

CARRIAGE SERVICES INC
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April 04, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material 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)

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2

Filing Party:

3

Date Filed:

4

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

April 4, 2018

Dear Fellow Stockholder:

I am pleased to invite you to the 2018 Annual Meeting of Stockholders of Carriage Services, Inc. (“Carriage”). The Annual Meeting will be held at the Conference Center, 3040 Post Oak Boulevard, Lobby Level, Houston, Texas 77056, on Wednesday, May 16, 2018, at 9:00 a.m., Central Time. Whether or not you plan to attend the Annual Meeting, I ask that you participate by casting your vote at your earliest convenience.

At the beginning of 2012, we launched what we now refer to as the Carriage Good To Great Journey that never ends. We think about and lead the company in terms of a Ten Year Vision and Five Year Strategy with our Rolling Four Quarter Outlook within a 'Roughly Right Range' of outcomes over time as we execute our three core models; Standards Operating Model, Strategic Acquisition Model and 4E Leadership Model. Having produced extraordinary performance during the first five year timeframe of our Good To Great Journey that ended in 2016, we believe in hindsight that 2017 was clearly a year of transition and continued transformation. Total Return to stockholders including dividends over the five years ending December 31, 2017 has been 123% as we continue to be driven by our Company’s Mission and Vision of Being The Best and Five Guiding Principles.

All of our leaders and employees have accepted the challenge of making 2018 a historic year of operating and financial performance including Executing on ‘Big Ideas’ that will accelerate the Carriage Good To Great Journey, and most importantly, leading the successful realization of a Ten Year Vision of growth and success for each business. We want all of our investors - tenured, as well as new stockholders of our company - to understand the value creation opportunities of Carriage and its potential to continue to perform and grow on our Good To Great Journey. In the context of this proxy statement, we want you to see how Carriage’s compensation practices are linked to performance and accountability in a way that drives stockholder value. More broadly, we want investors to understand the philosophy of the Compensation Committee and the link between that philosophy and the industry leading financial results and strategic milestones of our company.

At this Annual Meeting, we are requesting additional shares in the reserves for our Employee Stock Purchase Plan to continue the benefit we provide to our employees to strengthen their ownership in our Company as driven by our second Guiding Principle, “Hard work, pride of accomplishment and shared success through employee ownership.” I encourage you to read the enclosed Notice of Annual Meeting and Proxy Statement, which contains information about the voting options, instructions and descriptions on the proposals for this meeting.

Speaking on behalf of the entire leadership team, we are committed to becoming recognized by institutional investors and those in our industry as a superior Consolidation, Operating and Value Creation Investment Platform by consistently allocating our precious capital, especially our growing Free Cash Flow, with disciplined savviness and flexibility among various investment options so as to maximize the intrinsic value of Carriage per share over the next ten years. As we successfully execute this Being The Best Vision, we believe that the growth in the market price of our shares will track, if not outpace over time, the growth in our intrinsic value per share.

We hope you can join us on May 16th. Whether or not you can attend personally, it is important that your shares are represented at the Annual Meeting. We hope that you will cast your vote as soon as possible.

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

DATE & TIME: Meeting Agenda
May 16, 2018 1. Elect directors;
9:00 a.m. Central Time 2. Hold an advisory vote to approve Named Executive Officer compensation;
3. Approve our proposed First Amendment to the Amended and Restated Carriage
Services Inc. 2007 Employee Stock Purchase Plan; and

PLACE:

Carriage Services, Inc
Houston Office
Conference Center
3040 Post Oak Boulevard,
Lobby Level,
Houston, Texas 77056

4. Ratify the appointment of Grant Thornton LLP as our independent registered public
accounting firm for the fiscal year ended 2018.

RECORD DATE:

March 23, 2018

YOUR VOTE IS IMPORTANT - YOU CAN VOTE IN ONE OF THREE WAYS:

VIA THE INTERNET

Visit the website listed on your proxy
card

BY MAIL

Sign, date and return your proxy card in the enclosed
envelope

IN PERSON

Attend the Annual
Meeting

If your shares are held in a stock brokerage account or by a bank or other record holder, follow the voting Instructions on the form that you receive from them. The availability of telephone and internet voting will depend on their voting process.

By order of the Board of Directors,
Viki K. Blinderman

Senior Vice
President, Principal
Financial Officer,
Chief Accounting
Officer and
Secretary
Houston, Texas
April 4, 2018

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
STOCKHOLDER MEETING TO BE HELD ON WEDNESDAY, MAY 16, 2018

The Notice of Annual Meeting of Stockholders, the Proxy Statement and the 2017 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 Services,” “Carriage,” the “Company,” “we,” “us” or “our”) for use at our 2018 Annual Meeting of Stockholders (our “Annual Meeting”).

2018 Annual Meeting Date and Location

Our Annual Meeting will be held at the Conference Center, 3040 Post Oak Boulevard, Lobby Level, Houston, Texas 77056, on Wednesday, May 16, 2018, at 9:00 a.m., Central 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 23, 2018, 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 13, 2018. 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 voting via the internet or 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 Melvin C. Payne and James R. Schenck to our Board as Class I directors;
- to approve, on an advisory basis, our Named Executive Officer compensation;
- to approve the First Amendment to the Amended and Restated Carriage Services Inc. 2007 Employee Stock Purchase Plan;
- to ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018; and
- to transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Who is entitled to vote at the meeting?

Only our stockholders of record as of the close of business on the Record Date are entitled to receive notice of and to vote at our Annual Meeting. On March 23, 2018, we had 16,280,398 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, LLC, our transfer agent, you are considered to be the stockholder of record with respect to those shares, and you have the right to grant your voting proxy directly with the Company 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” and your bank, broker or other nominee is the stockholder of record. 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 stockholder of record 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 submit a proxy to have their shares voted or vote their shares by one of the following methods:

Internet. To vote via the internet, go to “www.voteproxy.com” and follow the on-screen instructions or scan the QR code with your smartphone. Have your proxy card available when you access the web page. Vote online until 11:59 p.m., Central Time the day before the Annual Meeting.

By Mail. To vote by mail, you should mark, sign, date and mail the enclosed proxy card in the prepaid envelope provided so that we receive the proxy card by mail by May 15, 2018. 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 all of the 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 submit a proxy to have their shares voted or vote their shares 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 them in the manner specified in their instructions.

