CARRIAGE SERVICES INC
Form DEF 14A
April 20, 2004

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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 ý

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Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o 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):

ý No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

CARRIAGE SERVICES, INC.

1900 St. James Place, 4^{th} Floor
Houston, Texas 77056

April 20, 2004

Dear Carriage Stockholder:

I am pleased to invite you to Carriage's Annual Meeting of Stockholders. The meeting will be held at the Courtyard on St. James Place, 1885 St. James Place, Houston, Texas 77056 on Tuesday, May 18, 2004, at 10:00 a.m., Houston 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 18. 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, **sign and date the proxy**, 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

CARRIAGE SERVICES, INC.

1900 St. James Place, 4th Floor
Houston, Texas 77056

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held May 18, 2004

Carriage Services, Inc. will hold its Annual Meeting of Stockholders at the Courtyard on St. James Place, 1885 St. James Place, Houston, Texas, 77056, on Tuesday, May 18, 2004, at 10:00 a.m., Houston time.

We are holding this meeting:

To elect two Class II directors, each to serve for a three-year term expiring at the annual meeting of stockholders in 2007 and until their respective successors are elected and qualified.

To amend our 1997 Employee Stock Purchase Plan to increase the number of shares available thereunder from 1,000,000 to 2,000,000 shares.

To amend and restate our 1996 Stock Option Plan (in the form of a Second Amended and Restated 1996 Stock Incentive Plan) to authorize restricted stock grants (without increasing total share availability under the Plan).

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

Your Board of Directors has selected March 24, 2004, 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, 1900 St. James Place, 4th Floor, Houston, Texas for ten days before the meeting.

You are cordially invited to attend the meeting. If, however, you are unable to attend the Meeting, YOU ARE REQUESTED TO SIGN AND DATE THE ACCOMPANYING PROXY 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 and Carriage's 2003 Annual Report to Stockholders are being distributed on or about April 22, 2004.

By Order of the Board of Directors

Joseph Saporito
Senior Vice President, Chief Financial Officer and Secretary

Houston, Texas
April 20, 2004

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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 2004 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. Georgeson is receiving a one-time fee of $6,500 for acting as proxy solicitor in connection with the Meeting.

Q: What am I voting on?

A:

(1) The election of Vincent D. Foster and Mark F. Wilson to the Board of Directors as Class II directors.

(2)

An amendment to our 1997 Employee Stock Purchase Plan to increase the number of shares available thereunder from 1,000,000 to 2,000,000 shares.

(3)

An amendment and restatement of our 1996 Stock Option Plan (in the form of a Second Amended and Restated 1996 Stock Incentive Plan) to authorize restricted stock grants (without increasing total share availability under the Plan).

Q: Who can vote?

A:

Stockholders as of the close of business on March 24, 2004 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 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 but do not mark your voting preference, the individuals named as proxies will vote your shares **FOR** the election of each of the nominees for director and **FOR** each of the other proposals 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 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.

Q: How many shares can vote?

A:

As of the record date, March 24, 2004, Carriage had outstanding 17,702,329 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 2005?

A:

To be considered for inclusion in the proxy statement for Carriage's 2005 annual meeting, a stockholder proposal must be received at Carriage's offices no later than December 1, 2004. A stockholder proposal submitted outside the processes of Rule 14a-8 of the SEC, if received by Carriage after February 15, 2005, will be considered untimely for presentation at Carriage's 2005 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 2005, the deadline will be February 17, 2005, based upon this year's meeting occurring on May 18. 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 or any individual director by either name or title, in care of Carriage Services, Inc., 1900 St. James Place, 4th Floor, Houston, Texas 77056; Attn: Joseph Saporito, Senior Vice President and Secretary.

