards:

Name	PBS Award Size (in shares)	Cash Out Payment[1]
David J. DeCarlo	80,000	$800,000
Barry K. Fingerhut	80,000	$800,000
Donald D. Patteson, Jr.	80,000	$800,000
Richard W. Scott	80,000	$800,000

(1) On January 3, 2014, the Company offered its employees (including its Named Executive Officers) and directors who held outstanding PBS Awards an opportunity to surrender their PBS Awards to the Company in exchange for cash payments equal to the product of (i) the difference between (x) $19.00 and (y) the applicable purchase price under their PBS Awards and (ii) the number of shares of the Company's common stock subject to their PBS Awards (the "Cash Out Payments"). All outstanding PBS Awards have been surrendered to the Company and canceled. All holders of these PBS Awards surrendered their shares in exchange for cash out payments of approximately $16.1 million of which $3.2 million was paid to our Directors, or $10.00 per PBS Award.

Under our Director Compensation Policy, the annual cash retainers for each committee chairman and the annual equity retainer are paid on the date of our annual meeting of stockholders.

2013 Director Compensation Table

Name	Fees Earned or Paid in Cash	Stock Awards	Total
David J. DeCarlo[2]	$ 215,400	$ 75,000[1]	$290,400
Barry K. Fingerhut	$ 66,400	$ 75,000[1]	$141,400
Donald D. Patteson, Jr.	$ 83,900	$ 75,000[1]	$158,900
Richard W. Scott	$ 81,400	$ 75,000[1]	$156,400

(1) On May 22, 2013, Messrs. DeCarlo, Fingerhut, Patteson and Scott each received an annual equity grant of $75,000 in shares of fully-vested Common Stock, resulting in 4,482 shares granted to each individual, based upon a closing price of $16.73 on such date. Amounts reported with respect to these awards reflect the grant date fair value, calculated in accordance with FASB ASC Topic 718. As of December 31, 2013, Messrs. DeCarlo, Patteson and Scott had no shares of unvested restricted stock and 80,000 PBS Awards unvested and outstanding each, Mr. Fingerhut had 4,209 shares of restricted stock and 80,000 PBS Awards unvested and outstanding.

(2) On March 3, 2014, David J. DeCarlo joined our executive leadership team as President and Vice Chairman of the Board and will no longer receive payments and awards under our Director Compensation Policy.

PROPOSAL NO. 1:
ELECTION OF DIRECTORS

We currently have five directors on our Board who each serve staggered three-year terms. At our Annual Meeting, the stockholders will elect two individuals to serve as Class III directors for a new three-year term expiring on the date of the 2017 annual meeting and until the successors are duly elected and qualified.

Our Corporate Governance Committee has recommended that we nominate David J. DeCarlo for re-election and Donald D. Patteson, Jr. for election at our Annual Meeting to serve as Class III directors for a three-year term. Proxies may be voted for each of the Class III directors. The biography descriptions for Mr. DeCarlo and Mr. Patteson are included below.

Our Board unanimously recommends that you vote “FOR” the election of each of the Class III director nominees.

You may not cumulate your votes in the election of the Class III directors. You may withhold authority to vote for any of the nominees for director. If a nominee becomes unable to serve as a director before our Annual Meeting (or decides not to serve), the individuals named as proxies will vote, in accordance with instructions provided, FOR such other nominee as we may designate as a replacement or substitute, or our Board may reduce the size of the Board to eliminate the vacancy.

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

Name	Age	Positions and Officers with Carriage, Director Since
Continuing Class III Directors (If elected, term expires at 2017 Annual Meeting)		
David J. DeCarlo	68	Director, 2011; President and Vice Chairman, 2014
Donald D. Patteson, Jr.	68	Director, 2011
Class I Directors (Term expires at 2015 Annual Meeting)		
Melvin C. Payne	71	Chairman of the Board, Chief Executive Officer and Director, 1991
Richard W. Scott	60	Director, 2009
Class II Director (Term expiring at 2016 Annual Meeting)		
Barry K. Fingerhut	68	Director, 2012

On March 3, 2014, L. William Heiligbrodt resigned from the Board. Mr. Heiligbrodt, age 72, served as the Vice Chairman of the Board, Executive Vice President and Secretary of the Company since September 2011 and served as a non-employee director of the Company from February 2009 to September 2011. Mr. Heiligbrodt will continue to serve as the Executive Vice President and Secretary of the Company.