By Methods Listed on Voting Instruction Form. Please refer to the 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 they provided to you.

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 voted at the meeting by:

- submitting written notice of revocation no later than May 15, 2018 to our home office, which is located at 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056, Attn: Corporate Secretary;
- submitting a later dated proxy with new voting instructions by mail that is received at our home office by May 15, 2018; or
- attending our Annual Meeting and voting your shares in person.

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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. Please refer to the materials that your bank, broker or other nominee provided to you.

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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 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.

What are “broker non-votes” and abstentions and how do they affect voting results?

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.

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 the Class I Directors), Proposal 2 (Advisory Vote to Approve Named Executive Officer Compensation), and Proposal 3 (Approval of the First Amendment to the Amended and Restated Carriage Services Inc. 2007 Employee Stock Purchase Plan) 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 4 (Ratification of the Appointment of Grant Thornton LLP) in the discretion of the record holder.

Abstentions occur when stockholders are present at our Annual Meeting in person or by proxy 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.

What vote is required to approve each proposal?

Proposal 1 (Election of the Class I 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 Executive Officer 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 (Approval of the First Amendment to the Amended and Restated Carriage Services Inc. 2007 Employee Stock Purchase Plan): Approval of this proposal requires the affirmative vote of the holders of a majority of the outstanding shares of Common Stock who are 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.

Proposal 4 (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, 2018 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

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the total number of shares “entitled to vote” on this proposal and will have the same effect as a vote “Against” this proposal.

What is the Board's recommendation for each proposal?

Our Board recommends that you vote:

FOR the election of the Class I director nominees;

FOR the approval, on an advisory basis, of our Named Executive Officer compensation;

FOR the approval of the First Amendment to the Amended and Restated Carriage Services Inc. 2007 Employee Stock Purchase Plan; 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, 2018.

Our Board has appointed Melvin C. Payne, our Chief Executive Officer (“CEO”) and Chairman of the Board, and Viki K. Blinderman, our Senior Vice President, Principal Financial Officer, Chief Accounting Officer and Secretary, as the management proxy holders for our Annual Meeting. For stockholders who have their shares voted by duly submitting a proxy via the internet, 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.

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 2019 Annual Meeting” for information regarding the submission of stockholder proposals for 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

Board Leadership Structure

Carriage was founded with the Mission Statement to be the most professional, ethical and highest quality funeral and cemetery service organization in our industry, which we have shortened for communication purposes to Being The Best, which is achieved by alignment with our Five Guiding Principles:

1. Honesty, Integrity and Quality in All That We Do
2. Hard work, Pride of Accomplishment, and Shared Success Through Employee Ownership
3. Belief in the Power of People Through Individual Initiative and Teamwork
4. Outstanding Service and Profitability Go Hand-in-Hand
5. Growth of the Company Is Driven by Decentralization and Partnership

All of our directors, officers and employees must be aligned with these Five Guiding Principles to ensure outstanding execution of our three core models and all other elements and linkages of Carriage's High Performance Culture Framework. While our commitment is to all Five Guiding Principles equally, there is a reason why the First Guiding Principle is the First "most equal" of the Five: Because it is the foundation and cornerstone Guiding Principle upon which our Mission of Being The Best and other Four Guiding Principles are built upon.

At a high level, commitment to our Mission Statement and alignment with our Five Guiding Principles, together with a relentless focus to execute our Good To Great Concepts such as "First Who, Then What" and "Right People in the Right Seats", are what drives our high performance operating results. Our Board understands the importance and uniqueness of these qualitative drivers of Carriage Services' High Performance Culture as being critical towards our ability to execute sustainable, high performance quantitative results consistently over time through outstanding execution of our three core models. Our Board also fundamentally understands that the biggest continuing risk for the Company is that executive and senior leadership will not continue the evolution of our unique High Performance Culture ideas and concepts. Our continued success and effective risk management emanates from being highly selective about leadership of the Company and finding leaders that are aligned with our Five Guiding Principles and the idea of Carriage Services as a High Performance Culture Company. We utilize a 4E Leadership Model, initially developed by Jack Welch at General Electric and then tailored and evolved in our unique culture, to select and assess our leaders at all levels of the Company. 4E Leaders have a winning, entrepreneurial, competitive spirit and want to make a difference in Carriage Services' sustainable high performance and reputation over time.

Melvin C. Payne, our co-founder and largest individual stockholder, is our Chief Executive Officer and Chairman of our Board. Our Board currently believes that it is in the best interest of Carriage and its stockholders for Mr. Payne to serve as both our Chief Executive Officer and Chairman of our Board, based upon Mr. Payne's specific expertise, knowledge, passion and long-term vision for the Company. This arrangement provides a clear, unified strategic vision and 4E Leadership for Carriage, ensures partnership and alignment between senior leadership and our Board, and enables the Company to continue its evolution as a High Performance Culture Company that just happens to be in the funeral and cemetery service business. Mr. Payne is also best positioned to lead our Board through reviews of key business and strategic issues and, most importantly, to lead the Board's understanding of the linkage of Carriage's unique High Performance Culture to the Company becoming recognized as a superior Consolidation, Operating and Value Creation investment platform.

Our Compensation Committee performs an annual evaluation of our Chief Executive Officer's performance. As part of our annual evaluations and long-term planning, our Corporate Governance Committee is charged with evaluating the succession of our Chief Executive Officer. Mr. Payne has publicly stated that he has no plans for retirement and that he intends to be involved with the Company as long as his health is good and he is adding value with his energy, passion and vision for Carriage and commitment to mentoring 4E Leaders for the future. The Board also periodically reviews our leadership structure to determine if it is still appropriate in light of current corporate governance standards, market practices, the Company's specific circumstances and needs and any other relevant factors for discussion.

We also have 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 lead and facilitate the function of our Board independently and to enhance the quality of our Board by facilitating their deeper understanding of Carriage's High

Performance Culture Framework. The Lead Director presides at the executive sessions of the independent directors during quarterly Board meetings. Bryan D. Liebman currently serves as our Lead Director.