RECORD DATE AND VOTING SECURITIES

Only holders of record of the Common Stock at the close of business on March 24, 2004, the record date for the Meeting, are entitled to notice of and to vote at the Meeting. On that date, Carriage had outstanding 17,702,329 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 all nominees, (b) to withhold votes as to all nominees, or (c) to withhold votes as to specific nominees. If a quorum is present at the Meeting, the nominees for Class II 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 Amendment to the 1997 Employee Stock Purchase Plan and the Amendment to the 1996 Stock Option 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 directors is considered a "discretionary" item. This means that brokerage firms may vote in their discretion on this matter on behalf of clients who have not furnished voting instructions at least fifteen days before the date of the Meeting. In contrast, the proposals to approve the Amendment of the 1997 Employee Stock Purchase Plan and the Amendment of the 1996 Stock Option Plan are "non-discretionary" items. This means brokerage firms that have not received voting instructions from their clients on these matters may not vote on these proposals. 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 these proposals. To satisfy the NYSE listing requirements, the total votes cast on the proposals to approve the Amendment of the 1997 Employee Stock Purchase Plan and the Amendment of the 1996 Stock Option Plan must represent over 50% of the outstanding Common Stock entitled to vote.

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 24, 2004, 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.

Beneficial Owner	**Number of Shares Beneficially Owned(1)**	**Percent of Common Stock**
Melvin C. Payne	1,207,344	6.5%
Joe R. Davis	24,421	*
Stuart W. Stedman(2)	450,942	2.4%
Ronald A Erickson(3)	69,000	*
Mark F. Wilson(4)	503,621	2.7%
Greg M. Brudnicki	291,451	1.6%
Vincent D. Foster	85,406	*
Joseph Saporito	100,000	*
James J. Benard	85,292	*
George J. Klug	53,874	*
Jay D. Dodds	170,469	*
Mark Groeneman	98,547	*
All directors and executive officers as a group (12 persons)	3,140,367	16.9%

*
Indicates less than one percent.

(1)
The ownership of shares of Common Stock 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, as follows: Mr. Payne 300,000 shares granted on 12-22-00, and 60,000 shares granted on 2-11-02; Mr. Stedman 50,000 shares granted on 12-22-00, 6,000 shares granted on 5-7-02, and 6,000 shares granted on 5-13-03; Mr. Erickson 50,000 shares granted on 12-22-00, 6,000 shares granted on 5-7-02, and 6,000 shares granted on 5-13-03; Mr. Wilson 50,000 shares granted on 12-22-00, 6,000 shares granted on 5-7-02, and 6,000 shares granted on 5-13-03; Mr. Brudnicki 50,000 shares granted on 12-22-00, 6,000 shares granted on 5-7-02, and 6,000 shares granted on 5-13-03; Mr. Foster 5,000 shares vested (100% of one-third) out of 15,000 granted on 11-4-99, 50,000 shares granted on 12-22-00, 6,000 shares granted on 5-7-02, and 6,000 shares granted on 5-13-03; Mr. Benard 7,124 shares granted on 6-9-00, 11,250 shares vested (75%) out of 15,000 granted on 12-22-00, and 25,000 shares granted on 2-11-02; Mr. Dodds 26,212 shares granted on 6-9-00, 50,000 shares granted on 12-22-00, and 20,000 shares granted on 2-11-02; Mr. Groeneman 35,000 shares granted on 12-22-00, and 15,000 shares granted on 2-11-02; and Mr. Klug 7,500 shares vested (50%) out of 15,000 granted on 7-27-01, and 20,000 shares granted on 2-11-02.

(2)
Mr. Stedman's holdings include:

33,998 shares of Common Stock which are held by the Betty Ann Stedman Trust, of which Mr. Stedman is a trustee;

1,425 shares of Common Stock which are held by the Betty Ann West Stedman Descendants Trust, of which Mr. Stedman is a trustee;

12,982 shares of Common Stock which are held by the Wesley West Descendants Trust, of which Mr. Stedman is a trustee;

4,847 shares of Common Stock which are held by the Courtney Lynn Meagher Trust, of which Mr. Stedman is a trustee;

3,369 shares of Common Stock which are held by the Evan Everett Meagher 1989 Trust, of which Mr. Stedman is a trustee;

172,708 shares of Common Stock which are held by the Stedman West Family Partnership Ltd. (formerly Wesley West Long Term Partnership), a partnership of which Mr. Stedman serves as the manager of the general partner;

43,550 shares of Common Stock which are held by the Wesley West Flexible Partnership, a partnership of which Mr. Stedman serves as the managing partner.