Our Board believes that each of our directors is highly qualified to serve as a member of our Board. Each of the directors has contributed to the mix of skills, core competencies and qualifications of our Board. Our directors are highly educated and have diverse backgrounds and talents and extensive track records of success in what we believe are relevant positions with reputable organizations. Our Board believes that through their varying backgrounds, our directors bring a wealth of experiences and new ideas to our Board.

Described below are the principal occupations, positions and directorships for at least the past five years of our directors and director nominees, as well as certain information regarding their individual experience, qualifications, attributes and skills that led our Board to conclude that they should serve on our Board. There are no family relationships among any of our directors or executive officers.

David J. DeCarlo became our President and Vice Chairman of the Board of Directors on March 3, 2014. From May 2011 to March 3, 2014, Mr. DeCarlo was an independent director of the Company. He has had more than 24 years of experience in the deathcare industry, having served as an executive officer in various roles for Matthews International Corporation (“Matthews”), a leading worldwide supplier of deathcare products, including serving as President of the Bronze Division and

Group President of the Memorialization Group. Mr. DeCarlo also served as a director of Matthews for 22 years. He retired from Matthews as Vice Chairman of the Board of Directors in 2008. Before joining Matthews in 1985, Mr. DeCarlo held diverse management and executive roles in finance, manufacturing, operations, sales, marketing and management and information systems at several Fortune 500 companies. Mr. DeCarlo has an MBA in Finance, a Masters of Arts in Economics and Statistics, and a Ph.D. in Applied Economics and Finance (all but dissertation) from the Wharton School of Finance and University of Pennsylvania, as well as a Bachelor of Science degree in Industrial Management from West Virginia University. Mr. DeCarlo was selected to serve on our Board as a result of his long history in the deathcare industry and experience in a multitude of executive roles in other industries, which makes him highly qualified to be a member of our Board.

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

Melvin C. Payne, a management founder of Carriage, has been our Chairman of the Board and Chief Executive Officer since December 1996. Mr. Payne has been a director and Chief Executive Officer of Carriage since our inception in 1991. Prior to co-founding Carriage, Mr. Payne spent 10 years in the private company turnaround business involving numerous industries. Prior to his turnaround career, Mr. Payne worked 10 years in the corporate lending business, initially with Prudential Insurance Company and later with Texas Commerce Bank in Houston. Mr. Payne was selected to serve on our Board because he is our Chief Executive Officer and our founder and has proven management skills. Mr. Payne's diverse industry and financial experience coupled with his personal leadership and founder's vision for Carriage makes him highly qualified to serve as Chairman of the Board.

Richard W. Scott was elected to our Board in 2009. Mr. Scott is a seasoned financial services executive with over 30 years of capital markets experience. Since January 2009, he has served as the Senior Vice President and Chief Investment Officer of Loews Corporation, a diversified holdings company, and from 2001 to 2008 he was a senior executive in Insurance Portfolio Management with AIG Investments, a global company engaged in asset management, including service as the Chief Investment Officer–Insurance Operations. His career has included extensive executive and professional responsibility for all aspects of fixed income and insurance portfolio management on both domestic and global platforms, as well as extensive experience as a mergers and acquisitions and capital markets attorney. Mr. Scott brings multidimensional experience to Carriage. He was selected to serve on our Board because of his extensive experience in merger and acquisition transaction analysis, investment management, capital markets strategy and financial performance measurement, all of which provide valuable insight to Carriage.

Barry K. Fingerhut was elected to our Board in March 2012. Mr. Fingerhut has been the Chief Executive Officer and majority equity owner of Certification Partners, LLC, a developer and global distributor of IT certification programs, since the fall of 2010. Prior to 2010, he focused much of his career on investing in small capitalization companies in the for-profit education and training, publishing, media, consumer services, hydrocarbon, investment and financial services industries. He served as President of GeoCapital, LLC from 1981 to 2004, following two years at First Manhattan Co. and four years as a Limited Partner, then as General Partner of Weiss, Peck & Greer. In 1992, he co-founded Wheatley Partners, a venture capital partnership, specializing in investments in new technologies and services. In 2004, he formed Fingerhut Management, a family and friends investment office in New York City. In 2009, he co-founded The Caregiver Institute, LLC, formed to address the enormous challenges of aiding the work of home caregivers in the United States. Mr. Fingerhut also served on our Board for the period from 1995 through 1999. Mr. Fingerhut was selected to serve on our Board due to his past experience with Carriage and his extensive investment knowledge. Our Board believes that this experience and knowledge makes him a highly qualified member of our Board.