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Risk Oversight of the Board

We believe that the oversight function of our Board and its committees combined with the active dialogue with senior leadership about effective risk management relative to continuously assessing for the “Right Who” leaders and the Right Quality of Staff at all levels, provides our Company with the appropriate framework to help ensure effective risk oversight. There is a fundamental Board understanding that the continuing biggest risk area for the Company is not having or not hiring the “Right Who” senior leadership in the future, and that hiring the “Wrong Who” senior leadership, including and especially the CEO in case Mr. Payne was for some reason unable to fulfill his CEO responsibilities, could have a major negative impact on the nature of Carriage’s High Performance Culture. In executing this responsibility, independent directors provide independent oversight, including risk oversight and, a significant amount of time is spent by our Board and committees, in conjunction with senior leadership, discussing how we identify, assess and manage our most significant risk exposures with respect to our leadership and people. Our Board also relies on each of its committees to help administer its oversight duties.

Director Qualification, Experience and Tenure

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 with significant input by Carriage’s executive and senior leadership.

We believe that the minimum qualifications and skills necessary for serving as a director include:

1. A deep, genuine belief, understanding and commitment to our Being The Best Mission Statement and Five Guiding Principles;
Business and investment savvy, including an owner-oriented attitude and conviction that Carriage has evolved into a
2. superior stockholder value creation investment platform and therefore represents a superior long-term investment opportunity; and
3. An ability to make a meaningful contribution and engagement to our Board’s oversight of all elements and linkages of our High Performance Culture Framework.

We do not have a formal policy on board diversity when considering board candidates, as we strive to seek individuals who demonstrate the aforementioned characteristics or attributes. Diversity in skills, experience, perspective, and background are important contributing factors to effective decision making. While 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 much prefer candidates that are singularly focused on Carriage’s uniqueness and not on being a “Professional Board Member.” We currently have no established term limits or age restrictions, as we do not wish to risk losing the contribution of directors who have been able to develop an increasing insight and deep understanding into our unique High Performance Culture Framework.

We currently have five directors on our Board who each serve staggered three year terms. Four directors are independent. The average age of all directors currently serving on our Board is 64 years. The average age of all independent directors is 61 years. The average tenure of all independent directors is 4.5 years.

Director Nomination Process

Our Corporate Governance Committee identifies potential candidates for our Board fluidly and collaboratively with our existing senior leadership based upon the criteria set forth above. Once a potential candidate is identified and the individual expresses a willingness to be considered for election to our Board, our Corporate Governance Committee and Mr. Payne will request information from the candidate, review the individual’s qualifications, and conduct one or more interviews with the candidate. When this process has completed, our Corporate Governance Committee tenders its recommendation to our full Board for consideration.

Our Corporate Governance Committee will also consider candidates recommended by stockholders in the same manner. 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 2019 Annual Meeting of Stockholders, the deadline will be February 15, 2019, based upon this year’s meeting occurring on May 16, 2018. 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 nominee’s full name, age, business address, principal occupation or employment, 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.

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Organization and Committees of Our Board

During 2017, our Board met five times and acted by unanimous written consent fourteen additional times. Each of the directors attended all of the meetings of our Board. Each year we hold the annual meeting on the same day as our Board and Committee meetings such that all directors may attend the annual meeting. All of our then current directors attended the 2017 Annual Meeting of Stockholders. Our director attendance policy for the annual meeting states that a quorum must be present in order for directors to be elected.

Our Board has a Compensation, Audit and Corporate Governance Committee. The current members of each committee as of the Record Date are identified in the table below. Each of these committees has its own charter, and a copy of the current version is available free of charge on our website at www.carriageservices.com. The functions of each committee and the number of meetings held during 2017 are described below.

Director	Compensation	Audit	Corporate Governance
Melvin C. Payne ^(*)			
Barry K. Fingerhut(I)	Chairman	X	X
Bryan D. Leibman(I) ^(L)	X	X	X
Donald D. Patteson, Jr.(I)	X	Chairman	X
James R. Schenck(I)	X	X	Chairman

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

(I) Independent Director.

(L) Lead Director.

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 non-employee 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;
- administer, review and approve grants under our stock incentive plans;
- and
- perform such other functions as our Board may assign from time to time.

Generally, our Board has charged our Compensation Committee with the overall responsibility for establishing, implementing and monitoring the compensation for our Executive Officers and Senior Leadership. Executive compensation matters are presented to the Compensation Committee in a variety of ways, including: (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.

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. Mr. Payne, as our Chairman of the Board and Chief Executive Officer, makes recommendations on compensation decisions for those other than himself based on the individual performance of each Executive Officer or Senior Leader and the Company's overall performance. Management's role in determining executive compensation includes:

- developing, summarizing and presenting compensation information and analysis to enable our Compensation Committee to execute its responsibilities;
- developing individual Executive Officer and Senior Leadership bonus plans for consideration by our Compensation Committee and reporting to our Compensation Committee regarding achievement against the bonus plans;
- preparing long-term incentive award recommendations for our Compensation Committee's approval; and
- attending our Compensation Committee's meetings as requested in order to provide additional information, respond to questions and otherwise assist our Compensation Committee.

Our Compensation Committee makes all final decisions regarding executive officer compensation.

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Our Compensation Committee met three times during 2017 and acted by unanimous written consent five additional times. Each member of our Compensation Committee was present at all meetings. Our Board has determined that all of the members of the committee are independent under the listing standards of the NYSE and the rules of the SEC. Each of the members of the committee is considered to be a “non-employee director” under Rule 16b-3 of the Securities Exchange Act of 1934, as amended, and an “outside director” under Section 162(m) of the Internal Revenue Code of 1986, as amended.

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 and financial reporting process, and our systems of internal accounting and financial controls;
- 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;
- whistleblower hotline and procedures;
- compliance by Carriage with legal and regulatory requirements; 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 and confirms their independence. The Audit Committee also reviews our annual and quarterly financial statements and meets with our management and independent registered public accounting firm regarding the adequacy of our financial controls and our compliance with legal, tax and regulatory matters and significant internal policies.

Our Audit Committee met five times during 2017 and acted by unanimous written consent four additional times. All committee members were present at such meetings. 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. See “Audit Committee Report” below for additional information regarding our Audit Committee.

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;
- lead our Board in its annual review of the performance of our Board and its committees; and
- perform such other functions as our Board may assign to our Corporate Governance Committee from time to time.

