

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)  
of the Securities Exchange Act of 1934

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement  
☐ Confidential, for Use of the Commission only (as permitted by Rule 14a-6(e)(2))  
☒ Definitive Proxy Statement  
☐ Definitive Additional Materials  
☐ Soliciting Material Pursuant to ss. 240.14a-11(c) or ss. 240.14a-12

CARRIAGE SERVICES, INC.  
(Name of Registrant as Specified in its Charter)

Paul E. Pryzant, Snell & Smith, P.C.,  
1000 Louisiana, Suite 3650, Houston, Tx 77002  
(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1. Title of each class of securities to which transaction applies:
2. Aggregate number of securities to which transaction applies:
3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:
4. Proposed maximum aggregate value of transaction:
5. Total fee paid:

☐ Fee paid previously with preliminary materials.  
☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:
2. Form, Schedule or Registration Statement No.:
3. Filing Party:
4. Date Filed:

[CARRIAGE SERVICES LOGO]

CARRIAGE SERVICES, INC.  
1300 POST OAK BLVD., SUITE 1500  
HOUSTON, TEXAS 77056

March 31, 1997

To our Stockholders:

You are cordially invited to attend the Annual Meeting of Stockholders of Carriage Services, Inc. to be held at the Doubletree Hotel, 2001 Post Oak Blvd., Houston, Texas 77056 on Wednesday, May 7, 1997, at 10:00 a.m., Houston time. For those of you who cannot be present at the Annual Meeting, we urge that you participate by completing the enclosed proxy and returning it at your earliest convenience.

We encourage you to read the enclosed Notice of the 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. The Proxy Statement also describes in detail other matters that will be voted upon at the Annual Meeting.

It is important that your shares are represented at the Annual Meeting, regardless of whether you are able to attend personally. Accordingly, you are requested to sign, date and mail promptly the enclosed proxy in the envelope provided.

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
OF  
CARRIAGE SERVICES, INC.  
TO BE HELD MAY 7, 1997

To the Stockholders of  
Carriage Services, Inc.:

Notice is hereby given that the Annual Meeting of Stockholders of Carriage Services, Inc. (the "Company") will be held at the Doubletree Hotel, 2001 Post Oak Blvd., Houston, Texas 77056 on Wednesday, May 7, 1997, at 10:00 a.m., Houston time, for the following purposes:

- (1) To elect three Class I directors, each for a three-year term expiring at the annual meeting of stockholders in 2000, and until their respective successors are elected and qualified.
- (2) To amend Article IV of the Company's Certificate of Incorporation to (i) increase the number of authorized shares of Class A Common Stock from 15,000,000 shares to 40,000,000 shares, (ii) reduce the number of authorized shares of Class B Common Stock from 15,000,000 shares to 10,000,000 shares, and (iii) increase the number of authorized shares of Preferred Stock from 50,000,000 shares to 70,000,000 shares.
- (3) To amend the Company's 1995 Stock Incentive Plan to increase the number of shares available thereunder from 400,000 shares to 700,000 shares and to make certain other amendments.
- (4) To amend the Company's 1996 Stock Option Plan in certain respects.
- (5) To amend the Company's 1996 Nonemployee Director's Stock Option Plan to (i) permit directors who are employees but not executive officers of the Company to participate, (ii) provide for an option grant of 15,000 shares of Class A Common Stock when a new director is appointed or elected to the Board (or 25,000 shares if the new director becomes a member of the Executive Committee), and (iii) make certain other amendments.
- (6) To ratify the selection of Arthur Andersen LLP as the independent public accountants of the Company for 1997.
- (7) To transact such other business as may properly come before the meeting or any adjournments thereof.

The close of business on March 10, 1997 has been fixed as the record date for determining stockholders entitled to notice of and to vote at the Annual Meeting or any adjournments thereof.

You are cordially invited and urged to attend the Annual Meeting. If, however, you are unable to attend the Annual Meeting, YOU ARE REQUESTED TO SIGN AND DATE THE ACCOMPANYING PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE. If you attend the Annual Meeting, and wish to do so, you may vote in person regardless of whether you have given your proxy. In any event, a proxy may be revoked at any time before it is exercised.

By Order of the Board of Directors

THOMAS C. LIVENGOOD,  
Secretary

Houston, Texas  
March 31, 1997

CARRIAGE SERVICES, INC.  
1300 POST OAK BLVD., SUITE 1500  
HOUSTON, TEXAS 77056

PROXY STATEMENT  
FOR  
ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD MAY 7, 1997

SOLICITATION

The accompanying proxy is solicited on behalf of the Board of Directors of Carriage Services, Inc., a Delaware corporation (the "Company"), by the Board of Directors to solicit proxies (the "Proxies" ) for use at the Annual Meeting of Stockholders (the "Meeting"). The Meeting will be held at the Doubletree Hotel, 2001 Post Oak Blvd., Houston, Texas 77056 at 10:00 a.m., Houston time, on Wednesday, May 7, 1997, or at such other time and place to which the Meeting may be adjourned.

All expenses of this solicitation will be borne by the Company, including the cost of preparing and mailing this Proxy Statement and the reimbursement of brokerage firms, banks and other nominees for their reasonable expenses in forwarding proxy material to beneficial owners of the Company's stock. The Company has retained American Stock Transfer & Trust Company ("American") to assist in the solicitation of proxies. No additional fee beyond the \$500 monthly fee paid to American to act as the Company's transfer agent, together with American's out-of-pocket expenses, will be paid to American. In addition to solicitation by mail, certain directors, officers and regular employees of the Company and American may solicit proxies by facsimile or by hand delivery.

This Proxy Statement and the accompanying proxy are being first mailed to stockholders of the Company on or about March 31, 1997.

RECORD DATE AND VOTING SECURITIES

Only holders of record of the Class A and Class B Common Stock and Series D and F Preferred Stock at the close of business on March 10, 1997, the record date for the Meeting, are entitled to notice of and to vote at the Meeting. On that date, the Company had outstanding (i) 4,484,495 shares of Class A Common Stock, each of which is entitled to one vote, (ii) 5,356,650 shares of Class B Common Stock, each of which is entitled to ten votes, (iii) 1,682,500 shares of Series D Preferred Stock, each of which is entitled to .0034 votes, and (iv) 19,999,992 shares of Series F Preferred Stock, each of which is entitled to either .0625 or .0667 votes, depending upon certain rights of the shares held. The voting power of each class or series, as of March 10, 1997, is summarized below:

CLASS OR SERIES	OUTSTANDING SHARES	NUMBER OF VOTES	PERCENTAGE OF VOTING POWER
Class A Common Stock.....	4,484,495	4,484,495	7.6%
Class B Common Stock.....	5,356,650	53,566,500	90.3%
Series D Preferred Stock.....	1,682,500	5,802	*
Series F Preferred Stock.....	19,999,992	1,272,450	2.1%
TOTAL.....		59,329,247	100.0%

\* Less than one percent.

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 Class A and B Common Stock and Series D and F Preferred Stock is necessary to constitute a quorum to transact business. Abstentions and broker non-votes will be counted for purposes of whether a quorum is present at the Meeting. In the absence of a quorum at the

Meeting, the Meeting may be adjourned from time to time without notice other than announcement at the Meeting until a quorum shall be formed.

If a quorum is present at the Meeting, (i) the Class I directors will be elected by a plurality of the votes cast at the Meeting, (ii) approval of the amendment to the Company's Certificate of Incorporation will require the affirmative vote of the holders of a majority of the voting power of the outstanding shares of Class A and B Common Stock and Series D and F Preferred Stock, all voting together as a single class, and (iii) approval of the amendments to the 1995 Stock Incentive Plan, the 1996 Stock Option Plan and the 1996 Nonemployee Director's Stock Option Plan, and the ratification of the selection of Arthur Andersen LLP as the independent public accountants of the Company for 1997, each requires the affirmative vote of the holders of a majority of the voting power present or represented by proxy at the Meeting. Since directors are elected by a plurality of the votes cast, shares that are withheld will have no effect on the outcome of the election of directors. With respect to any matter other than the election of directors, abstentions will have the effect of a vote against the proposal. Broker non-votes will not be counted to determine the stockholders entitled to vote on a proposal, and will not affect the outcome of the vote on such matter.

All duly executed Proxies received prior to the Meeting will be voted in accordance with the choices specified thereon. As to any matter for which no choice has been specified in a duly executed Proxy, the shares represented thereby will be voted in favor of all proposals described herein 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 of the Company an instrument revoking it, or by signing and delivering to the Secretary of the Company a Proxy bearing a later date, or by voting in person at the Meeting.

SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS  
AND CERTAIN BENEFICIAL OWNERS

The following table sets forth, as of March 10, 1997, the ownership of Class A and B Common Stock (including Class A and B Common Stock into which the Series D and F Preferred Stock are convertible) of: (i) any person or group known by the Company to be the beneficial owner of 5% or more of the Class A and B Common Stock, (ii) each director and director nominee of the Company, (iii) the Chief Executive Officer, (iv) the other executive officers named in the Summary Compensation Table set forth under "Executive Compensation" below, and (v) all executive officers and directors of the Company as a group. Under the rules of the Securities and Exchange Commission, 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 sixty days through the exercise of currently available conversion rights or options. Except as otherwise indicated, the stockholders listed in the table below have sole voting and investment power with respect to the shares indicated.

BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP		PERCENT OF CLASS A AND B COMMON STOCK	PERCENT OF VOTING CONTROL(2)
	CLASS A COMMON STOCK	CLASS B COMMON STOCK(1)		
C. Byron Snyder.....	80,010	1,296,311(3)(10)	14.0	22.5
Melvin C. Payne.....	0	629,769(4)(10)	6.4	10.8
Robert D. Larrabee.....	0	111,111(5)	1.0	*
Mark W. Duffey.....	0	313,625(10)	3.2	5.4
Barry K. Fingerhut.....	85,100	520,924(6)(10)	6.2	9.1
Stuart W. Stedman.....	82,563(7)	145,223(7)(10)	2.3	2.6
Ronald A. Erickson.....	10,400(8)	61,621(8)	*	1.1
Mark F. Wilson.....	498,397(9)	0	4.9	*
Russell W. Allen.....	375	63,000	*	1.1
All Directors and Executive Officers as a group (13 persons).....	764,045	3,362,721	39.9	57.1

\* Indicates less than one percent.

- (1) Each share of Class B Common Stock has ten votes per share and is convertible at any time into one share of Class A Common Stock. If not converted earlier, any outstanding shares of Class B Common Stock will be automatically converted into shares of Class A Common Stock on December 31, 2001.
- (2) This column sets forth the percentage of voting power held by the person based on the type of securities held. Each share of Class A Common Stock is entitled to one vote, each share of Class B Common Stock is entitled to ten votes, each share of Series D Preferred Stock is entitled to .0034 votes, and each share of Series F Preferred Stock is entitled to either .0625 or .0667 votes, depending upon certain rights of the shares held.
- (3) Mr. Snyder's holdings include 367,550 shares of Class B Common Stock owned by 1996 Snyder Family Partnership, Ltd., 9,005 shares of Class B Common Stock owned by the C. Byron Snyder 1996 Trust, and 9,005 shares of Class B Common Stock owned by the Martha Ann Snyder 1996 Trust.
- (4) Mr. Payne's holdings include 119,161 shares of Class B Common Stock owned by 1996 Payne Family Partnership, Ltd., 2,919 shares of Class B Common Stock owned by the Melvin C. Payne 1996 Trust, 2,919 shares of Class B Common Stock owned by the Karen P. Payne 1996 Trust, and 5,555 shares of Class B Common Stock owned by the Melvin C. Payne, Jr. Pension Plan and Trust.
- (5) Mr. Larrabee and his spouse hold an aggregate of 1,500,000 shares of Series D Preferred Stock, of which 252,410 shares are held by Larrabee Land Company, Inc. which is owned by Mr. Larrabee and his spouse. Such shares of Series D Preferred Stock are presently convertible into 111,111 shares of Class B Common Stock which are in turn convertible at any time into 111,111 shares of Class A Common Stock. Also, such shares of Series D Preferred Stock presently have 5,556 votes.

(FOOTNOTES CONTINUED ON FOLLOWING PAGE)

- (6) Mr. Fingerhut's holdings include 422,222 shares of Class B Common Stock held by Applewood Associates, L.P., a limited partnership of which Mr. Fingerhut is a general partner; 6,111 shares of Class B Common Stock held by Longboat Key Associates, a general partnership of which Mr. Fingerhut is a general partner; and 8,333 shares of Class B Common Stock held by Mr. Fingerhut jointly with Michael J. Marocco.
- (7) Mr. Stedman's holdings include (i) 2,689 shares of Class A Common Stock and 31,309 shares of Class B Common Stock which are held by the Betty Ann Stedman Trust, of which Mr. Stedman is a Trustee, (ii) 1,083 shares of Class A Common Stock and 8,349 shares of Class B Common Stock which are held by the Wesley West Descendant's Trust, of which Mr. Stedman is a Trustee, (iii) 292 shares of Class A Common Stock and 3,130 shares of Class B Common Stock which are held by the Courtney Lynn Meagher Trust, of which Mr. Stedman is a Trustee, (iv) 239 shares of Class A Common Stock and 3,130 shares of Class B Common Stock which are held by the Evan Everett Meagher 1989 Trust, of which Mr. Stedman is a Trustee, (v) 19,902 shares of Class A Common Stock and 35,000 shares of Class B Common Stock which are held by the Wesley West Land Holding Company, of which Mr. Stedman is the President and an indirect beneficial owner through a trust of which he is a beneficiary, (vi) 46,056 shares of Class A Common Stock which are held by the Wesley West Long Term Partnership, a partnership of which Mr. Stedman serves as the Manager of the General Partner, and (vii) 8,500 shares of Class A Common Stock which are held by the Wesley West Flexible Partnership, a partnership of which Mr. Stedman serves as the Managing Partner.
- (8) Mr. Erickson's holdings include (i) 4,000 shares of Class A Common Stock and 44,015 shares of Class B Common Stock which are held by the Alfred and Rose Erickson Trust f/b/o Ronald A. Erickson, (ii) 1,400 shares of Class A Common Stock and 17,606 shares of Class B Common Stock which are held by the Alfred and Rose Erickson Trust f/b/o Donovan A. Erickson, of which Mr. Erickson is the Trustee, and (iii) 5,000 shares of Class A Common Stock held by Mr. Erickson's minor son, David S. Erickson.
- (9) Mr. Wilson's holdings include 6,096,030 shares of Series F Preferred Stock which are presently convertible into 390,952 shares of Class A Common Stock and have the same number of votes. Of these shares of Series F Preferred Stock held by Mr. Wilson, 707,700 are held by the Wilson Trust B U/A/D 9/9/77 by Francis Wilson and 707,700 are held by the Wilson Trust C U/A/D 9/9/77 by Francis Wilson, both of which Mr. Wilson is a beneficiary of and a Co-Trustee.
- (10) C. Byron Snyder, Melvin C. Payne, Mark W. Duffey, Barry K. Fingerhut and certain of his affiliates and business associates, Stuart W. Stedman and certain of his affiliates, and Reid A. Millard have executed a Voting Agreement dated effective as of August 8, 1996 relating to any shares of capital stock of the Company held by any of them. These parties beneficially hold an aggregate of 228,063 shares of Class A Common Stock and 3,003,628 shares of Class B Common Stock. Under the Voting Agreement, each party has agreed (i) not to sell or otherwise transfer any shares of capital stock of the Company held or acquired by such party to any "competitor" of the Company without the prior written consent of the holders of at least 80% of the voting power of the shares of capital stock subject to the Voting Agreement, (ii) unless the holders of at least 80% of the voting power of the outstanding shares of capital stock of the Company are in favor of such action, not to vote the shares of capital stock of the Company held by such party in favor of (x) a merger, consolidation or similar corporate action involving a "competitor," other than in connection with an acquisition by the Company of funeral homes or cemeteries in which the Company is the acquiring or controlling party, (y) the sale of all or substantially all of the assets of the Company to a "competitor," or (z) any amendment to Articles V, VI or VII of the Company's Certificate of Incorporation (which relate to the classified Board of Directors, the relative rights and powers of the Board of Directors and the stockholders and the ability of the stockholders of the Company to act by written consent). A "competitor" is defined in the Voting Agreement as any person or entity engaged in the funeral service, cemetery, crematory or related lines of business.

# I. ELECTION OF DIRECTORS

## GENERAL

The Board of Directors currently consists of eight members. In accordance with the Certificate of Incorporation of the Company, the members of the Board of Directors are divided into three classes, designated Class I, Class II and Class III, respectively, and are elected for a term of office expiring at the third succeeding annual stockholders' meeting following their election to office and until their successors are duly elected and qualified. The Certificate of Incorporation also provides that such classes shall be as nearly equal in number as possible. The term of office of the Class I directors expires at the Meeting. The Class II and Class III directors are serving terms that expire at the annual meeting of stockholders in 1998 and 1999, respectively.

Melvin C. Payne, C. Byron Snyder and Robert D. Larrabee, the Class I directors whose terms are expiring at the Meeting, have been nominated by the Board of Directors for re-election at the Meeting for a three-year term of office expiring at the annual meeting of stockholders in 2000 and until their successors are duly elected and qualified. Proxies may be voted for three directors.

THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE ELECTION OF THE NOMINEES LISTED ABOVE AS CLASS I DIRECTORS. UNLESS OTHERWISE DIRECTED IN THE ACCOMPANYING PROXY, THE PERSONS NAMED THEREIN WILL VOTE "FOR" THE ELECTION OF THE NOMINEES LISTED ABOVE AS CLASS I DIRECTORS.

Stockholders may not cumulate their votes in the election of directors. The three nominees receiving the highest number of affirmative votes will be elected to the Board. Stockholders entitled to vote for the election of directors may withhold authority to vote for any or all nominees for directors. If any nominee becomes unavailable for any reason, then the shares represented by the proxy will be voted FOR the remainder of the listed nominees and for such other nominees as may be designated by the Board as replacements for those who become unavailable. Discretionary authority to do so is included in the proxy.

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

NAME	AGE	TITLE
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NOMINEES FOR CLASS I DIRECTOR		
(TERM EXPIRING AT 2000 ANNUAL MEETING)		
Melvin C. Payne(1).....	54	Chairman of the Board, Chief Executive Officer and Director
C. Byron Snyder(1)(2).....	48	Director and Chairman of the Executive Committee
Robert D. Larrabee.....	61	Director
CONTINUING CLASS II DIRECTORS		
(TERM EXPIRING AT 1998 ANNUAL MEETING)		
Mark W. Duffey(1).....	40	President and Director
Barry K. Fingerhut(1)(2).....	51	Director
CONTINUING CLASS III DIRECTORS		
(TERM EXPIRING AT 1999 ANNUAL MEETING)		
Stuart W. Stedman(3).....	39	Director
Ronald A. Erickson(3).....	60	Director
Mark F. Wilson.....	49	Director

(TABLE CONTINUED ON FOLLOWING PAGE)

NAME	AGE	POSITION
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EXECUTIVE OFFICERS WHO ARE NOT  
DIRECTORS

Thomas C. Livengood.....	41	Executive Vice President, Chief Financial Officer and Secretary
Russell W. Allen.....	49	Executive Vice President of Operations
Gary O'Sullivan.....	44	Senior Vice President -- Marketing
Reid A. Millard.....	37	Vice President, Corporate Development
Mary-Lees G. Payne.....	48	Vice President, Administration and Accounting

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(1) Member of Executive Committee.