PROPOSAL NO. 2:
ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and Section 14A of the Exchange Act require that we provide our stockholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our Named Executive Officers, as disclosed in this Proxy Statement in accordance with the compensation disclosure rules of the SEC.

At our 2013 Annual Meeting of Stockholders, which was held on May 22, 2013, our stockholders expressed their approval of our named executive officer compensation programs with 95% of all votes cast being in favor of approval of such programs. Our Compensation Committee and our Board were very appreciative of the positive vote. The strong stockholder support has reaffirmed our Compensation Committee's approach to executive compensation philosophy and programs. Accordingly, for 2014, our Compensation Committee has continued to administer similar reward programs and to demonstrate the same consistent pay philosophies that have been in place historically.

Our Compensation Committee and Board have determined to give stockholders the opportunity to approve, on an advisory basis, our named executive officer compensation on an annual basis. As such, the next such vote will occur in 2015.

As described in "Compensation Discussion and Analysis," our Compensation Committee has structured our named executive officer compensation programs to achieve the following key objectives:

- Pay competitive levels of salary and total compensation;
- Reward management for our strong performance and successful execution of our strategic operating models; and
- Align incentives with the long-term interests of our stockholders.

We urge our stockholders to read the "Compensation Discussion and Analysis" section of this Proxy Statement, which describes in more detail how our named executive officer compensation policies and programs operate and are designed to achieve our compensation objectives, as well as the Summary Compensation Table and other related compensation tables and narrative, appearing under "Executive Compensation," which provide detailed information on the compensation of our Named Executive Officers. Our Compensation Committee believes that the policies and programs articulated in the "Compensation Discussion and Analysis" section are effective in achieving our goals and that the compensation of our Named Executive Officers reported in this Proxy Statement has contributed to our recent and long-term success.

Accordingly, we are asking our stockholders to indicate their support for our named executive officer compensation as described in this Proxy Statement by voting "FOR" the following resolution:

"RESOLVED, that the stockholders approve, on an advisory basis, the compensation of Carriage's Named Executive Officers, as disclosed in the Proxy Statement for the 2014 Annual Meeting of Stockholders of Carriage pursuant to the compensation disclosure rules of the Securities and Exchange Commission (including, but not limited to, the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables, notes and narrative)."

This vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the philosophy, policies and practices described in this Proxy Statement. This vote is advisory, and therefore not binding on us, our Board or our Compensation Committee. Although the resolution is non-binding, our Board and our Compensation Committee value the opinions of our stockholders and will carefully consider the outcome of the advisory vote on named executive officer compensation when making future compensation decisions.

Our Board unanimously recommends that you vote "FOR" the advisory vote to approve named executive officer compensation, as disclosed in this Proxy Statement.

PROPOSAL NO. 3:
RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
General
The Audit Committee of the Company recently conducted a competitive process to select an audit firm to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014. The Company invited a number of firms to submit proposals, including KPMG LLP ("KPMG"), the Company's independent registered public accounting firm at that time. As a result of this process and after careful deliberation, on March 19, 2014, the Audit Committee approved the engagement of Grant Thornton LLP ("Grant Thornton") as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014, effective immediately, and thereby approved the dismissal of KPMG from that role.