Our Corporate Governance Committee met one time during 2017 and acted by unanimous written consent one additional time. All committee members were present at such meetings.

Director Independence

Our Board of Directors affirmatively determined that Messrs. Fingerhut, Leibman, Patteson and Schenck do not have a material relationship with Carriage (either directly or as a partner, stockholder or officer of an organization that has a relationship with Carriage) and are “independent” as defined under the NYSE’s listing standards and the Securities and Exchange Commission under Item 407(a) of Regulation S-K.

Mr. Payne is not independent because he is an employee of Carriage and currently serves as our Chief Executive Officer and Chairman of our Board.

Board's Interaction with Stockholders

Our Chief Executive Officer and senior leadership team are responsible for establishing effective communication with our stockholders. Independent directors are not precluded from meeting with stockholders, but where appropriate, our executive and senior leadership team should be present at such meetings.

Stockholders and other interested parties may contact any member of our Board or any of its committees, by addressing any correspondence 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

Our Board performs annual self-evaluations. These self-evaluations are conducted through written questionnaires circulated prior to the first regularly scheduled meeting of the Board (generally in February). At the first regularly scheduled meeting before the Annual Meeting of Stockholders, detailed results of the self-evaluations are provided to the Corporate Governance Committee Chairman and discussed at the meeting.

Corporate Governance Guidelines, Business Conduct and Ethics

We are committed to integrity, reliability and transparency in our disclosures to the public, all characteristics consistent with our First Guiding Principle, "Honesty, Integrity and Quality in All That We Do". 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. Our Code of Business Conduct and Ethics requires that all of our directors, officers and employees must be in alignment with our Five Guiding Principles to achieve our Mission Statement of being the most professional, ethical and highest quality service organization in the funeral and cemetery industry.

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.

DIRECTOR COMPENSATION

General

We compensate our non-employee directors through cash payments, including retainers and through stock-based awards. Our Director Compensation Policy provides for the following:

	Annual Cash Retainer ⁽¹⁾
Board - Independent Director	\$75,000
Board - Lead Director	\$10,000 ⁽²⁾
Audit Committee	
Chair	\$10,000
Member	\$—
Compensation Committee	
Chair	\$5,000
Member	\$—
Corporate Governance Committee	
Chair	\$5,000
Member	\$—

(1) Paid on a quarterly basis. No cash retainers are paid to employee directors.

(2) The Lead Director receives this annual retainer in addition to the retainer paid to other Independent Directors. Our Director Compensation Policy provides that any new independent director will receive a grant of \$25,000 (in addition to the independent director annual retainer prorated at the time the new director is admitted to the Board) upon admission to the Board, which can be taken in cash or restricted shares of our Common Stock. The number of shares of such Common Stock will be determined by dividing the cash amount by the closing price of our Common Stock on the date of grant, which will be the date of admission to the Board. Such Common Stock, will vest (based on continued service on the Board) 50% immediately and 25% on the first and second anniversaries of admission. There were no new directors voted to serve in 2017, thus no director grants of Common Stock were awarded.

2017 Director Compensation Table

Name	Fees Earned in Cash	Stock Awards	Total
Barry K. Fingerhut	\$ 80,000	\$—	\$80,000
Donald D. Patteson, Jr.	\$ 85,000	\$—	\$85,000
Bryan D. Leibman	\$ 85,000	\$—	\$85,000
James R. Schenck	\$ 80,000	\$—	\$80,000

For 2017, Directors only received cash compensation. They did not receive any stock awards, option awards, non-equity incentive plan compensation, or other compensation for their service as a Director.

PROPOSAL NO. 1:

ELECTION OF CLASS I DIRECTORS

We currently have five directors on our Board who each serve staggered three-year terms. At our Annual Meeting, the stockholders will re-elect two individuals to serve as our Class I directors for a new three-year term expiring on the date of the 2021 annual meeting and until his successor is duly elected and qualified.

Our Corporate Governance Committee has recommended that we nominate Melvin C. Payne and James R. Schenck for re-election at our Annual Meeting to serve as our Class I directors for a new three-year term. Proxies may be voted for each of the Class I directors. The biography description for Mr. Payne and Mr. Schenck are included below.

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

Name	Age	Positions and Offices with Carriage, Director Since
Continuing Class I Directors		
(If re-elected, term expires at 2021 Annual Meeting)		
Melvin C. Payne	75	Chairman of the Board and Chief Executive Officer, 1991
James R. Schenck	51	Director, 2016
Class II Directors		
(Term expires at 2019 Annual Meeting)		
Barry K. Fingerhut	72	Director, 2012
Bryan D. Leibman	49	Director, 2015
Class III Director		
(Term expires at 2020 Annual Meeting)		
Donald D. Patteson, Jr.	72	Director, 2011

Our Board believes that each of our directors is highly qualified to serve as a member of our Board. In particular, our Board seeks individuals who demonstrate:

- A deep, genuine belief, understanding and commitment to our Being The Best Mission Statement and Five Guiding Principles,
- Business and investment savvy, including an owner-oriented attitude and conviction that Carriage Services has evolved into a high value, superior investment platform, and
- An ability to make a meaningful contribution and engagement to our Board's oversight of all elements and linkages of our High Performance Culture Framework.

Our Board unanimously recommends that you vote "FOR" the election of the Class I director nominees.

You may not cumulate your votes in the election of the Class I director nominees. You may withhold authority to vote for the nominee 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.

Described below are the principal occupations, positions and directorships for at least the past five years of our directors and director nominee, 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.

Melvin C. Payne, co-founder of Carriage, has been our Chief Executive Officer and a director since our inception in 1991, and our Chairman of the Board since December 1996.

Additional Qualifications: Mr. Payne brings to the Board his 25 years of experience as our Chief Executive Officer and proven management skills. Mr. Payne also has prior diverse industry and financial experience coupled with his personal leadership and founder's vision for Carriage.

James R. Schenck has been the President and Chief Executive Officer of Pentagon Federal Credit Union (PenFed), one of the largest credit unions in the country, since 2014. Since 2011, he has been Executive Vice President at PenFed and President of its wholly owned subsidiary, PenFed Realty. He also currently serves as Chief Executive Officer of the PenFed Foundation which provides support to military, veterans and their families.