(2) Member of Compensation Committee.

(3) Member of Audit Committee.

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

DIRECTORS

MELVIN C. PAYNE, one of the three management founders of the Company, has  
been Chairman of the Board and Chief Executive Officer of the Company since  
December 1996. Prior to then, he had been the President, Chief Executive Officer  
and a director of the Company since its inception in 1991. Prior to co-founding  
the Company, Mr. Payne was a co-founder in 1990 of Sovereign Capital Partners,  
Inc., an investment and management advisory firm which specialized in  
restructuring, recapitalizing and acquiring or selling financially troubled  
companies. From 1991 to 1993, Mr. Payne also served as a director and officer of  
Sovereign Holdings, Inc., RTO Enterprises, Inc. and various subsidiaries of RTO  
Enterprises, Inc. Mr. Payne has 25 years of broad investment, banking and  
operating management experience, including positions as Executive Vice President  
and director of Wedge Group, Inc., an investment holding company with  
multi-industry operations, and with Texas Commerce Bank and Prudential Insurance  
Company. Mr. Payne serves on the Board of Trustees of WNL Series Trust, a mutual  
fund affiliated with Western National Life Insurance Company, and the Board of  
Directors of Sovereign Business Forms, Inc., a private company seeking to  
consolidate companies in the business forms manufacturing industry.

C. BYRON SNYDER has been a director of the Company since 1991, was Chairman  
of the Board of Directors of the Company from 1991 until December 1996, and is  
currently Chairman of the Executive Committee. Mr. Snyder is presently owner and  
President of Relco Refrigeration Co., a distributor of refrigeration equipment,  
which he acquired in 1992. Prior to co-founding the Company, Mr. Snyder was the  
owner and Chief Executive Officer of Southwestern Graphics International, Inc.,  
a diversified holding company which owned Brandt & Lawson Printing Co., a  
Houston-based general printing business, and Acco Waste Paper Company, an  
independent recycling business. Brandt & Lawson Printing Co. was sold to Hart  
Graphics in 1989, and Acco Waste Paper Company was sold to Browning-Ferris  
Industries in 1991.

ROBERT D. LARRABEE has been a director of the Company since it went public  
in August 1996. Mr. Larrabee is the former owner of a group of four funeral  
homes and two cemeteries in the states of Washington and Idaho that the Company  
acquired in April 1996. In connection with that transaction, the Company agreed  
to undertake to appoint Mr. Larrabee to the Board if the Company went public,  
and Mr. Larrabee also became an employee of a subsidiary of the Company. He is  
the founder, past president and past director of Valley Bank in Clarkston,  
Washington (now part of U.S. Bank of Idaho); founder, past Chairman of the Board  
and past President of Purple Cross Insurance Company (now part of American  
Memorial Life); and founder of Lewis-Clark Savings and Loan Association (now  
part of Sterling Financial Corporation). He also serves on the board of Sterling  
Financial Corporation and, until 1995, served on the Board of Directors of  
Laurentian Capital Corporation.



MARK W. DUFFEY, one of the three management founders of the Company, has been President of the Company since December 1996. Prior to then, he had been Executive Vice President and Chief Financial Officer since the inception of the Company in 1991 and became a director in 1995. Prior to co-founding the Company, Mr. Duffey was a co-founder of Sovereign Capital Partners, Inc. with Mr. Payne. From 1991 to 1993, Mr. Duffey served as a director and officer of Sovereign Holdings, Inc., RTO Enterprises, Inc. and various subsidiaries of RTO Enterprises, Inc. Prior to 1989, he held various positions with Mellon Bank over a ten-year period, both in Pittsburgh and in Houston. He serves on the Board of Directors of Sovereign Business Forms, Inc., a private company seeking to consolidate companies in the business forms manufacturing industry.

BARRY K. FINGERHUT has been a director of the Company since 1995. Since 1981, Mr. Fingerhut has been associated with, and now serves as President of, GeoCapital, a registered investment adviser located in New York City which focuses its investment advice and management on securities of small capitalization companies. As of December 31, 1996, GeoCapital managed accounts having a market value of approximately \$1.9 billion. Mr. Fingerhut also has co-founded several investment partnerships that invest primarily in undervalued publicly traded companies and high growth companies engaged in the communications, media or entertainment industries. Mr. Fingerhut presently is a director of Millbrook Press, Inc., a publisher of children's non-fiction books, and UOL Publishing, Inc., an online publisher of academic and corporate texts. He previously served as a director of La Quinta Inns, Inc., a nationwide lodging chain, and Lakeshore National Bank, Inc., which was acquired by First Chicago Corp. in 1994.

STUART W. STEDMAN has been a director of the Company since it went public in August 1996. For the past ten 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 of Strand Energy, L.L.C., a private exploration and production company.

RONALD A. ERICKSON has been a director of the Company since the Company went public in August 1996. Mr. Erickson is Chief Executive Officer of Holiday Companies, Minneapolis, Minnesota, a family business consisting primarily of convenience stores, supermarkets, sporting goods stores and wholesale food distribution.

MARK F. WILSON became a director of the Company on January 7, 1997 when CNM merged with the Company. Mr. Wilson served as the President of CNM from 1988 until the merger with the Company, and continues as the President of Carriage Funeral Services of California, Inc., a subsidiary of the Company. 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, the Company agreed to increase the Board of Directors to eight members and appoint Mr. Wilson as a director. Mr. Wilson also serves on the Board of Directors of Mechanics Bank, Richmond, California, and Hills Newspapers, a publisher of weekly newspapers in Northern California.

#### EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

THOMAS C. LIVENGOOD joined the Company in December 1996 as Executive Vice President, Chief Financial Officer and Corporate Secretary. Mr. Livengood, a certified public accountant, has responsibility for the financial and administrative functions of the Company. Prior to joining the Company, he served as Vice President and Chief Financial Officer of Tenneco Energy, previously the largest division of Tenneco Inc., a Fortune 100 company, prior to the divestiture of its diversified businesses. Prior to joining Tenneco Energy in 1988, Mr. Livengood served in various financial management capacities with USX Corp., Texas Oil & Gas Corp. and KPMG Peat Marwick, an international CPA firm.

RUSSELL W. ALLEN joined the Company in June 1993 as Executive Vice President of Operations. Mr. Allen has over 32 years of operational experience in the funeral home industry. Prior to joining the Company, he was affiliated with Earthman Funeral Directors and Greenwood-Mount Olivet Funeral Homes and Cemeteries in Fort Worth, Texas for one and 21 years, respectively, serving most recently as Executive Vice President of Operations with each company. Mr. Allen recently completed a term of six years as Vice

Chairman of the Texas Funeral Service Commission and as Chairman of the Education and Legislation Committees. He is also a member of the Texas Cemetery Association and has served on the Legislative Committees with that organization.

GARY O'SULLIVAN joined the Company in October 1996 as Senior Vice President - -- Marketing. From March 1996 to September 1996, Mr. O'Sullivan was the Regional Vice President of Sales (Florida) for Service Corporation International. Prior to then, Mr. O'Sullivan was the Vice President of Sales and Marketing for Woodlawn Memorial Park and Funeral Home from May 1993 to March 1996. He was the Director of Sales and Marketing for Earthman Funeral Home and Cemeteries from August 1989 to May 1993.

REID A. MILLARD, one of the three management founders of the Company, has served as the Vice President, Corporate Development of the Company since June 1996. From November 1993 until June 1996, Mr. Millard was active in various positions with the Company in operations and corporate development. From the Company's inception in 1991 until November 1993, Mr. Millard served as Executive Vice President of the Company. Mr. Millard has 21 years of management experience in the funeral service industry, including spending nine years at Service Corporation International ("SCI"), where he obtained a wide range of experience in operations, marketing, merchandising, real estate, preneed sales, general management and independent funeral home ownership relations. He left SCI in 1990 to pursue various entrepreneurial activities, including the ownership and operation of a funeral home in Jefferson City, Missouri.

MARY-LEES PAYNE has served as the Vice President, Administration and Accounting, of the Company since June 1995. Prior to then, she served as the Controller of the Company from June 1993 to June 1995, and as a consultant to the Company from January 1992 to June 1993. From 1984 to 1989, she served as Vice President and Controller for three start-up companies, two in the death care industry. Prior to 1984, Ms. Payne was an audit manager in the international accounting firm of Ernst & Young. Ms. Payne is a certified public accountant and is not related to Melvin C. Payne.

#### ORGANIZATION AND COMMITTEES OF THE BOARD

During 1996, the Board met two times and acted by unanimous written consent approximately 40 times. Each of the directors attended at least 75% of the meetings of the Board and the Committees on which he served.

The Board has three standing committees, the Executive Committee, the Audit Committee and the Compensation Committee. The functions of these committees and the number of meetings held during 1996 are described below.

The members of the Executive Committee are Melvin C. Payne, Mark W. Duffey, C. Byron Snyder and Barry K. Fingerhut. Mr. Snyder is the Chairman of the Committee. 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 separately meet as a committee during 1996.