The audit reports of KPMG on the Company's consolidated financial statements as of and for the fiscal years ended December 31, 2013 and 2012 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The audit reports of KPMG on the effectiveness of internal control over financial reporting as of December 31, 2013 and 2012 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.
During the fiscal years ended December 31, 2013 and 2012, and the subsequent interim period through March 19, 2014, there were no (i) "disagreements" (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K) between the Company and KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to KPMG's satisfaction, would have caused KPMG to make reference to the subject matter thereof in its reports for such fiscal years and interim period, or (ii) "reportable events" (as that term is described in Item 304(a)(1)(v) of Regulation S-K).
The Company furnished a copy of the above disclosures to KPMG and requested that KPMG provide a letter addressed to the SEC stating whether or not it agrees with the statements made above. A copy of such letter is filed as Exhibit 16.1 to the Company's Current Report on Form 8-K filed with the SEC on March 19, 2014.
During the fiscal years ended December 31, 2013 and 2012, and the subsequent interim period through March 19, 2014, neither the Company nor anyone on its behalf consulted with Grant Thornton regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and no written report or oral advice was provided to the Company that Grant Thornton concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue or (ii) any matter that was either the subject of a "disagreement" (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K); or a "reportable event" (as that term is described in Item 304(a)(1)(v) of Regulation S-K).
Representatives of Grant Thornton are expected to be present at our Annual Meeting, will have the opportunity to make a statement if they desire and will be available to respond to appropriate questions from stockholders. KPMG is not expected to be present at the annual meeting.
Although ratification is not required by Delaware law, our bylaws or otherwise, our Board is submitting our Audit Committee's appointment of Grant Thornton to our stockholders for ratification as a matter of good corporate practice. Even if the appointment is ratified, our Audit Committee in its discretion may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of us and our stockholders. If the appointment of Grant Thornton is not ratified, our Audit Committee will evaluate the basis for the stockholders' vote when determining whether to continue the firm's engagement.
Our Board unanimously recommends that you vote "FOR" the ratification of the appointment of Grant Thornton as our independent registered public accounting firm for the fiscal year ending December 31, 2014.

Audit and Other Fees

Fees billed to us by KPMG during 2013 and 2012 were as follows:

	Year Ended December 31,	
	2013	2012
Audit fees	$962,500	$898,200
Audit-related fees[1]	80,974	$10,782
Tax fees	—	—
All other fees	—	—
Total	$1,043,474	$908,982

(1) During 2013, services were performed by KPMG in relation to a potential debt offering as well as a Form S-8, which was not filed. During 2012, services were performed by KPMG in relation to a proposed accounting policy change.

Pre-Approval Policy for Services of Independent Registered Public Accounting Firm

As part of its duties, our Audit Committee is required to annually pre-approve audit and non-audit services performed by the independent registered public accounting firm in order to ensure that the provision of such services does not impair the audit firm's independence. If a type of service to be provided by the independent registered public accounting firm has not received pre-approval during this annual process, it will require specific pre-approval by our Audit Committee. Our Audit Committee does not delegate to management its responsibilities to pre-approve services performed by the independent auditors. All audit fees and audit-related fees for 2013 and 2012 were pre-approved by our Audit Committee.

AUDIT COMMITTEE REPORT

The Audit Committee (the “Audit Committee”) of the Board of Directors of Carriage Services, Inc. (“Carriage”) has reviewed and discussed the audited financial statements of Carriage for the fiscal year ended December 31, 2013 with Carriage management. The Audit Committee has discussed with KPMG LLP, Carriage's independent registered public accounting firm for the fiscal year ended December 31, 2013, the matters required to be discussed by Statement on Auditing Standards No. 16, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. Additionally, the Audit Committee has received the written disclosures and the letter from KPMG LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding KPMG LLP's communications with the Audit Committee concerning independence, and has discussed with KPMG LLP their independence.

Based on the Audit Committee's review and discussions with management and KPMG LLP referred to above, the Audit Committee recommended to the Board of Directors of Carriage that the audited consolidated financial statements be included in Carriage's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for filing with the Securities and Exchange Commission.

Audit Committee
Donald D. Patteson, Jr., Chairman
David J. DeCarlo, member through March 3, 2014
Barry K. Fingerhut
Richard W. Scott

SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS
AND CERTAIN BENEFICIAL OWNERS

Stock Ownership of Management

The following table sets forth, as of March 26, 2014, the number of shares beneficially owned and the percentage of the Common Stock held by: (1) each of our directors and director nominees, (2) our Principal Executive Officer and Principal Financial Officer, (3) our other executive officers named in the Summary Compensation Table set forth under "Executive Compensation," and (4) all our current executive officers and directors as a group. Under the rules of the SEC, on any day, 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 of such date through the exercise of currently available conversion rights or options. Except as otherwise stated in the notes to the table, each person named in the table below has sole voting and investment power with respect to the shares indicated.