Additional Qualifications: Mr. Schenck brings a passion for entrepreneurial growth and merger and acquisition experience to our Board.

Barry K. Fingerhut has been the Chief Executive Officer and majority equity owner of Certification Partners, LLC, a developer and global distributor of vendor neutral IT content and certifications, since the fall of 2010. Prior to 2010, he focused much of his career investing in small capitalization companies in the for-profit education and training industry and financial services industry, as well as many other industries. Currently, he serves on a number of private company and non-profit Boards. Mr. Fingerhut also served on our Board for the period from 1995 through 1999.

Additional Qualifications: Mr. Fingerhut was selected to serve on our Board due to his past experience with Carriage and his extensive investment knowledge.

Bryan D. Leibman has been the President and Chief Executive Officer of Frosch Travel (FROSCH), a privately held global travel management company, since 2000. He is a certified physician who opted to pursue his passion for business and entrepreneurship by joining and leading his family's successful travel business since 1998.

Additional Qualifications: Mr. Leibman brings entrepreneurial growth, merger and acquisition experience to our Board. We believe his vision and leadership at FROSCH brings to our Board development of an innovative and forward driving management style and commitment to core values in the services sector.

Donald D. Patteson, Jr. was the founder and, prior to its sale in June 2014, the Chairman of the Board of Directors of Sovereign Business Forms, Inc. ("Sovereign"), a consolidator in a segment of the printing industry. He also served as Chief Executive Officer of Sovereign from August 1996 until his retirement in August 2008. Prior to founding Sovereign, he served as Managing Director of Sovereign Capital Partners, an investment firm specializing in leveraged buyouts.

Additional Qualifications: Mr. Patteson brings to the Board his extensive experience as Chief Executive Officer and Chief Financial Officer in various industries, enabling him to provide the Board with executive and financial management expertise, as well as experience with major financial transactions. He also served on the Board of Directors of Rosetta Resources Inc. and Cal Dive International, Inc. until mid-year 2015.

EXECUTIVE MANAGEMENT

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

The following individuals were our Named Executive Officers for the fiscal year ended December 31, 2017:

Name	Age	Title
Melvin C. Payne	75	Chief Executive Officer, Chairman of the Board and Director
Mark R. Bruce	51	Executive Vice President and Chief Operating Officer
Paul D. Elliott	57	Senior Vice President and Regional Partner
Shawn R. Phillips	55	Senior Vice President and Head of Strategic and Corporate Development
Viki K. Blinderman	49	Senior Vice President, Principal Financial Officer, Chief Accounting Officer and Secretary
Carl B. Brink	36	Senior Vice President, Chief Financial Officer and Treasurer

The biographical information for Mr. Payne is located under "Proposal No. 1: Election of Class I Directors."

Mark R. Bruce has been with Carriage since May 2005 and was promoted to Executive Vice President and Chief Operating Officer in February 2017. He had 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 and was promoted to Senior Vice President in February 2017. Prior to joining Carriage, Mr. Elliott was Managing Director for Service Corporation International (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 was promoted to Senior Vice President, Head of Strategic and Corporate Development in February 2017. He had 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 and cemetery service companies. From 1979 to 1983, Mr. Phillips worked for an independent funeral operator. Mr. Phillips is a licensed Funeral Director and Embalmer and a graduate of the Mortuary Science Program at Cypress College.

Viki K. Blinderman joined Carriage in May 2002 and was promoted to Senior Vice President and Principal Financial Officer in February 2017. She was appointed as the Secretary of the Company in May 2015 and Co-Chief Financial Officer in August 2015. Ms. Blinderman has served as our Chief Accounting Officer since September 2012. Ms. Blinderman also served as our Corporate Controller and held several other positions in the Company. Prior to joining Carriage, Ms. Blinderman served as the Chief Financial Officer of a privately-held litigation support company and practiced public accounting. Ms. Blinderman is a CPA and possesses a BBA and a MPA in Accounting from the University of Texas at Austin.

Carl B. Brink joined Carriage in January 2009 and was promoted to Senior Vice President and Chief Financial Officer in February 2017. He was appointed Principal Financial Officer in May 2015 and Co-Chief Financial Officer in August 2015. Mr. Brink has served as our Treasurer since January 2012. Mr. Brink also served as our Cash Supervisor from January 2009 through January 2012. Prior to joining Carriage, Mr. Brink served as the Cash Manager for International Paper in their Corporate Treasury group from 2006 to 2009. Mr. Brink has a BS in Finance from the University of Tennessee.



COMPENSATION DISCUSSION AND ANALYSIS

Carriage Services' compensation program for its Named Executive Officers is unique to the Company's identity as driven by our High Performance Culture. In order to better understand the decisions regarding our executive compensation program, this requires a brief look back into Carriage Services' history and our High Performance Culture.

Our Mission Statement states that we are committed to being the most professional, ethical, and highest quality funeral and cemetery service organization in our industry, or simply stated as Being The Best, and has not changed since its inception in 1991, and neither have our Five Guiding Principles:

1. Honesty, Integrity and Quality in All That We Do
2. Hard work, Pride of Accomplishment, and Shared Success Through Employee Ownership
3. Belief in the Power of People Through Individual Initiative and Teamwork
4. Outstanding Service and Profitability Go Hand-in-Hand
5. Growth of the Company Is Driven by Decentralization and Partnership

Carriage Services is on a Good To Great Journey that will never end. What is not explicitly stated is that in order to be great, the journey must be one of learning, adapting to change, and continuous improvement. What we have learned is that from 1991 to 2003, we were not aligned with our own Guiding Principles when we employed a "budget and control", top-down management model for operating and consolidating the highly fragmented funeral and cemetery industry. Even after implementing a High Performance Standards Operating Model in 2004, our learning journey continued on how to even first become good at operating with High Performance Standards that do not change from year-to-year.