28,500 shares of Common Stock which are held by the Neva and Wesley West Foundation, of which Mr. Stedman is trustee;

2,150 shares of Common Stock which are held by the Lynn Stedman Meagher Children's 1997 Trust, of which Mr. Stedman is trustee;

5,605 shares of Common Stock which are held by the Wesley West Stedman 1987 Trust f/b/o Mr. Stedman's minor son;

3,425 shares of Common Stock which are held by the Stuart W. Stedman, Jr. 1996 Trust f/b/o Mr. Stedman's minor son; and

2,150 shares of Common Stock which are held by the Stuart W. Stedman Children's 1997 Trust f/b/o Mr. Stedman's children.

(3) Mr. Erickson's holdings consist of 7,000 shares of Common Stock held by Mr. Erickson's son, David S. Erickson.

(4) Mr. Wilson's holdings include 378,363 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 24, 2004, 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.

Beneficial Owner	**Number of Shares Beneficially Owned**	**Percent of Common Stock**
Dimensional Fund Advisors, Inc.(1) 1299 Ocean Ave., 11th. Floor Santa Monica, CA 90401	1,112,650	6.0%
William D. Witter, Inc.(2) 153 E. 53rd St., 51st Fl. New York, NY 10022	1,034,100	5.6%
Total	2,146,750	11.6%

(1) Based solely on schedule 13G filed with the SEC on February 6, 2004.

(2) Based solely on schedule 13G filed with the SEC on March 26, 2004.

PROPOSAL NO. 1
ELECTION OF DIRECTORS

Carriage currently has six directors on its Board that each serve staggered three-year terms. At the Meeting, you and the other stockholders will elect two individuals to serve as Class II directors for a new three-year term expiring at the 2007 annual meeting and until their successors are duly elected and qualified. The two current Class II directors whose terms are expiring at the Meeting are Vincent D. Foster and Greg M. Brudnicki. Upon recommendation of the Corporate Governance Committee, the Board of Directors has nominated Mr. Foster for re-election at the Meeting to serve for a new three-year term. In the place of Mr. Brudnicki, the Board of Directors (also upon the Corporate Governance Committee's recommendation) has nominated Mark F. Wilson as the other Class II director for consideration at the 2004 Meeting. As explained under "Certain Transactions" on page 10 of this Proxy Statement, we agreed to place Mr. Wilson's name in nomination for election at the upcoming Meeting. Proxies may be voted for two directors. Biography descriptions for Messrs. Foster and Wilson are set forth below.

We recommend that you vote "FOR" the election of each nominee listed in Proposal No. 1 as a Class II Director. The individuals named as proxies will vote the enclosed proxy "FOR" the election of all nominees unless you direct them to withhold your votes for one or more of the nominees.

You may not cumulate your votes in the election of directors. The two nominees receiving the highest number of affirmative votes will be elected to the Board. You may withhold authority to vote for any or all nominees for directors. If any nominee becomes unable to serve as a director before the Meeting (or decides not to serve), the individuals named as proxies will vote FOR the remainder of the nominees and for such other nominees as we may designate as a replacement or substitute for those who become unavailable.

The following table sets forth the names, ages and titles of the persons who have been nominated for election as Class II directors and our other current directors and executive officers.