The members of the Audit Committee are Stuart W. Stedman and Ronald A. Erickson. The Audit Committee recommends to the Board the appointment of the Company's independent auditors, and reviews the plan, scope and results of the audit with the auditors and the Company's officers. The Audit Committee also reviews with the auditors the principal accounting policies and internal accounting controls of the Company. The Audit Committee met one time during 1996.

The members of the Compensation Committee are C. Byron Snyder and Barry K. Fingerhut. From August 1996 until January 30, 1997, Robert D. Larrabee served on the Compensation Committee until he was replaced by Mr. Snyder. The Compensation Committee reviews and makes recommendations to the Board concerning the compensation of the Company's officers and employees, including stock option plans incentive compensation programs and benefit plans. The Compensation Committee also administers, and makes grants of stock options under, the Company's 1995 Stock Incentive Plan and 1996 Stock Option

Plan. During 1996, the Compensation Committee met one time and acted by unanimous consent three times.

#### SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

Based solely on a review of the copies of such reports furnished to the Company or written representations that no other reports were required, the Company believes that all filing requirements applicable to its executive officers, directors and greater than 10% beneficial owners were complied with during 1996, except that: (i) C. Byron Snyder, Barry K. Fingerhut, Russell W. Allen and Mary-Lees Payne each timely filed his or her original Form 3, but inadvertently did not include additional shares of Class A Common Stock that were purchased in the Company's initial public offering in August 1996 (such omission was subsequently corrected in an amended Form 3); (ii) Robert D. Larrabee inadvertently did not report his holdings of Series D Preferred Stock on his original Form 3, but subsequently corrected this omission on an amended Form 3; (iii) Stuart W. Stedman inadvertently did not report securities held by an affiliate on his Form 3, but this omission was subsequently corrected on an amended Form 3, (iv) Mr. Stedman also filed a late Form 4 to report a subsequent purchase; (v) Ronald A. Erickson inadvertently did not report on his Form 3 holdings of Class A and B Common Stock which were held by a trust for which he is the Trustee, but subsequently corrected this omission in an amended Form 3; (vi) Mr. Erickson also filed a late Form 4 to report the purchase of shares of Class A Common Stock for his minor son; and (vii) Mark F. Wilson and Gary O'Sullivan each filed a late Form 3 after they became a director and executive officer, respectively, of the Company.

#### CERTAIN TRANSACTIONS

In connection with the Company's formation in June 1991, C. Byron Snyder, a director and, until December 1996, the Chairman of the Board of Directors, made subordinated loans to the Company in the principal amount of \$6,000,000. These loans bore interest at a predetermined rate plus 3%, subject to adjustment in certain circumstances, payable annually in the form of cash or additional subordinated notes. On January 1, 1995, the Company issued additional subordinated notes to Mr. Snyder totaling \$648,215 for the interest accrued on these loans during 1994. On January 1, 1996, the Company issued additional subordinated notes to Mr. Snyder totaling \$825,118 for the interest accrued on these subordinated loans during 1995. In August 1996, all of the loans to Mr. Snyder were repaid in full with a portion of the proceeds from the Company's initial public offering.

The Company has an agreement with ACCO Collection Company ("ACCO"), which is owned by Mr. Snyder, under which the Company may transfer responsibility for collection of past due accounts receivable to ACCO in return for a percentage of the collection received. In 1996, the Company paid \$1,597 in fees to ACCO under this Agreement.

Prior to August, 1996, the Company paid Mr. Snyder a \$25,000 annual fee in return for certain services provided to the Company. Mr. Snyder was active in determining the strategic direction of the Company as well as being involved in reviewing major acquisitions. In addition, prior to August 1996, the Company paid Mr. Snyder \$40,000 per year as consideration for Mr. Snyder's indirect guarantee of a portion of the Company's loan from Texas Commerce Bank. Mr. Snyder's guarantee was released upon repayment of the loan in connection with the Company's public offering in August 1996. These arrangements were terminated in August 1996 and Mr. Snyder is now compensated in the same manner as the other nonemployee directors. SEE "Executive Compensation -- Compensation of Directors."

In connection with the acquisition in January 1997 by the Company of CNM, which was controlled by Mark F. Wilson and others, (i) Mr. Wilson and a subsidiary of the Company entered into a five-year employment agreement providing for, among other things, the payment of a base salary to Mr. Wilson of \$150,000 per year, (ii) Mr. Wilson and such subsidiary entered into a fifteen-year non-competition agreement providing for, among other things, the payment to Mr. Wilson of \$170,000 per year, and (iii) the Company agreed to appoint Mr. Wilson to the Board of Directors of the Company. In addition, Mr. Wilson and the other former shareholders of CNM who acquired Carriage stock entered into a co-sale agreement with Messrs. Snyder, Fingerhut, Payne, Duffey and certain affiliated stockholders, under which such persons agreed not to sell a certain level of their stock holdings in a single or related group of transactions unless the former CNM shareholders were given the opportunity to participate in the sales transaction, and in which the selling group could require the other parties to participate in a sales transaction. This transaction was entered into immediately prior to Mr. Wilson becoming a director of the Company, and the compensation detailed above does not relate to any services provided by Mr. Wilson as a director of the Company.

Mr. Wilson also is a party to an arrangement with the Company whereby Mr. Wilson may receive annual cash bonuses if acquisition candidates which he develops and which are subsequently acquired by the Company attain cash flow in excess of certain cash flow targets over a ten-year period. Pursuant to this arrangement, Mr. Wilson may elect to sell back to the Company his share of excess cash flow during the last three-year period at a predetermined cash flow multiple. To date, no payments have been made by the Company under this arrangement.

In July 1996, the Company loaned Russell W. Allen, an executive officer of the Company, \$316,714 to allow Mr. Allen to exercise his options to purchase shares of Class B Common Stock of the Company and to pay the federal income tax liability incurred pursuant to such exercise. The loan matures on June 30, 1999, bears interest at 7% per year payable annually on or before March 31 of each year and is secured by 50% of the Class B Common Stock purchased by Mr. Allen.

Certain transactions involving Robert D. Larrabee, a director of the Company, are described under "Compensation Committee Interlocks and Insider Participation" elsewhere in this Proxy Statement.

## EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE. Set forth below is information regarding the compensation for the years ended December 31, 1996 and 1995 for the Company's Chief Executive Officer and the two other most highly compensated executive officers of the Company whose total annual salary and bonus during 1996 exceeded \$100,000 (collectively, the "Named Executive Officers").

## SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG TERM COMPENSATION	
		SALARY	BONUS	OTHER ANNUAL COMPENSATION(1)	AWARDS SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPEN- SATION(2)
MELVIN C. PAYNE .....	1996	\$ 194,292	\$ 0(3)	0	250,000	\$ 1,168
Chairman of the Board and Chief	1995	\$171,576	0	0	0	1,174
Executive Officer						
MARK W. DUFFEY .....	1996	\$ 162,231	\$ 0(3)	0	150,000	\$ 1,901
President	1995	\$145,632	0	0	0	1,889
RUSSELL W. ALLEN .....	1996	\$ 121,634	\$ 0(3)	0	50,000	\$ 0
Executive Vice President of Operations	1995	\$93,356	\$ 20,000	0	0	193

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- (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) Each of the amounts in this column reflect contributions by the Company to its 401(k) Plan for the executive's benefit.
- (3) The bonus for 1996 for these Named Executive Officers has not yet been determined. SEE "Compensation Committee Report on Executive Compensation -- Bonuses for Executive Officers in 1996."

# STOCK OPTION GRANTS IN 1996

The Company has three stock option plans, the 1995 Stock Incentive Plan (the "1995 Plan"), the 1996 Stock Option Plan (the "1996 Plan") and the 1996 Nonemployee Directors' Plan (the "Directors' Plan"). 400,000 shares of Class A and B Common Stock are reserved for issuance under the 1995 Plan, but the Board is proposing to increase the shares available under the Plan to 700,000 shares. SEE Proposal 3 elsewhere in this Proxy Statement. Options issued under the 1995 Plan prior to the Company's initial public offering in August 1996 are satisfied with shares of Class B Common Stock, but options issued after that date are satisfied with shares of Class A Common Stock. 600,000 shares of Class A Common Stock are reserved for issuance under the 1996 Plan and 200,000 shares of Class A Common Stock are reserved for issuance under the Directors' 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 are non-qualified stock options.

The following table sets forth information on the grants of options to acquire shares of Class A Common Stock made during the year ended December 31, 1996 to the Named Executive Officers in the Summary Compensation Table.

## OPTION GRANTS IN LAST FISCAL YEAR

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(2)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1996	EXERCISE OR BASE PRICE (\$/SH)	EXPIRATION DATE	5%	10%
Melvin C. Payne.....	250,000	30.6%	\$ 13.50	2006	\$ 2,122,875	\$ 5,379,750
Mark W. Duffey.....	150,000	18.3%	\$ 13.50	2006	\$ 1,273,725	\$ 3,227,850
Russell W. Allen.....	50,000	6.1%	\$ 13.50	2006	\$ 424,575	\$ 1,075,950

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(1) Options granted are for a term of ten years and vest 8.33% per year on the first through fourth anniversary dates of the grant date and 16.66% per year on the fifth through eighth anniversary dates of the grant date; PROVIDED, HOWEVER, the options scheduled to vest in years 5-8 from the grant date (i.e., 66 2/3 of the total grant) vest immediately if the average of the daily high and low prices of the Class A Common Stock for 20 consecutive trading days exceeds \$27.99 prior to the fourth anniversary of the grant date.

(2) These amounts represent certain assumed rates of appreciation based on the actual option term and annual compounding from the date of grant. Assumed rates of appreciation are in accordance with guidelines established by the Securities and Exchange Commission. Actual gains, if any, on stock option exercises and Class A Common Stock holdings are dependent on the future performance of the Class A Common Stock and overall stock market conditions. There can be no assurance that the stock appreciation amounts reflected in this table will be achieved; conversely, actual gains may prove to be substantially in excess of those presented.