Since Carriage's "New Beginning" in 2012, our Good To Great Journey of learning and continuous improving continues. Properly aligned, we always find ourselves returning to the Good To Great concepts of "First Who, Then What," "Right People on the bus in the Right Seats (and the wrong people off the bus)," and the "Flywheel Effect," as they remind us and reaffirm for us each and every time that the achieved quantitative results are not sustainable without the bedrock establishment of these qualitative Good To Great ideas that are deeply rooted into our High Performance Culture. Therefore, the Company's compensation program should also be aligned - beginning with how we think, the unique language we use internally, and leading directly into the actions we take - with our Mission Statement, Five Guiding Principles and Good To Great concepts driving our High Performance Culture. The key is first accepting and understanding that our High Performance Standards Operating Model is leadership-based (as opposed to the management focus required in a top-down, budget and control model). Much of our success emanates from being highly selective about leadership of the Company at all levels. We cannot stress enough that high performance quantitative results are not sustainable without establishing the qualitative foundation of the High Performance Culture first. We utilize a 4E Leadership Model (Energy, Energizes Others, Edge, Execute), initially developed by Jack Welch at General Electric, but tailored and evolved specifically to Carriage Services' needs and culture, to select and continuously assess our leaders. Our compensation practices support and reinforce our ability to attract, retain and motivate these leaders.

4E Leaders have an entrepreneurial, winning, competitive spirit and want to make a difference in Carriage Services' high performance culture and enrich our reputation within the funeral and cemetery industry. 4E Leaders are motivated by the recognition and rewards related to achievement of our Being The Best High Performance Standards. We expect our leaders to produce superior results and maximize long-term returns to our stockholders. Their compensation can vary based on the Company's results and their contributions.

Carriage Services has always kept an open door and has openly invited investors, analysts and anyone who wishes to learn more about the Company, both in general and as a long-term value creation investment platform, and to observe the unique and complete transparency of our High Performance Culture.

Compensation Philosophy and Practices

Overall, we believe Carriage's executive compensation programs align our executive pay with Company operational and financial performance, as well as, support our short and long-term business objectives. The Compensation Committee consists entirely of independent Board members and is responsible for the approval and oversight of compensation, benefit plans and employment agreements affecting Carriage Services' Named Executive Officers. During 2017, the Compensation Committee continued to implement the executive compensation philosophy (the "Philosophy"), which was developed to formalize the strategy behind our executive compensation practices and to serve as an ongoing reference point for executive compensation decisions. The Philosophy has been developed based on our Being The Best Mission Statement and Five Guiding Principles and may be summarized in this manner:

to attract, motivate, and retain exceptional 4E Leadership talent that are leaders within our High Performance Culture senior leadership team ("First Who"). These leaders are expected to improve on the already industry leading operating performance through attracting and motivating individual business Managing Partners with 4E Leadership characteristics, enhance our best-in-class corporate support functions, and make sound decisions regarding long term stockholder value creation, particularly involving capital allocation ("Then What");

to provide transparency between pay, commensurate with individual and team contribution, and our annual and long-term Company performance;

to motivate, reward, retain and reinvest in 4E Leadership that has established a proven record of success over time; and

to align senior leadership interests with what is best for the Company and thus, what is best for our stockholders.

In addition, the Philosophy outlines compensation practices that provide competitive overall compensation if performance objectives are achieved. Encouraging senior leadership to act as owners in Carriage is a critical concept of the compensation philosophy and as such, we have established stock ownership guidelines for our management.

Due to their long term tenure and current ownership in Carriage, the majority of the leadership team have already complied with the stock ownership guidelines. The individual's base salary is multiplied by the appropriate multiple as follows:

- 5x for Chairman of the Board/Chief Executive Officer
- 3x for President
- 2x for Regional Partners
- 1x for all other officers

Individual guidelines are based upon the base salary of the participant at the time the individual becomes subject to the guidelines and, as long as the covered individual remains in his or her position, the ownership guideline for such individual does not change as a result of changes in his or her base salary or normal fluctuations in the Company's Common Stock price. However, these Guidelines may be amended at any time, with notification to the participants of changes that impact their individual ownership guideline.

What We Do

Pay for Performance

A significant portion of 2017 executive compensation, approximately 70% of the compensation paid to our NEOs, is performance-based and is tied to our financial performance over the intermediate to long-term period.

Our CEO's 2017 annual cash incentive is weighted 100% towards objective financial goals for key financial performance metrics. Annual incentive amounts for other senior executives are determined by the CEO based on both individual contribution and company performance.

Our 2017 long-term incentive program is 100% at-risk, with 50% awarded in stock options and 50% awarded in performance shares tied to objective long-term operating and financial metrics that we believe will lead to significant stockholder value creation, if achieved.

Mitigate Risk

Carriage Services is principle-based in its unwavering beliefs and every day practices as reflected in our Five Guiding Principles. Our first Guiding Principle of "Honesty, Integrity and Quality in all that we do" requires that we hire and hold all employees, at all levels, accountable to this first Guiding Principle (as well as the other four Guiding Principles) at all times.

We have share ownership and trading guidelines for officers.

We have anti-hedging provisions as part of our insider trading policy, prohibiting our officers from hedging the risk of stock ownership by purchasing, selling or writing options on Company stock.

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We have clawback provisions that permit the Board to pursue recovery of incentive payments if the payment would have been lower based on restated financial results.

Manage Dilution

We regularly evaluate share utilization levels within our long-term incentive plans and we manage the dilutive impact of stock-based compensation to appropriate levels. We estimate that the long term incentive equity that was granted for fiscal year 2017 was approximately equal to 1.5% of our shares outstanding on a pre-tax, post option exercise basis.

During 2017, we repurchased approximately 674,000 shares of our common stock with an aggregate cost of approximately \$16.4 million and have repurchased 2.6 million shares or approximately 14% of our shares outstanding since the end of the second quarter of 2015.

What We Do Not Do

- No supplemental retirement plans.
- No repricing of underwater stock options.
- No option exercise prices below 100% of fair market value on the date of grant.
- No inclusion of long-term incentive awards in cash severance calculations.
- No excise tax gross-ups upon change in control.

Consideration of Previous Stockholder Advisory Vote

At our 2017 Annual Meeting of Stockholders, held on May 17, 2017, management's proposal to ratify our Named Executive Officer compensation programs for 2016 passed, with approximately 81% of all votes cast supporting it. Although, our stockholders supported our compensation program, our goal is to achieve a stronger approval rating, and as such, we have taken a number of steps to address stockholder concerns, including:

Ms. Blinderman and Mr. Brink continue to conduct outreach efforts with current and prospective stockholders. We 1. held approximately 150 meetings with current or prospective stockholders in 2017 where executive compensation and corporate governance issues were available to be discussed.