Name	Age	Title
Nominees for Class II Directors (Term expiring at 2007 annual meeting)		
Vincent D. Foster(2)(3)(4)	47	Director
Mark F. Wilson	57	Director
Existing Class II Director (Term expiring at 2004 annual meeting)		
Greg M. Brudnicki	48	Director
Continuing Class III Directors (Term expiring at 2005 annual meeting)		
Stuart W. Stedman(2)(3)(4)	46	Director
Ronald A. Erickson(3)(4)	67	Director
Continuing Class I Directors (Term expiring at 2006 annual meeting)		
Melvin C. Payne(1)	61	Chairman of the Board, Chief Executive Officer, President and Director
Joe R. Davis(2)	61	Director
Executive Officers who are not Directors		
Joseph Saporito	50	Senior Vice President, Chief Financial Officer and Secretary
James J. Benard	47	Senior Vice President of Sales & Cemetery Operations
George J. Klug	59	Senior Vice President of Information Systems and Chief Information Officer

(1) Member of Executive Committee

(2) Member of Compensation Committee

(3) Member of Audit Committee

(4) Member of Corporate Governance Committee

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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)*

Vincent D. Foster became a director of Carriage in November 1999. Mr. Foster is a Senior Managing Director of Main Street Mezzanine Fund, LLC, 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. 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 U.S. Concrete, Inc. 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.

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 he stepped aside upon the elevation of Jim Benard to head up our Cemetery Operations, but Mr. Wilson maintained his role as President of our California operations. Mr. Wilson's term as director expired at the 2003 annual meeting, but he continued to have Board meeting visitation rights over the course of the previous year, and we agreed to place his name in nomination to the Board at this year's Meeting. See "Certain Transactions." Mr. Wilson also serves on the Board of Directors of Mechanics Bank, Richmond, California.

Greg M. Brudnicki became a director of Carriage in November 1997 when Forest Lawn/Evergreen Management Corp. merged with a subsidiary of Carriage. Forest Lawn and its affiliate owned and operated three funeral homes and three cemeteries in Panama City and Fort Walton Beach, Florida and Dothan, Alabama. Mr. Brudnicki served as the President and Chief Executive Officer of Forest Lawn until the merger, when he became the Co-Manager of the Forest Lawn cemeteries and funeral homes operated by Carriage. In connection with the merger, Carriage agreed to increase the Board of Directors by one member and appoint Mr. Brudnicki to fill the resulting vacancy. Mr. Brudnicki served as Senior Vice President of Cemetery Operations for our Eastern Region from November 2000 until November 2001, at which time he stepped aside upon the elevation of Jim Benard to head up our Cemetery Operations, whereupon Mr. Brudnicki resumed his previous role with our operations in Northwest Florida. Mr. Brudnicki's term on our Board expires at the 2004 Meeting. Mr. Brudnicki serves as a trustee for Bay Medical Center, a non-profit hospital in Panama City, Florida; director of Peoples 1st Community Bank; and as Chairman of the Florida Board of Funeral and Cemetery Services.

Stuart W. Stedman has been a director of Carriage since it went public in August 1996. For the past 19 years, Mr. Stedman has been President of Wesley West Interests, Inc., a management company responsible for various family holdings, including marketable securities, oil, gas and coal properties, ranch lands and urban real estate. Mr. Stedman also serves as a Manager and a member of the compensation committee of Strand Energy, L.L.C., a private exploration and production company.

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 convenience stores and sporting goods stores. Mr. Erickson is also a director (and member of the board's compensation committee) of Andersen Corporation, a privately held manufacturer of windows and patio doors.

Melvin C. Payne, a management founder of Carriage, has been Chairman of the Board and Chief Executive Officer since December 1996. Prior to then, he had been 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.

Executive Officers Who Are Not Directors

Joseph Saporito has been Senior Vice President, Chief Financial Officer and Secretary of Carriage 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.

James J. Benard has been Senior Vice President of Sales and Cemetery Operations for Carriage since November 2001. Mr. Benard joined Carriage in 1998 as a Regional Vice President of Sales. He has over 22 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.

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

Organization and Committees of the Board

During 2003, Carriage's Board met six times and acted by unanimous written consent one time. Each of the directors attended all of the meetings of the Board. The functions of the Executive, Audit, Compensation and Corporate Governance Committees of the Board, and the number of meetings held during 2003, are described below.