# 1996 OPTION EXERCISES AND YEAR-END OPTION HOLDINGS

The following table sets forth, with respect to the Named Executive Officers in the Summary Compensation Table, information concerning the exercise of stock options during the year ended December 31, 1996, and the year-end value of unexercised options. This table sets forth options for Class A Common Stock.

## AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF UNEXERCISED OPTIONS HELD AT DECEMBER 31, 1996		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1996(1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Melvin C. Payne.....	--	--	0	250,000	0	\$ 2,218,750
Mark W. Duffey.....	--	--	0	150,000	0	\$ 1,331,250
Russell W. Allen.....	--	--	0	50,000	0	\$ 443,750

(1) An option is "in-the-money" if the market value of the Class A 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 \$22.375 on the Nasdaq National Market System on December 31, 1996 and any lesser exercise price.

## COMPENSATION OF DIRECTORS

In lieu of cash compensation, each director of the Company who is not an officer or employee of the Company or any of its subsidiaries (a "nonemployee director") is entitled to receive options under the 1996 Nonemployee Directors' Stock Option Plan (the "Directors' Plan"). In addition, nonemployee directors are reimbursed for expenses incurred in attending meetings of the Board of Directors and Committees thereof.

Under the Directors' Plan, each individual who was a nonemployee director as of the date of the Company's initial public offering in August 1996 received a non-qualified stock option (an "Initial Option") to purchase 15,000 shares (or 25,000 if the nonemployee director also served on the Executive Committee as of such date) of Class A Common Stock at an exercise price per share equal to the initial public offering price of \$13.50 per share. C. Byron Snyder and Barry K. Fingerhut were each serving on the Executive Committee on such date and received options for 25,000 shares of Class A Common Stock. Each of the Initial Options granted were for a term of ten years and vest 8.33% per year on the first through fourth anniversary dates of the grant date and 16.66% per year on the fifth through eighth anniversary dates of the grant date; PROVIDED, HOWEVER, the options scheduled to vest in years 5-8 from the grant date (i.e. 66 2/3 of the total grant) vest immediately if the average of the daily high and low prices of the Class A Common Stock for 20 consecutive trading days exceeds \$27.99 prior to the fourth anniversary of the grant date.

Further, each nonemployee director is automatically granted a non-qualified stock option (an "Annual Option") to purchase 6,000 shares of Class A Common Stock on the date of each annual meeting of stockholders. Each Annual Option has a term of ten years and an exercise price equal to the fair market value of the Class A Common Stock on the date of grant. The aggregate number of shares of Class A Common Stock reserved for issuance under the Directors' Plan is 200,000 shares.

Robert D. Larrabee became a director when the Company went public in August 1996. Since Mr. Larrabee was also an employee of the Company, he was ineligible to receive an option grant under the Directors' Plan. In lieu of such grant, Mr. Larrabee was granted an option under the 1995 Stock Incentive Plan to purchase 15,000 shares of Class A Common Stock with the same vesting schedule as the Initial Options granted under the Directors' Plan.

Mark F. Wilson became a director of the Company and the President of a subsidiary of the Company on January 7, 1997 in connection with the merger of CNM with the Company. On such date, the Board granted Mr. Wilson an option to purchase 15,000 shares of Class A Common Stock under the Directors' Plan subject to stockholder approval of an amendment to the Directors' Plan described below.

The Company has proposed in Proposal 5 described elsewhere in this Proxy Statement certain amendments to the Directors' Plan that, if approved by the Company's stockholders, would allow a director who is an employee, but not an executive officer of the Company (such as Mr. Larrabee and Mr. Wilson) to participate in the Directors' Plan provided such director does not participate in any other stock incentive plan of the Company. This proposal is described in more detail beginning on page 25 of this Proxy Statement. If Proposal 5 is approved by the stockholders at the Meeting, Mr. Larrabee and Mr. Wilson will each be eligible to receive the Annual Option for 1997 that will be granted on the date of the Meeting.

#### EMPLOYMENT AGREEMENTS

Effective July 1, 1996, the Company entered into separate employment agreements with each of Melvin C. Payne, Mark W. Duffey and Russell W. Allen. The employment agreements with Mr. Payne and Mr. Duffey have an initial term of five years with an evergreen two-year extension continuing after the first three years of the employment agreements unless either the Company or the executive gives 90 days notice of termination. The employment agreement with Mr. Allen is for an initial term of five years. Pursuant to these agreements, Messrs. Payne, Duffey and Allen are entitled to receive a salary of not less than \$225,000, \$185,000 and \$145,000, respectively, and a bonus to be determined on an annual basis by the Board of Directors. If the executive is terminated without cause during the term of the agreement, the executive will receive a monthly severance payment until the end of the term had the executive 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 the executive during the three calendar years prior to his termination. During the period that the executive receives the monthly severance payments, the executive also would be entitled to participate in any employee benefit plans or programs in which the executive was participating at the time of his termination. In addition, each agreement contains a covenant prohibiting the executive from competing with the Company during the period the executive is receiving compensation under his agreement, provided, however, that following termination of employment, the executive may elect to forego certain severance payments which he would be entitled to under the employment agreement and thereafter would not be prohibited from competing with the Company. In addition, the agreements contain customary benefits and perquisites.

#### COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee (the "Committee") is responsible for recommending compensation arrangements for senior management, making recommendations with respect to employee benefit plans, and making stock option grants under the 1995 Stock Incentive Plan and the 1996 Stock Option Plan. Each member of the Committee presently is a nonemployee director. Prior to January 30, 1997, Robert A. Larrabee, a director and an employee, was on the Committee, but he was replaced on such date by C. Byron Snyder. Prior to December 1996, Mr. Snyder was the Chairman of the Board of the Company.

The Committee seeks to improve the Company's performance and maximize stockholder value through, among other things, establishing appropriate executive compensation levels and incentives. The Committee believes that compensation levels should be tied to performance on both an individual and corporate level so that management will be properly motivated to achieve the Company's annual and long term performance goals and to maximize stockholder value. The Company's executive compensation policies are designed to:

- o Allow the Company to attract and retain qualified executives with the leadership and other skills needed by the Company at this stage in its development;
- o Provide strong incentives to achieve the Company's annual and long term performance goals, with rewards for both individual and corporate performance; and
- o Solidly align the interests of management with those of the stockholders.

The three components of executive compensation for the Company's executive officers are (i) base salary, (ii) annual incentive cash bonuses, and (iii) long-term incentive compensation in the form of stock options.



The Committee's overall philosophy is to maintain relatively modest levels of base salary and yearly bonuses, but to emphasize stock options in its incentive compensation program. The Committee feels this is the best way to align the interests of management with those of the stockholders.

#### BASE SALARIES

The base salaries for each of the Company's executive officers are determined on an individual basis, taking into consideration the performance of the individual and his or her contributions to the Company's performance, the duties and levels of responsibility of the individual, and compensation by industry competitors for comparable positions. The Committee believes that maintaining a reasonable base salary structure is necessary to attract and retain talented executives.

#### BONUSES FOR EXECUTIVE OFFICERS IN 1996

At the end of each year, the Committee establishes a cash bonus fund based on the Company's performance during the prior year. The Committee intends to establish such a bonus fund for 1996 and pay bonuses in 1997 to its executive officers, but the amount and allocation of the fund has not yet been established. In establishing this fund, the Committee will consider, among other things, the Company's growth trends through its acquisition program, the Company's financial results in relation to performance in prior years and expected performance for 1996, including operating margins and earnings per share, the amount of any proposed bonus in relation to the officer's base salary, the amount of bonuses being paid to executive officers of other public companies of comparable size in this industry, and a subjective evaluation by the Committee of each officer's individual performance.

#### STOCK OPTION GRANTS FOR 1996

The Company awards stock options to its executive officers under the 1996 Stock Option Plan and to its key employees under the 1995 Stock Incentive Plan. The purpose of the stock options is to provide the executive officers and key employees with an opportunity to build a meaningful equity ownership interest in the Company. This Committee believes that management's ownership of a significant equity interest in the Company is a major incentive in building stockholder wealth and firmly aligns the interests of the executive officers and key employees with those of the Company's stockholders.

The Committee and the Board strongly believe that stock options should be the primary component of the Company's incentive compensation program for its management and staff. One of the reasons for proposing an increase of the available shares under the 1995 Stock Incentive Plan (SEE Proposal 3 herein) is to start a new program to expand substantially the base of employees who receive options, so that most full-time employees will have an ownership interest in the Company.

The decision to award a stock option to an executive officer, as well as the size of the award, is not specifically formula-driven nor based on any specific corporate performance factors. The size of the grants in 1996 were based on subjective factors such as individual performance, level of responsibility and an officer's potential to contribute to the long-term success of the Company. Stock options are granted at exercise prices not less than the market value of the Common Stock on the date of grant and thus have no value unless the Company's Common Stock appreciates in value.

In connection with the Company's initial public offering in August 1996, the Committee granted an aggregate of 480,000 stock options to four of the Company's executive officers. The Committee subsequently granted an additional 80,000 stock options to two additional executive officers who were hired in the fourth quarter of 1996. These options, as well as the options granted to the nonemployee directors under the 1996 Nonemployee Directors' Stock Option Plan, have a vesting schedule with one-third vesting over time (25% on each anniversary date over the first four years) and the remaining two-thirds vesting based on a performance goal of a 20% annual compounded rate of return from the initial public offering price of \$13.50 per share. Accordingly, if the average of the daily high and low prices of the Class A Common Stock for 20 consecutive business days exceeds \$27.99 prior to the fourth anniversary of the public offering, two-thirds of the option grant will immediately vest. If the performance goal is not met, the two-thirds portion of the option grant will vest 25% per year on the fifth through eighth anniversary dates of the public

offering. The Committee believes that the performance goal provides a strong incentive for the Company's management and directors and helps focus their attention on stockholder return.