In regards to outreach prior to the 2017 Annual Meeting, Ms. Blinderman and Mr. Brink contacted stockholders representing approximately 60% of shares outstanding (as of April 2017). Those that responded that did hold 2. telephonic or in person meetings with management discussed topics that included executive compensation, board structure and involvement, performance measures and other topics.

The feedback from our stockholder engagement has been positive. More specifically, our long-term grants weighted towards performance measures has been particularly attractive and in alignment with stockholder interests. We also drafted this Compensation Discussion and Analysis to better explain the elements and quantitative measures of our incentive plan for 2017 and as it relates to the uniqueness of our Company culture.

While the stockholder vote to ratify our executive compensation is non-binding and advisory, we will continue to strive to understand and respond to stockholder feedback. We also invite and encourage our stockholders to learn more about what makes Carriage Services and its High Performance Culture so unique and transparent in its culture, practices and operations.

Elements of Compensation

Each element of our executive compensation program for Named Executive Officers has been designed to align with our Philosophy and with Carriage's goal of growing the intrinsic per share value for our long term stockholders through disciplined and consistent high level execution of our three core models (Standards Operating, Strategic Acquisition and 4E Leadership).

The Philosophy, which first begins with our belief in the Good To Great concept of "First Who, Then What," defines the "Right Who" to be someone who inherently "already possesses 4E Leadership characteristics as a starting point and that believes in and is completely aligned with our Mission Statement and Five Guiding Principles.

The Compensation Committee uses internal equity to determine the compensation for positions that are unique or difficult to benchmark against market data. Internal equity is also considered in establishing compensation for positions considered to be equivalent in responsibilities and importance, especially where precise external data is not available.



The allocation between cash and equity compensation and between short-and long-term incentives, was determined based on the discretion of the Compensation Committee. The ultimate allocation will depend on our future performance and future changes in our share price. If vesting targets are achieved, it is likely that a substantial percentage of the amount realized will be from long-term, equity-based incentives, which is consistent with our philosophy and our commitment to long-term value creation to our stockholders. We believe the elements of our compensation create incentives for the executives to take actions and make decisions that will benefit us over a long-term time period.

Compensation designed for our executive officers consisted of:

Pay Element	Description	Purpose
Base Salary	Fixed compensation, subject to annual review and changed due to responsibility, performance, and strategic performance.	Provide competitive base pay to hire and retain key talent, the “Right Who’s,” with the desired 4E Leadership qualities.
		Reflect roles, responsibilities, experience and performance.
Short-Term Incentives	Annual cash performance payment. For Mr. Payne, this award is conditioned upon achieving objective performance targets though may incorporate a subjective component. For all other Named Executive Officers, this award varies to the degree we achieve our annual financial, operational and strategic performance and to the extent to which the executive officer contributes to the achievement.	Provide market competitive cash incentive opportunities that will motivate our executives to achieve and exceed financial goals that support our Being The Best High Performance Standards.
		Align management and stockholder interests by linking pay and performance.
Long-Term Incentives	Restricted Stock: Time-based awards vesting over a minimum of three years.	Provide market competitive equity award opportunities that will align executive interests with our stockholders.
	Stock Options: The executive only realizes the potential appreciation in our stock price above the exercise price for stock options	Encourage executive share ownership.
	Performance Shares: The number of performance shares earned by an executive officer, if any, is based on performance over a multi-year period against specific financial and performance goals.	Encourage retention of executives who enhance our High Performance Culture consistent with our Good To Great Journey.
Retirement and Other Benefits	Group health and welfare benefit programs and tax-qualified retirement plans, except that our Named Executive Officers cannot participate in our Employee Stock Purchase Program. Mr. Payne, our Chief Executive Officer is reimbursed annually for life insurance premiums	Motivate executives to deliver long-term sustained growth and strong total stockholder return.
		Provide for current and future needs of the executives and their families.
		Enhances recruitment and retention.

of up to \$25,000. Named Executive Officers are reimbursed for executive physical and club dues.

Post-Termination
Compensation

Certain of our Named Executive Officers are party to an employment agreement to which they will be entitled to severance payments upon termination without cause during the term of the agreement or resignation for “good reason” during the twenty-four month period following a “corporate change.”

Enhances retention and attraction of management by providing employment protection.

Carriage maintains compensation programs in full alignment with our High Performance Culture. We regularly review how our levels of compensation align with performance and how our mix of pay (base salary versus annual cash incentives and long-term incentives) will allow us to attract and retain 4E Leaders, while motivating these leaders to execute upon both annual and long-term goals.

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CEO Compensation

The Compensation Committee believes that the average annual total compensation for the Chief Executive Officer of \$2.9 million over the past five years and any additional realized compensation from the increase in equity value is commensurate with the high level of operating and financial performance by Carriage.

The charts below depict the 2017 mix of total direct compensation (base salary, cash incentive bonus and long-term equity-based incentives) for our CEO and Chairman and other Named Executive Officers as a whole. A significant portion of the 2017 compensation of our Named Executive Officers is considered at-risk and is directly affected by our financial results and stock price, both in the amount of total cash compensation earned and the value of outstanding long-term equity awards. As such, 74% of the CEO's total direct compensation and, on average, 68% of our other NEO's total direct compensation, is variable and directly affected by both the Company's and each NEO's performance.

Compensation Evaluation Process

Our Compensation Committee has final approval regarding recommendations of executive officer compensation. Mr. Payne's role as our Chairman of the Board and Chief Executive Officer in determining executive compensation is to make compensation recommendations for those other than himself based on his assessment of the individual performance of each executive officer in relation to our overall Company performance. Management's role in determining executive compensation includes:

- developing, summarizing and presenting information and analyses 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 recommendations for individual executive officer bonus plans for consideration by our Compensation Committee and reporting to our Compensation Committee regarding achievement against the cash incentive bonus plans; and
- preparing long-term incentive award recommendations for our Compensation Committee's approval.

Given our unique organizational culture and the particular sector in which we belong, there are few direct, public company peers. In the past, it had been our practice to review market compensation and peer group data annually and to combine the results of the market analysis with our review of the roles and responsibilities of each of our executive positions in order to determine competitive pay levels for each Named Executive Officer of the Company.