The primary function of the Executive Committee is to exercise many of the powers of the Board in between regular Board meetings, including the authorization of contracts, leases and loan documents. The Executive Committee did not meet in 2003 and did not take any action by unanimous written consent. For all of 2003, Melvin C. Payne was the sole member of the Executive Committee. The full Board has suspended all actions of the Executive Committee for so long as it has only one member and will consider reactivating the Executive Committee when additional members are appointed by the Board.

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 Compensation Committee also administers, and makes grants of stock options under, Carriage's stock option plans. The members of the Compensation Committee are Vincent D. Foster, Chairman, Stuart W. Stedman and Joe R. Davis. In 2003, the Compensation Committee held two meetings (and all Committee members were present at each meeting) and acted by unanimous consent twice. See the report of the Compensation Committee on page 15 of this Proxy Statement.

The Audit Committee evaluates, appoints and engages Carriage's independent auditors 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, Stuart W. Stedman and Ronald A. Erickson. The Audit Committee met eight times during 2003, and each member of the Audit Committee was present at the meetings. See the report of the Audit Committee on page 21 of this Proxy Statement.

In 2003, Carriage's Board adopted a new written charter to be the governing instrument for the Audit Committee. In 2004, the charter was amended, and a copy of the amended charter is included as Appendix A. 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.

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 a small business investment corporation for which he reviews and analyzes financial statements as part of his daily functions.

The Corporate Governance Committee reviews the structure of the full Board and makes 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 Stuart W. Stedman, Chairman, Vincent D. Foster and Ronald A. Erickson. The Corporate Governance Committee met once in 2003 (and all Committee members were present) and acted by unanimous consent once.

Corporate Governance Principles

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 recently 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 early 2004, following the final release of the NYSE and SEC rules, we amended the committee charters and corporate governance guidelines, and all 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., 1900 St. James Place, 4th Floor, Houston, Texas 77056, Attn: Investor Relations.

Independence. Our corporate governance guidelines require that our Board composition comply with the NYSE guidelines, including the requirement that a majority of our Board consist of independent directors within the meaning of the NYSE rules. Our Corporate Governance Committee reviewed our Board composition in early 2004 and determined that four of six of our existing directors meet the independence standard, and that this ratio will be maintained if our current nominees are elected to the Board at the upcoming Meeting. In addition, all directors serving on our Audit, Compensation and Corporate Governance Committees satisfy these independence requirements. In accordance with our corporate governance guidelines, the independent directors routinely (at least quarterly) meet in executive session, outside of the presence of non-independent directors or other members of management, both with the independent accountants and then without anyone else present. At present, Mr. Stedman, Chairman of the Corporate Governance Committee, presides over these executive sessions, but the independent directors have agreed that the function of presiding independent director may rotate from time to time.

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 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., 1900 St. James Place, 4th Floor, Houston, Texas 77056; Attn: Joseph Saporito, Senior Vice President and Secretary.

Board and CEO Evaluation. We have instituted an annual process for the Board and each Committee to perform self-evaluations. 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 considering 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 funeral and cemetery 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.

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 reports of ownership and changes in ownership of Common Stock and other equity securities of Carriage. Executive officers, directors and greater than 10% beneficial owners are required by SEC regulations to furnish Carriage with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such reports furnished to Carriage or written representations that no other reports were required, Carriage believes that all filing requirements applicable to its executive officers, directors and greater than 10% beneficial owners were complied with during 2003, except as follows: Greg M. Brudnicki and Mark F. Wilson each filed their respective Form 4 on May 23, 2003 to report a grant of stock options that occurred effective May 13, 2003.

CERTAIN TRANSACTIONS

Greg Brudnicki and Mark Wilson are prior owners of businesses that Carriage acquired in 1997. As an incentive, we entered into arrangements with them to pay them each 10% of the amount by which the annual field level cash flow exceeds predetermined targets on certain businesses in their respective geographic region through 2007, with a final payment in 2008 equal to a multiple of six times the average of the last three years payments. The business purpose of the arrangements was to incentivise the individuals 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 the two individuals totaled approximately $60,000 for 2003.