#### COMPENSATION POLICIES FOR THE CHIEF EXECUTIVE OFFICER

Melvin C. Payne has served as the Chief Executive Officer of the Company since its inception in 1991. In connection with the Company's public offering in August 1996, Mr. Payne's base salary was increased to \$225,000 and he was granted stock options to purchase 250,000 shares of Class A Common Stock. Mr. Payne's bonus for 1996, if any, has not yet been determined. The Committee believes the base salary for Mr. Payne is reasonable given his duties and responsibilities, his past performance and contributions to the Company's growth and success, and competitive practices among comparable public companies. In line with its general compensation policy, however, Mr. Payne's compensation package emphasized stock options with the grant of 250,000 options when the Company went public. In setting this level of options, in addition to evaluating Mr. Payne's past performance, the Committee also took into consideration the Company's future earnings prospects and the belief that Mr. Payne possesses the leadership and management skills to help the Company achieve its long-term goals for growth and performance.

Compensation Committee  
Barry K. Fingerhut, Chairman  
C. Byron Snyder

## COMPARATIVE STOCKHOLDER RETURN

The following graph compares on a cumulative basis the percentage change during the period from the Company's initial public offering on August 9, 1996 to December 31, 1996 in the total stockholder return on (i) the Class A Common Stock of the Company, (ii) the Standard & Poor's 500 Stock Price Index, and (iii) a peer group index of four other publicly traded companies in the death care industry (Service Corporation International, The Loewen Group, Inc., Stewart Enterprises, Inc., and Equity Corporation International). This graph assumes that the value of the investment in the Company's Class A Common Stock and in each index was \$100 on August 9, 1996 and that all dividends were reinvested. The returns for each company in the Peer Group are weighted according to its stock market capitalization at the beginning of each period for which a return is indicated.

### COMPARISON OF STOCKHOLDER TOTAL RETURN AMONG CARRIAGE SERVICES, INC., THE S&P 500 INDEX, AND AN INDUSTRY PEER GROUP

[LINEAR GRAPH PLOTTED FROM DATA IN TABLE BELOW]

	COMPARISON OF STOCKHOLDER RETURNS	
	AUGUST 9, 1996	DECEMBER 31, 1996
Carriage Services, Inc.....	\$ 100	\$ 136
S&P 500 Index.....	\$ 100	\$ 112
Peer Group.....	\$ 100	\$ 111

The above data is based upon the closing price of the Company's Class A Common Stock on its first trading day, August 9, 1996, of \$16.50 per share. The initial public offering price for the Class A Common Stock, as shown in the Company's registration statement, was \$13.50 per share.

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee are Barry K. Fingerhut and C. Byron Snyder. The Compensation Committee was formed contemporaneously with the Company's initial public offering in August 1996. From August 1996 to January 30, 1997, Robert D. Larrabee, a director and an employee of the Company (but not an executive officer) served on the Compensation Committee. On January 30, 1997,

Mr. Larrabee was replaced by C. Byron Snyder, who served as the Chairman of the Board of the Company until December 1996.

In connection with the acquisition by a subsidiary of the Company of three corporations controlled by Robert D. Larrabee and his wife, which owned and operated four funeral homes and two cemeteries in Washington and Idaho, (i) the Company's subsidiary executed a note payable to Mr. Larrabee and his wife in the original principal amount of \$246,000, secured by the land and buildings of one of the funeral home locations, as seller financing for that location, (ii) Mr. Larrabee and such subsidiary entered into a five-year employment agreement providing for, among other things, the payment of a base salary to Mr. Larrabee of \$25,000 per year, (iii) the Larrabees granted to such subsidiary an option to purchase a five-acre parcel of land adjacent to one of the cemeteries included in the acquisition for a purchase price of \$300,000, and (iv) the Company agreed to undertake to appoint Mr. Larrabee to the Company's Board of Directors if the Company went public. This transaction was entered into prior to Mr. Larrabee becoming a director of the Company, and the compensation outlined above does not relate to any services provided by Mr. Larrabee as a director of the Company.

Mr. Larrabee also is a party to an arrangement with the Company whereby Mr. Larrabee may receive annual cash bonuses if acquisition candidates which he develops and which are subsequently acquired by the Company attain cash flow in excess of certain cash flow targets over a ten-year period. Pursuant to the arrangement, Mr. Larrabee may elect to sell back to the Company his share of excess cash flow during the last three-year period at a predetermined cash flow multiple. To date, no payments have been made by the Company under this arrangement.

## 2. PROPOSAL TO APPROVE AN AMENDMENT TO ARTICLE IV OF THE CERTIFICATE OF INCORPORATION TO CHANGE THE AUTHORIZED SHARES OF CAPITAL STOCK

### THE PROPOSAL

The Board of Directors is seeking stockholder approval to amend Article IV of the Company's Certificate of Incorporation to (i) increase the authorized shares of Class A Common Stock from 15,000,000 to 40,000,000 shares, (ii) reduce the authorized shares of Class B Common Stock from 15,000,000 to 10,000,000 shares, and (iii) increase the authorized shares of Preferred Stock from 50,000,000 to 70,000,000 shares. This proposal has been unanimously approved by the Board of Directors subject to approval by the stockholders of the Company. If the proposed amendment is authorized, the text of the first paragraph of Article IV of the Certificate of Incorporation would be amended to read as follows:

The total number of shares of stock that the Corporation shall have authority to issue is 120,000,000 shares of capital stock, consisting of (i) 70,000,000 shares of preferred stock, par value \$.01 per share ("Preferred Stock"); (ii) 40,000,000 shares of Class A Common Stock, par value \$.01 per share ("Class A Common Stock"); and (iii) 10,000,000 shares of Class B Common Stock, par value \$.01 per share ("Class B Common Stock"; the Class A Common Stock and the Class B Common Stock are collectively referred to as "Common Stock").

As of the record date of March 10, 1997, the number of shares of Class A and B Common Stock and Preferred Stock that were authorized but not outstanding or reserved for issuance are set forth in the table below:

	AUTHORIZED -----	OUTSTANDING -----	RESERVED* -----	AVAILABLE FOR ISSUANCE -----
Class A Common Stock.....	15,000,000	4,484,495	7,753,534	2,761,971
Class B Common Stock.....	15,000,000	5,356,650	193,034	9,450,316
Preferred Stock (all series).....	50,000,000	21,682,492	0	28,317,508

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\* Shares may be reserved for issuance either for conversion of outstanding convertible securities or for issuance upon exercise of stock options granted pursuant to the 1995 Stock Incentive Plan, the 1996 Stock Option Plan and the 1996 Nonemployee Directors' Stock Option Plan.

## REASONS FOR THE PROPOSED AMENDMENT

The proposed increase in the number of authorized shares of Class A Common Stock and Preferred Stock has been recommended by the Board to assure that an adequate supply of authorized and unissued shares of Class A Common Stock and Preferred Stock is available for general corporate needs, such as raising additional equity capital, financing acquisitions with capital stock, declaring stock splits or stock dividends, or using for future employee benefit plans. Given the number of shares of Class A Common Stock and Preferred Stock currently available for issuance, the Company believes it needs the ability to quickly effect these types of these transactions without the delay involved to obtain stockholder approval. Otherwise, the cost, prior notice requirements and delay involved in obtaining stockholder approval when such corporate action may be desirable could eliminate the opportunity to effect the transaction or reduce the expected benefits.

The Board has proposed decreasing the number of authorized shares of Class B Common Stock because it does not anticipate issuing additional shares of Class B Common Stock except in very limited circumstances, such as for a stock split or stock dividend, for exercising stock options that were granted under the 1995 Stock Incentive Plan prior to the Company's public offering in August 1996 and for conversion of Series D Preferred Stock issued prior to the Company's public offering. Therefore, the Board sees no need to have such a large number of available shares of Class B Common Stock and feels it would be beneficial for the Company to reduce the number of authorized shares of this class.

## POSSIBLE EFFECTS OF THE PROPOSED AMENDMENT

If approved by the stockholders, the additional authorized shares of Class A Common Stock and Preferred Stock would be available for issuance at the discretion of the Board of Directors without further stockholder approval (subject to applicable rules of the National Association of Securities Dealers, Inc. or any stock exchange on which the Company's securities may then be listed), without the delay and expense incident to holding a special meeting of stockholders to consider any specific issuance. However, the rules of the National Association of Securities Dealers, Inc. (applicable to Nasdaq National Market issuers) require stockholder approval in the following general situations: (i) in connection with establishing a stock option or purchase plan under which stock may be acquired by officers or directors, (ii) when the issuance would result in a change of control of the Company, (iii) in connection with the acquisition of stock or assets of another company if a director, officer or substantial stockholder has a 5% or greater interest (or such persons collectively have a 10% or greater interest) in the company or assets to be acquired, and the stock issuable in such transaction could result in an increase in the number of outstanding shares of Class A Common Stock or voting power of the outstanding capital stock by 5% or more, or (iv) in connection with the acquisition of stock or assets of another company or such other transaction (except for a public offering of Class A Common Stock for cash) that would result in an increase in the number of outstanding shares of Class A Common Stock or the voting power of the outstanding capital stock by 20% or more.