During 2017, the Compensation Committee did not engage an independent, third party compensation consultant or use peer group data. However, the Committee retains the right to hire a compensation consultant, approve its compensation, determine the nature and scope of its services, evaluate its performance, and terminate its engagement. Instead, our senior leadership worked with the Committee on a compensation program that is aligned with and tailored to the uniqueness of Carriage Services' High Performance Culture.

To further our own learning and understanding of how to better approach a simple and transparent compensation plan that was appropriate and commensurate with our own identity of high performance, we reviewed internal, historical compensation trend data for executive and senior leadership over the last five years. Over the past few years our executive and senior leadership team, known as the Operations Strategic Growth & Leadership Team (OSGLT), became smaller, but improved in its leadership and qualitative effectiveness which we believe had a direct correlation with the Company's continuously improving quantitative performance results over this same time period.

Our internal analysis and recommendation was then presented to the Compensation Committee for review and approval.

CEO Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform Consumer Protection Act, and Item 402(u) of Regulation S-K, the following items are discussed below: (i) the median of the annual total compensation of all employees, excluding Mr. Payne, our CEO; (ii) the annual total compensation of our CEO; and (iii) the ratio of the median of the annual total compensation of all employees to the annual total compensation of our CEO. This information is intended to provide shareholders with a company-specific metric that can assist in their evaluation of our Company's executive compensation practices.

To identify the median of the total annual compensation of all our employees, as well as to determine the annual total compensation of our median employee and our CEO, we took the following steps:

We determined that as of December 31, 2017, our employee population consisted of approximately 2,403 individuals with all of these individuals located in the United States. This population consisted of 1,063 full-time and 1,340 part-time employees. Our part-time employees are an integral part of our business and due to our industry, are dedicated members of our community, but may only work on a very limited, as requested basis. We selected December 31, 2017, which is in the last three months of our most recent fiscal year, as the date upon which we would identify the "median employee" because it enabled us to make such identification in a reasonably efficient and economical manner.

To determine the "median employee" from our employee population, we examined the amount of salary, bonus, wages and other taxable income items of our employees as reported by us to the Internal Revenue Service on Form W-2 for 2017. The "median employee's" annual total compensation included the Company matching amount provided in our Section 401(k) employee savings plan. In making the determination, we annualized the compensation of approximately 445 employees who were hired in 2017, but did not work for us the entire fiscal year. This population consisted of 179 full-time and 266 part-time employees.

We determined our median employee using this compensation measure, which was consistently applied to all of our employees included in the calculation. Since all of our employees are located in the United States, as is our CEO, we did not make any cost of living adjustments when identifying the "median employee."

Once we determined our median employee, we combined all of the elements of such employee's compensation for 2017 in accordance of Item 402(c)(2)(x) of Regulation S-K, resulting in annual total compensation of approximately \$12,900.

With respect to the annual compensation of our CEO, we used the amount reported in the "Total" column (column (j)) of our 2017 Summary Compensation Table included in the Proxy Statement.

There has been no major change in our employee population or our employee compensation arrangements since that median employee was identified that we believe would significantly impact our pay ratio disclosure.

For the fiscal year ended December 31, 2017:

The median employee is an Ambassador in the community, working on an as needed or by request basis, proactively participating in civic and community events that create a lasting heritage;

The median annual total compensation of all employees of our Company (other than our CEO) was approximately \$12,900; and

The annual total compensation of our CEO, as reported in the Summary Compensation Table included elsewhere in this Proxy Statement was \$2,741,869.

Based on this information, for 2017, the ratio of the annual total compensation of Mr. Payne to the annual total median compensation of all other employees was 213 to 1.

2017 Base Salaries

The base salary for each of our executive officers is determined on an individual basis, taking into account such factors as the duties, experience and levels of responsibility of the executive. Base salaries for our Named Executive Officers, are evaluated annually and adjustments are approved by our Compensation Committee based on its evaluation of individual performance.

Our Compensation Committee approved the following annual base salaries of our Named Executive Officers:

Named Executive Officers	2016	2017
Melvin C. Payne	\$670,000	\$700,000
Mark R. Bruce	\$310,000	\$400,000
Paul D. Elliott	\$290,000	\$310,000
Shawn R. Phillips	\$280,000	\$310,000
Viki K. Blinderman	\$250,000	\$280,000
Carl B. Brink	\$210,000	\$280,000

2017 Annual Cash Incentive Bonuses

Melvin C. Payne, Chief Executive Officer

The annual cash incentive bonus for performance during fiscal year 2017 for Mr. Payne was based on previously established metrics. The quantitative metrics, deemed the Performance Bonus, are Adjusted Basic Free Cash Flow per Share (weighted 30%) and Adjusted Consolidated EBITDA Margin (weighted 70%) of which specific performance metrics are noted below. The funeral and cemetery industry produces high amounts of Free Cash Flow in conjunction with high percentages of EBITDA Margin, hence we changed a performance metric in 2017 to Free Cash Flow per Share to align performance assessment to the controllable operations of the Company.

During 2017, the goal of the annual cash incentive bonus is only stated at Target and Threshold. Any other short-term incentive award including, but not limited to, other qualitative factors such as 4E leadership development, deemed the Discretionary Bonus, is separate and at the discretion of the Compensation Committee up to a \$1,000,000 maximum payout for the combined total of the Performance plus the Discretionary Bonus pursuant to the terms of our Carriage Services, Inc. 2006 Plan (the "2006 Plan"), our 2017 Omnibus Incentive Plan (the "2017 Plan") or any future plan approved by the stockholders. Target achievement is based on 100% of Mr. Payne's 2017 salary. During 2017, Mr. Payne's employment agreement was amended to allow for changes and to better align these and future goals with the interests of the Company and the stockholders.

The table below sets forth the 2017 base salary for Mr. Payne and Target of the annual cash incentive bonus proposed for 2017.

Named Executive Officer	Annual Base Salary	Threshold ⁽¹⁾	Target ⁽¹⁾	Maximum ⁽¹⁾
Melvin C. Payne	\$ 700,000	\$ 350,000	\$ 700,000	\$ 1,000,000
Proposed Target as a Percentage of Salary		50	%	