Beneficial Owner	Common Stock	Stock Options[1]	Number of Shares Beneficially Owned	Percent of Common Stock	
Melvin C. Payne[2][3]	1,501,207	95,952	1,597,159	8.6	%
L. William Heiligbrodt[4][5]	346,541	33,333	379,874	2.1	%
George J. Klug[6]	161,853	64,238	226,091	1.2	%
David J. DeCarlo[7]	175,013	—	175,013	*	
Shawn R. Phillips	57,720	60,645	118,365	*	
Richard W. Scott[8]	101,581	—	101,581	*	
Mark R. Bruce	34,000	62,968	96,968	*	
Donald D. Patteson, Jr.	39,362	—	39,362	*	
Paul D. Elliott	18,660	10,000	28,660	*	
Barry K. Fingerhut	7,616	—	7,616	*	
All current directors and executive officers as a group (10 persons)	2,443,553	327,136	2,770,689	15.0	%

* Indicates less than 1%.

(1) The ownership of stock options shown in the table includes shares which may be acquired within 60 days upon the exercise of outstanding stock options granted under our stock option plans. For unexercisable stock options, see "Executive Compensation—Outstanding Equity Awards at Fiscal Year-End" in this Proxy Statement.

(2) Mr. Payne's holdings include 70,000 shares of Common Stock held by Mr. Payne's minor daughter and 3,518 shares of Common Stock held by Mr. Payne's spouse.

(3) Mr. Payne has pledged 810,909 shares of his common stock pursuant to a margin account which was opened in October 2012.

(4) Mr. Heiligbrodt's holdings include 94,627 shares of Common Stock held by the Agent for Corinne C. Heiligbrodt Separate Property.

(5) Mr. Heiligbrodt has pledged 154,389 shares of his common stock pursuant to a margin account which was opened in June 27, 2013.

(6) Mr. Klug retired effective August 9, 2013.

(7) Mr. DeCarlo's holdings include 60,329 shares of Common Stock held by the Peggy J. DeCarlo 2012 Irrevocable Trust.

(8) Mr. Scott's holdings include 1,000 shares of Common Stock held by Mr. Scott's minor daughter and son.

Stock Ownership of Certain Beneficial Owners

As of April 8, 2014, the persons named below were, to our knowledge, the only beneficial owners of more than 5% of our outstanding Common Stock, determined in accordance with Rule 13d-3 of the Exchange Act, other than directors and executive officers whose beneficial ownership is described in the above table.

Beneficial Owner	Number of Shares Beneficially Owned	Percent of Common Stock	
Zazove Associates, LLC(1) 1001 Tahoe Blvd. Incline Village, NV 89451	2,665,660	12.6	%
Keeley Asset Management Corp(2) 111 West Jackson, Suite 810 Chicago, IL 60604	1,878,216	10.2	%
FMR LLC(3) 82 Devonshire Street Boston, MA 02109	1,695,626	9.2	%
Dimensional Fund Advisors LP(4) Palisades West, Building One, 6300 Bee Cave Road Austin, TX 78746	1,504,021	8.1	%
Renaissance Technologies, LLC.(5) 800 Third Avenue New York, New York 10022	1,097,100	5.9	%
BlackRock, Inc.(6) 40 East 52nd Street New York, New York 10022	962,168	5.2	%

(1) Based solely on Schedule 13G/A filed with the SEC on January 9, 2014. Zazove Associates, LLC, Zazove Associates, Inc. and Gene T. Pretti have sole voting and dispositive power as to 2,665,660 shares, of which 2,610,614 shares are issuable upon the conversion of Carriage Services Capital Trust Preferred Securities. These Carriage Services Capital Trust Preferred Securities were redeemed as of March 13, 2014.

(2) Based solely on Schedule 13G filed with the SEC on April 4, 2014. Keeley Asset Management Corp. has sole voting power as to 1,801,726 shares and sole dispositive power as to 1,878,216 shares.

(3) Based solely on Schedule 13G/A filed with the SEC on February 14, 2014. FMR LLC has sole voting power as to 325,832 shares and sole dispositive power as to 1,695,626 shares.

(4) Based solely on Schedule 13G/A filed with the SEC on February 10, 2014. Dimensional Fund Advisors LP has sole voting power as to 1,469,263 shares and sole dispositive power as to 1,504,021 shares.

(5) Based solely on Schedule 13G filed with the SEC on February 13, 2014. Renaissance Technologies, LLC has sole voting power as to 1,061,400 shares and sole dispositive power as to 1,097,100 shares.