The additional shares of Class A Common Stock for which authorization is sought will have the same rights and privileges as the other shares of Class A Common Stock presently outstanding. Current holders of Class A Common Stock have no pre-emptive rights, which means that current stockholders do not have a prior right to purchase any new issue of capital stock of the Company in order to maintain their proportionate ownership thereof. Therefore, the effects of the authorization of additional shares of Class A Common Stock and Preferred Stock may also include dilution of the voting power of currently outstanding shares of capital stock and reduction of the portion of dividends and of liquidation proceeds payable to the holders of currently outstanding shares of capital stock.

The additional shares of Preferred Stock for which authorization is sought would become part of the existing authorized and unissued Preferred Stock of the Company. The Company's Board of Directors may establish, without stockholder approval, one or more classes or series of Preferred Stock having the number of shares, designations, relative voting rights, dividend rates, conversion rights, liquidation and other rights, preferences and limitations that the Board of Directors may from time to time designate. The Company believes that this power to issue Preferred Stock will provide flexibility in connection with possible

corporate transactions. The issuance of Preferred Stock, however, could adversely dilute the voting power of holders of currently outstanding shares of capital stock and restrict their rights to receive dividends or payments upon liquidation of the Company.

In addition, the Board of Directors could use the additional authorized but unissued shares of Class A Common Stock and Preferred Stock to create impediments to a takeover or a change of control of the Company. Under certain circumstances, such shares could be used to create voting impediments or to frustrate persons seeking to effect a takeover or otherwise gain control of the Company. For example, the Company might seek to frustrate a takeover attempt by making a private sale of a large block of shares to a third party who was opposed to such an attempt. The increase in authorized stock could also have the effect of discouraging an attempt by a third party to acquire control of the Company, through the acquisition of a substantial number of shares, since the issuance of any shares could be used to dilute the stock ownership of shares of the Company's voting stock held by such third party. The Board also could use a portion of the additional shares of Class A Common Stock for a shareholder rights plan that could make a change in control of the Company more difficult or costly and therefore less likely. Accordingly, an effect of the increase in the number of authorized shares of Class A Common Stock and Preferred Stock may be to deter a future takeover attempt. The proposed amendment to the Certificate of Incorporation, however, is not the result of any specific effort to obtain control of the Company, and the Company has no present intention to use the increased shares of authorized Class A Common Stock or Preferred Stock for a shareholder rights plan or other anti-takeover purposes.

The affirmative vote of holders of a majority of the voting power of the outstanding shares of Class A and B Common Stock and Series D and F Preferred Stock is required to approve this proposal. THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE PROPOSAL TO AMEND THE COMPANY'S CERTIFICATE OF INCORPORATION.

### 3. PROPOSAL TO AMEND THE 1995 STOCK INCENTIVE PLAN

#### AMENDMENTS TO THE 1995 STOCK INCENTIVE PLAN

On January 7, 1997, the Board of Directors approved a proposal to amend the Company's 1995 Stock Incentive Plan (the "1995 Plan") to (i) increase the number of shares of Class A and B Common Stock which are authorized to be issued pursuant to the 1995 Plan from 400,000 to 700,000 shares, (ii) effect certain other changes to the 1995 Plan to address changes to Rule 16b-3 recently adopted by the Securities and Exchange Commission, and (iii) qualify the 1995 Plan under Section 162(m) of the Code. The Board of Directors' approval of the amendments to the 1995 Plan was subject to stockholder approval. If the Company's stockholders do not approve the amendments to the 1995 Plan by January 6, 1998, then (a) any award made under the 1995 Plan on or after January 7, 1997 will be void and canceled in its entirety and (b) the 1995 Plan will terminate with respect to any shares for which awards were not granted prior to January 7, 1997.

Through March 14, 1997, approximately 353,400 stock options have been granted under the 1995 Plan which have not expired, which leaves approximately 46,600 shares available for future grants of stock options and other awards under the 1995 Plan. Therefore, the Board believes that it is prudent to authorize additional shares so they will be available for future grants.

Although officers, directors and employees of the Company, and former owners of funeral homes and cemeteries acquired by the Company, are eligible to participate in the 1995 Plan, the Company has used the 1995 Plan almost exclusively to grant options to local managers and assistant managers at the Company's funeral homes and cemeteries and for the non-officer group of employees at the Company's corporate office in Houston. The Company has used the 1996 Stock Option Plan for the executive officer group. If this proposal is approved by the Company's stockholders, the Company intends to extend its stock incentive program to almost all of the Company's full-time employees. This is in line with the Company's compensation philosophy to create a sense of ownership in the Company among the Company's employees. The Company believes that this philosophy will create added long-term incentives for the Company's employees to help the Company meet its long-term performance goals and maximize stockholder value.

Another important consideration to the Board in proposing this amendment to the 1995 Plan has been the rapid growth of the Company through acquisitions during the past year. This rapid growth has increased the number of additional employees eligible to participate in the 1995 Plan. The Board believes that it is necessary to provide the Compensation Committee and the Company's management with continued flexibility to use stock options under the 1995 Plan as part of the Company's compensation program. The 700,000 shares that would be authorized for issuance under the 1995 Plan, together with the 600,000 shares authorized under the 1996 Stock Option Plan and the 200,000 shares authorized under the Directors' Plan, constitute approximately 11.8% of the issued and outstanding shares of Class A and B Common Stock of the Company (on a fully diluted basis assuming conversion of all convertible securities and issuance of all authorized stock options) which the Board feels is a reasonable amount for the Company at this stage of the Company's development.

The Board also approved the following amendments to the 1995 Plan: (i) replacement of the requirement that the 1995 Plan be administered by a committee which qualifies the plan under Section 16b-3 of the Securities Exchange Act of 1934 with a requirement that the 1995 Plan be administered by a committee of "outside directors" within the meaning of Section 162(m) of the Code; (ii) imposing a limitation of a maximum of 200,000 shares of Common Stock that may be subject to awards granted under the 1995 Plan to any one employee during a calendar year; (iii) revision to the transfer restrictions on awards (other than incentive stock options) which allows the Committee to approve proposed transfers; (iv) elimination of the provisions which prevent the Committee from (a) extending the period during which any award may be granted or exercised or (b) extending the term of the 1995 Plan, without obtaining stockholder approval; (v) adding a requirement that the Committee obtain stockholder approval in order to change the class of employees eligible to receive awards under the 1995 Plan; and (vi) clarification of the provisions relating to Stock Bonus Awards under the 1995 Plan so that such Awards may qualify as "performance-based" compensation under Section 162(m) of the Code.

The purpose of these amendments is to conform the 1995 Plan to recent amendments to Rule 16b-3 issued by the Securities and Exchange Commission that became effective November 1, 1996, and to qualify the 1995 Plan under Section 162(m) of the Code. Under the revised Rule 16b-3, any acquisitions or dispositions of the Company's securities between the Company's officers or directors and the Company are generally exempted from short-swing profit recovery under Section 16(b) of the Securities Exchange Act of 1934, subject to certain limitations. Section 16(b) generally provides for the automatic recovery of any profits made by an insider (director, executive officer or 10% stockholder) on securities purchased and sold, or sold and purchased, within a six-month period. The new amendments to Rule 16b-3 are based on the premise that transactions between an issuer and its officers and directors are intended to provide a benefit to reward service or to provide incentives for performance, and do not generally provide opportunities for insiders to profit using non-public information.

The new amendments to Rule 16b-3 provide a more flexible approach that exempts from short-swing liability any grant or award that satisfies one of three alternative conditions: (i) advance approval by the board of directors or a board committee composed solely of two or more nonemployee directors; (ii) advance approval or subsequent ratification by the stockholders; or (iii) if the securities acquired are held by the insider for at least six months after acquisition, or in the case of a stock option, at least six months elapse between the grant date and the sale of the underlying security. The new amendments to Rule 16b-3 also eliminate many complex requirements under the prior Rule 16b-3 that were incorporated in the 1995 Plan and are no longer required. The Board desires to eliminate or amend the provisions of the 1995 Plan that were required by the prior Rule 16b-3 to increase the flexibility of the Compensation Committee to use stock options and other awards under the 1995 Plan as part of the Company's compensation program for its key employees.

Section 162(m) of the Code precludes a public corporation from taking a deduction in a taxable year for compensation in excess of \$1 million paid to its chief executive officer or any of its four other highest paid officers. However, compensation that qualifies under Section 162(m) of the Code as "performance-based" is specifically exempt from the deduction limit. The proposed amendment to the 1995 Plan would

allow most compensation paid under the 1995 Plan to qualify under Code Section 162(m) as "performance-based."

The Board of Directors believes that the 1995 Plan serves as a valuable employee incentive that allows its key employees an opportunity to build a meaningful equity ownership interest in the Company. Stock options provide long-term incentives for the participants to increase stockholder value and directly align the interests of the Company's employees with the Company's stockholders.

The affirmative vote of a majority of the voting power of the shares of capital stock present or represented by Proxy at the Meeting will be required to approve this proposal. THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THIS PROPOSAL TO AMEND THE 1995 STOCK INCENTIVE PLAN.

#### SUMMARY DESCRIPTION OF THE 1995 PLAN

The terms of the 1995 Plan, including the amendments described above, are summarized below:

(1) ADMINISTRATION. The 1995 Plan is administered by the Compensation Committee (the "Committee") of the Board of Directors, which is constituted to permit the 1995 Plan to comply with Section 162(m) under the Code. The Committee has sole and complete authority and discretion to select participants and grant options or other awards provided for in the 1995 Plan; determine the terms and conditions upon which options or other awards provided for in the 1995 Plan are granted including any vesting schedule; determine whether an option is an incentive stock option or a non-qualified stock option; and make all determinations deemed necessary or advisable for the administration of the 1995 Plan.