The Company rents office space, at an annual rate of $19,000 per year through 2005, from an entity in which Greg Brudnicki has a financial interest.

The Company was reimbursed during 2003 for the cost of personnel and office expenses totaling approximately $87,000 from an entity in which Carriage owns a minority (12%) interest and one of the entity's directors is Melvin Payne.

In connection with the production our 2003 annual report, printing costs of approximately $20,000 were paid during 2003 to an entity in which Joe Davis is the chief executive officer. The printing services were competitively bid, and we believe the amount paid represents market cost.

When we acquired CNM in January 1997, we agreed to nominate Mr. Wilson to our Board of Directors for so long as he and other former CNM shareholders collectively owned a certain minimum level of our Common Stock, and he served on our Board from 1997 through 2003. The Board in early 2003 discussed its desire to achieve as quickly as practicable a majority of its members who would qualify as independent, and we agreed with Mr. Wilson and the other former CNM shareholders that Mr. Wilson would not stand for re-election in 2003, so as to make room for another candidate (Mr. Davis) who could serve as an independent director. Mr. Wilson continued to have certain rights to attend regular and special meetings of the Board as a non-voting visitor and to receive certain materials available to directors. The Board further agreed that (if the minimum stock ownership threshold is still met) it would nominate Mr. Wilson as a Class II director for consideration at the 2004 annual meeting of stockholders, and we have done so as reflected in Proposal No. 1.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information regarding the compensation for the years ended December 31, 2003, 2001 and 2000, 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 2003 exceeded $100,000 (collectively, the "Named Executive Officers").

	Annual Compensation					Long Term Compensation Awards	
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation(1)**	**Restricted Stock Awards(2)**	**Securities Underlying Options(3)**	**All Other Compen-sation(4)**
Melvin C. Payne Chairman of the Board, Chief Executive Officer and President	2003	$ 399,808	$ 190,000				$ 21,075
	2002	$ 375,000	$ 200,000		$ 277,900		$ 16,061
	2001	$ 375,000	$ 187,500			60,000	$ 15,663
Joseph Saporito Senior Vice President, CFO and Secretary	2003	$ 239,885	$ 120,000		$ 466,000		$ 1,153
	2002	$ 63,173	$ 30,000				$ 87
	2001						$
James J. Benard Senior Vice President-Sales & Cemetery Operations	2003	$ 200,000	$ 50,000				$ 1,316
	2002	$ 200,000	$ 50,000		$ 79,400		$ 2,710
	2001	$ 200,000	$ 35,000			25,000	$ 180
George J. Klug Senior Vice President Chief Information Officer	2003	$ 164,885	$ 70,000				$ 1,013
	2002	$ 149,962	$ 20,000		$ 99,250		$ 621
	2001	$ 59,551				35,000	$ 218
Jay D. Dodds(5) Senior Vice President of Funeral Operations	2003	$ 189,923	$ 10,000				$ 1,012
	2002	$ 180,000	$ 60,000		$ 79,400		$ 2,601
	2001	$ 180,000	$ 50,000			20,000	$ 2,309
Departed Officer **Mark Groeneman(6)** Senior Vice President-Human Resources	2003	$ 159,923	$				$ 1,266
	2002	$ 150,000	$ 45,000		$ 79,400		$ 2,355
	2001	$ 150,000	$ 35,000			15,000	$ 1,918

(1) Excludes perquisites and other personal benefits unless the aggregate amount of such compensation exceeded the lesser of $50,000 or 10% of the total of annual salary and bonus reported for the Named Executive Officer.

(2) Represents the value of Common Stock issued to the Named Executive Officer at the time of grant based upon the closing price of a share of Common Stock on the grant date. Mr. Saporito's stock grant for the 2003 year covering 100,000 shares was effective January 29, 2004, when the price was $4.66 per share. All stock grants for the 2002 year were granted effective January 9, 2003 when the price was $3.97 per share, as follows: Mr. Payne 70,000 shares; Mr. Benard 20,000 shares; Mr. Klug 25,000 shares; and Mr. Groeneman 20,000 shares.