(6) Based solely on Schedule 13G/A filed with the SEC on January 28, 2014. BlackRock, Inc. has sole voting power as to 946,062 shares and sole dispositive power as to 962,168 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

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

To our knowledge, based solely on our review of the copies of such reports furnished to us or written representations from reporting persons, we believe that all filings required to made under Section 16(a) of the Exchange Act were timely made for the fiscal year ended December 31, 2013, except for the following: Mr. Klug's Form 4 for common shares withheld to cover taxes associated with the accelerated vesting of shares of restricted stock on August 9, 2013 was filed on August 21, 2013.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information regarding securities authorized for issuance under our equity compensation plans as of December 31, 2013:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	766,459	$13.03	680,411
Equity compensation plans not approved by security holders	—	—	—
Total	766,459	$13.03	680,411

EXECUTIVE MANAGEMENT

The following table sets forth the name, age and title of our executive officers as of the date of this Proxy Statement. Our executive officers serve at the discretion of our Board. There are no family relationships between any of our directors and executive officers. In addition, there are no arrangements or understandings between any of our executive officers and any other person pursuant to which any person was selected as an executive officer.

Name	Age	Title
Melvin C. Payne	71	Chairman of the Board, Chief Executive Officer and Director
David J. DeCarlo	68	President and Vice Chairman of the Board
L. William Heiligbrodt	72	Executive Vice President and Secretary
Mark R. Bruce	47	Regional Partner - East
Paul D. Elliott	52	Regional Partner - West
Shawn R. Phillips	50	Regional Partner - Central

The biographical information for Messrs. Payne and DeCarlo is located under “Proposal No. 1: Election of Directors.”

L. William Heiligbrodt has been our Executive Vice President and Secretary since March 2014. From September 2011 to March 3, 2014, Mr. Heiligbrodt was our Vice Chairman, Executive Vice President and Secretary of the Board. Mr. Heiligbrodt was an independent director of Carriage from February 2009 to September 2011. From February 2003 until his appointment on our Board, Mr. Heiligbrodt was a private investor and managing partner in a family business. From February 1999 to February 2003, he served as a consultant to Service Corporation International (“SCI”), a funeral services corporation. Mr. Heiligbrodt was the President and Chief Operating Officer of SCI until February 1999, and, prior to holding such positions, served in various management positions with SCI beginning in February 1990. Prior to joining SCI, Mr. Heiligbrodt served as President of Provident Services, Inc. from March 1988 to February 1990. Prior to that, he served for five years as Vice Chairman and Chief Executive Officer of WEDGE Group Incorporated. Before WEDGE Group Incorporated, Mr. Heiligbrodt served as Chairman of Texas Commerce Bank, Houston and Vice Chairman of Texas Commerce Bancshares, Inc. and as a director of both companies.

Mark R. Bruce has been with Carriage since May 2005 and has served as our Regional Partner-East since November 2010. Prior to his appointment as Regional Partner-East, Mr. Bruce served as our Director of Sales Support, Director of Support, Director of Training and Development and Regional Partner-Central. Prior to joining Carriage, Mr. Bruce served for 12 years in various sales and operational leadership roles with other public funeral and cemetery service companies. Mr. Bruce has a BA in International Studies from The American University and an MBA from Northern

Illinois University.

Paul D. Elliott joined Carriage in September 2012 as our Regional Partner-West. Prior to joining Carriage, Mr. Elliott was Managing Director for SCI. From February 1995 to August 2012, Mr. Elliott held various management roles in sales, corporate and operations with SCI. From September 1984 to December 1994, Mr. Elliott was a partner in his family's funeral home in Kansas. Mr. Elliott is a graduate of the University of Kansas and the Dallas Institute of Funeral Service.

Shawn R. Phillips has been with Carriage since September 2007 and has served as our Regional Partner-Central since June 2011 and our Regional Partner-West from 2007 to 2011. Prior to joining Carriage, Mr. Phillips served from 1983 to 2007 in various leadership and operational roles with other public funeral service and cemetery companies. From 1979 to 1983, Mr. Phillips worked for an independent funeral operator. Mr. Phillips is a licensed Funeral Director and Embalmer.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis provides information regarding the executive compensation program for our principal executive officer, our principal financial officer, our three other most highly-compensated executive officers for our last completed fiscal year and one executive officer who would have been one of our three other highly-compensated executive officers for our last completed fiscal year, but whose employment terminated in 2013. (together, our "Named Executive Officers"), and is intended to place in perspective the information contained in the executive compensation tables that follow this discussion.

The following individuals were our Named Executive Officers for the fiscal year ended December 31, 2013:

Name	Position