(3) Options granted for the 2001 year were granted in February 2002.

(4)

Each of the amounts in this column reflect contributions by Carriage to its 401(k) Plan for the executive's benefit plus payment or reimbursement of life insurance premiums where the Company was not the named beneficiary.

(5) Mr. Dodds is an executive officer and remains an employee but was not a Named Executive Officer as of December 31, 2003 as a result of a change in duties.

(6) Mr. Groeneman was an executive officer as of December 31, 2003 but voluntarily resigned in February 2004. See "Separation Agreement with a Departed Officer," below.

Stock Option Grants in 2003

We have four stock incentive plans:

- the 1995 Stock Incentive Plan (the "1995 Plan");
- the 1996 Stock Incentive Plan (the "1996 Plan");
- the 1996 Directors' Stock Option Plan (the "Directors' Plan"); and
- the 1998 Stock Option Plan for Consultants (the "Consultants Plan").

A total of 1,450,000 shares of Common Stock are reserved for issuance under the 1995 Plan, 1,300,000 shares of Common Stock are reserved for issuance under the 1996 Plan, 350,000 shares of Common Stock are reserved for issuance under the Directors' Plan, and 30,000 shares of Common Stock are reserved for issuance under the Consultants Plan. Options issued under the 1995 Plan and the 1996 Plan may be either "Incentive Stock Options" as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or non-qualified stock options. Options issued under the Directors' Plan and Consultants Plan are non-qualified stock options.

No Named Executive Officer received a grant of options to acquire shares of Common Stock during the year ended December 31, 2003.

2003 Option Exercises and Year-End Option Holdings

The following table sets forth, with respect to the Named Executive Officers, information concerning the exercise of stock options during the year ended December 31, 2003, and the year-end value of unexercised options:

Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

			Number of Unexercised Options Held at December 31, 2003		Value of Unexercised In-the-Money Options at December 31, 2003(1)	
Name	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Melvin C. Payne			360,000		$ 641,250	$
Joseph Saporito						
James J. Benard			43,374	3,750	$ 34,143	$ 9,422
George J. Klug			27,500	7,500		
Jay D. Dodds			96,212		$ 147,250	
Mark Groeneman			65,000		$ 125,625	

(1) An option is "in-the-money" if the market value of the Common Stock exceeds the exercise price of the option. The values of the options set forth in these columns are based upon the difference between the closing price of $3.70 on the NYSE on December 31, 2003 and any lesser exercise price.

Equity Compensation Plan Information

The following table provides information about our Common Stock that may be issued under equity compensation plans as of December 31, 2003:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (excluding shares Reflected in the First Column)
Equity compensation plans approved by security holders(1)	1,772,000	$ 3.70	717,000
Equity compensation plans not approved by security holders(2)			
TOTAL	1,772,000	$ 3.70	717,000

(1) Reflects options under our 1995 Plan, 1996 Plan, Directors' Plan and Consultants Plan, all of which have been approved by our stockholders. Does not include 152,000 shares which remain available under our 1997 Employee Stock Purchase Plan, which has also received stockholder approval (1,152,000 shares if Proposal No. 2 is approved).

(2) Does not include arrangements with certain former owners of businesses sold to Carriage in which they may become entitled to receive payments based upon the field-level financial performance of locations within their designated geographic area, and under which they have the right to accept such payments in cash or our Common Stock. To date, all such payments have been made in cash. Also does not include fees that directors from time to time elect to receive in our Common Stock in lieu of cash. See "Compensation of Directors" below.

Separation Agreement with a Departed Officer

On February 29, 2004, Mark Groeneman, Carriage's former Senior Vice President of Human Resources, resigned from his positions as an officer and employee of Carriage. In connection with this resignation, Carriage and Mr. Groeneman entered into a Separation Agreement and Release under which, among other things, we agreed to pay him severance from March through December 2004 at his then-current base compensation rate of $160,000 per year, and include him in our group health benefit program during that period. This Separation Agreement superseded our employment agreement with Mr. Groeneman dated September 21, 1999, except for those provisions (such as restrictive covenants and confidentiality) which by their terms survived the expiration thereof. We also agreed to accelerate the vesting of a restricted stock grant which Mr. Groeneman received in January 2003.

Compensation of Directors

We compensate our directors through cash payments, including quarterly retainers and meeting attendance fees, and through stock options.

Each "outside director" is entitled to an annual retainer of $20,000, payable quarterly. A director qualifies as outside if that director either is an independent director or is not an employee of our parent corporation or any subsidiary; currently, outside directors consist of Messrs. Stedman, Erickson, Foster and Davis. In addition, the Chair of the Audit Committee (who is required to be an independent director, currently Mr. Foster) receives an annual grant of 5,000 fully vested shares of our Common Stock.

As a general rule, each outside director is entitled to $1,000 for each regular or special meeting of the full Board attended in person, and $500 if attended by phone. In addition, Audit Committee members receive $1,500 for each committee meeting held in person and $1,000 for each such meeting held by phone, except that those amounts are reduced by one-half if the committee meeting occurs on the same day as a full Board meeting. Members of the other committees receive $750 for each committee meeting held in person and $500 for each such meeting held by phone. The amounts are $1,125 and $750, respectively, for the chair of such committees, and no attendance fees are payable for these other committees for a meeting that occurs on the same day as a full Board meeting.

Outside directors have the ability to elect to receive all or any portion of the cash retainer and attendance fees in shares of our Common Stock, based on the fair market value thereof as of the date the amount is earned. Currently, Mr. Davis receives 100% of his fees in Common Stock, Mr. Stedman receives 60% and Mr. Foster receives 50%.

We also have the ability to issue discretionary options and restricted stock grants under the Directors' Plan. The eligibility to receive options and grants is broader than the definition of outside directors, by including all directors who are not executive officers of our parent corporation, but who may be employees ("eligible directors"). At present, eligible directors under the Directors Plan include Messrs. Stedman, Erickson, Foster, Davis and Brudnicki, and it is expected that Mr. Wilson will similarly qualify as an outside director if he is elected to the Board. Each grant under the Directors Plan must be approved by (1) at least two-thirds of all members of the entire Board, and (2) a majority of all members of the Board who are not eligible to receive options under the Directors' Plan. In addition, shares issued upon exercise of options granted under the Directors' Plan may not, without Board approval, be sold or disposed of within six months following the date of grant.

There are an aggregate of 350,000 shares of Common Stock reserved for issuance under the Directors' Plan. In May 2003, Carriage granted to each of Messrs. Stedman, Erickson, Foster, Wilson and Brudnicki an option to purchase up to 6,000 shares of our Common Stock at an exercise price of $3.60 per share. In addition, Carriage issued to Mr. Davis a restricted stock grant for 20,000 shares upon his election to the Board in May 2003. It is anticipated that every eligible director will receive a grant of 6,000 fully vested options immediately following the 2004 annual meeting.

Employment Agreements

Effective November 8, 1999, we entered into an employment agreement with Melvin C. Payne. The employment agreement with Mr. Payne has an initial term of approximately five years with an evergreen two-year extension continuing after the first three years of the employment agreement unless either Carriage or Mr. Payne gives 90 days notice of termination. Pursuant to this agreement, Mr. Payne is entitled to receive a base salary of not less than his current level of $400,000 per year, and a bonus to be determined on an annual basis by the Board of Directors. If Mr. Payne is terminated without cause during the term of the agreement, he will receive a monthly severance payment until the end of the term as if he had not been terminated plus a proportionate amount of the bonus earned for the year of termination. Such monthly severance payment would be equal to the average monthly amount (including salary and bonus) earned by Mr. Payne during the three calendar years prior to his termination. During the period that Mr. Payne receives the monthly severance payment, he also would be entitled to participate i