(2) ELIGIBILITY. All officers, directors and employees of the Company and its subsidiary and affiliate corporations, and former owners of funeral homes or cemeteries that have been acquired by the Company, are eligible to receive awards under the 1995 Plan, subject to approval of the Committee.

(3) AVAILABLE SHARES AND INDIVIDUAL AWARD LIMITATION. The maximum number of shares of Class A or B Common Stock that may be issued under the 1995 Plan, after giving effect to the amendment described above, is 700,000 shares. Awards under the 1995 Plan prior to the public offering in August 1996 were satisfied with shares of Class B Common Stock, but awards after that time have been and will be satisfied with shares of Class A Common Stock. The maximum number of shares of Class A or B Common Stock that may be the subject of awards granted under the 1995 Plan to any one employee during any calendar year is 200,000 shares.

(4) STOCK OPTIONS. The 1995 Plan provides for the grant to eligible employees of incentive stock options under Section 422 of the Code, and non-qualified stock options to any eligible individual. The exercise price for any stock options are determined by the Committee and cannot be less than the fair market value on the date of grant. The fair market value of the Class A Common Stock on any date means the average of the high and low sales prices on such trading date as reported in THE WALL STREET JOURNAL. A stock option shall not be exercisable prior to six months from the date of grant and, unless a shorter period is specified by the Committee or the terms of the 1995 Plan, shall have a term of ten years from the date of grant. The exercise price of an option granted under the 1995 Plan may be paid in cash, in shares of Class A or B Common Stock, or, at the discretion of the Committee, in whole or in part with the surrender of another award under the 1995 Plan, the withholding of shares issuable upon exercise of the option, other property, or any combination thereof.

(5) RELOAD OPTIONS. The 1995 Plan provides that in the event a holder pays all or a part of the exercise price or tax withholding requirement of an incentive stock option or a non-statutory stock option in shares of Class A or B Common Stock, the Committee may grant a corresponding "reload option," which is not qualified as an incentive stock option, for an equal number of shares of Class A Common Stock. Reload options may be granted concurrently with the award of a stock option or subsequent to the award of a stock option. Each reload option is fully exercisable six months from the effective date of grant.



(6) ALTERNATE APPRECIATION RIGHTS. Alternate appreciation rights may be granted to eligible individuals in conjunction with options. Alternate appreciation rights give the holder, among other things, the right to a payment of Class A Common Stock in an amount equal to the difference between the fair market value of the Class A Common Stock at the date of exercise and the option exercise price.

(7) LIMITED RIGHTS AWARDS. In conjunction with options and alternate appreciation rights, "limited rights" also may be granted to eligible individuals. Limited rights give the holder, among other things, the right to cash in an amount equal to the difference between the fair market value of the Class A Common Stock at the date of exercise and the option exercise price. Limited rights are exercisable for a period of seven months following the date of a "Change of Control." The 1995 Plan provides that a Change in Control occurs (i) if the Company is dissolved and liquidated, (ii) if the Company is not the surviving entity in any merger, consolidation, or reorganization, (iii) if the Company sells, leases or exchanges, or agrees to sell, lease, or exchange, all or substantially all of its assets, (iv) if any person, entity or group acquires or gains ownership or control of more than 50% of the outstanding shares of the Company's voting stock (based upon voting power), or (v) if, after a contested election of directors, the persons who were directors before such election cease to constitute a majority of the Board of Directors.

(8) BONUS STOCK AWARDS. The 1995 Plan also provides for the issuance of shares of Class A Common Stock which may be subject to forfeiture under circumstances specified by the Committee at the time of the award of such shares ("bonus stock"). Pursuant to a bonus stock award, shares of Class A Common Stock will be issued to the individual at the time the award is made without any payment to the Company (other than any payment amount that may be determined by the Committee in its discretion), but such shares may be, if so specified by the Committee, subject to a vesting schedule, certain restrictions on the disposition thereof and certain obligations to forfeit such shares to the Company, as determined in the discretion of the Committee. The Committee may provide that the restrictions on the transfer of bonus stock will lapse upon (i) the attainment of one or more performance targets established by the Committee that are based on (a) the price of a share of Class A or B Common Stock, (b) the Company's earnings per share, (c) the Company's revenue, (d) the revenue of a business unit of the Company designated by the Committee, (e) the return on stockholders' equity achieved by the Company, or (f) the Company's pre-tax cash flow from operations, (ii) the participant's continued employment with the Company for a specified period of time, or (iii) a combination of any of the foregoing.

(9) DEATH, RETIREMENT OR TERMINATION OF EMPLOYMENT. Unless otherwise provided in an award agreement or otherwise agreed to by the Committee: (i) upon an optionee's death, the optionee's estate or transferee by bequest or inheritance may exercise such option within the lesser of one year after the date of death or the remaining term of the stock option, but only to the extent of any rights exercisable on the date of death; (ii) upon an optionee's termination of employment because of retirement or permanent disability, the optionee may, up to a maximum of 36 months (or such shorter time as reflected in the optionee's award agreement), exercise any stock options to the extent such options are exercisable during such 36-month period; and (iii) if an optionee's employment is terminated for any reason other than death, retirement or permanent disability, any stock options terminate three months after the date of termination.

(10) STOCK SPLITS AND CAPITAL READJUSTMENTS. The 1995 Plan provides that the total number of shares covered by each award will be proportionately adjusted in the event of a stock split, reverse stock split, or other similar capital adjustment effected without the receipt of consideration by the Company. Further, the total number of shares covered by the 1995 Plan, the exercise price per share under each option, the annual award limitation applicable to each employee, and any other matters deemed appropriate by the Committee, may be appropriately adjusted in event of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares, or similar transaction.

(11) AMENDMENT. The Committee may amend, modify or terminate the 1995 Plan at any time, but no amendment may be made without approval of the stockholders of the Company which (i) increases the maximum aggregate number of shares of Common Stock which may be issued under the 1995 Plan, or (ii) changes the class of individuals who are eligible to receive awards under the 1995 Plan.

#### UNITED STATES FEDERAL INCOME TAX ASPECTS OF THE 1995 PLAN

NON-QUALIFIED STOCK OPTIONS, ALTERNATE APPRECIATION RIGHTS, AND LIMITED RIGHTS. As a general rule, no federal income tax is imposed on the optionee upon the grant of a non-qualified stock option (an option other than an incentive stock option, which is described below), regardless of whether it includes an alternate appreciation right or a limited right. In addition, the Company is not entitled to a tax deduction by reason of such a grant. Generally, upon the exercise of a non-qualified stock option, the optionee will be treated as receiving compensation taxable as ordinary income in the year of exercise in an amount equal to the excess of the fair market value of the shares on the date of exercise over the option price paid for such shares. In the case of the exercise of an alternate appreciation right or limited right, the optionee will be treated as receiving compensation taxable as ordinary income in the year of exercise in an amount equal to the fair market value of the shares distributed to the optionee or the cash received by the optionee, as applicable.

Upon the exercise of a non-qualified stock option, an alternate appreciation right, or a limited right, the Company may claim a deduction for compensation paid at the same time and in the same amount as compensation income is recognized to the optionee assuming any federal income tax withholding requirements are satisfied. Upon a subsequent disposition of the shares received upon exercise of a non-qualified stock option or an alternate appreciation right, any appreciation after the date of exercise should qualify as capital gain.

INCENTIVE STOCK OPTIONS. The incentive stock options under the 1995 Plan are intended to constitute "incentive stock options" within the meaning of Section 422 of the Code. Incentive stock options are subject to special federal income tax treatment. No federal income tax is imposed on the optionee upon the grant or the exercise of an incentive stock option if the optionee does not dispose of shares acquired pursuant to the exercise within the two-year period beginning on the date the option was granted or within the one-year period beginning on the date the option was exercised (collectively, the "holding period"). If these conditions are met and no tax is imposed on the optionee, then the Company would not be entitled to any deduction for federal income tax purposes in connection with the grant or exercise of the option or the disposition of the underlying shares. With respect to an incentive stock option, the difference between the fair market value of the stock on the date of exercise and the exercise price generally must be included in the optionee's alternative minimum taxable income.

Upon disposition of the shares received upon exercise of an incentive stock option after the holding period, the difference between the amount realized and the exercise price should constitute a long-term capital gain or loss. If an optionee disposes of shares acquired pursuant to his or her exercise of an incentive stock option prior to the end of the holding period, the optionee will be treated as having received, at the time of disposition, compensation taxable as ordinary income. In such event, the Company may claim a deduction for compensation paid at the same time and in the same amount as compensation is treated as received by the optionee. The amount treated as compensation is the excess of the fair market value of the shares at the time of exercise (or in the case of a sale in which a loss would be recognized, the amount realized on the sale if less) over the exercise price, and any amount realized in excess of the fair market value of the shares at the time of exercise would be treated as short-term or long-term capital gain, depending on the holding period of the shares.

BONUS STOCK. An individual who has been granted bonus stock under the 1995 Plan, which bonus stock is not subject to any forfeiture and transfer restrictions, will realize ordinary income at the time of such grant in an amount equal to the excess of the fair market value of the shares at such time over the

amount, if any, paid for such shares, and, subject to the application of Section 162(m) of the Code as discussed below, the Company will be entitled to a corresponding deduction.

An individual who has been granted bonus stock under the 1995 Plan, which bonus stock is subject to forfeiture and transfer restrictions, will not realize taxable income at the time of grant, and the Company will not be entitled to a deduction at that time, assuming that the restrictions constitute a substantial risk of forfeiture for federal income tax purposes. Upon expiration of the forfeiture restrictions (I.E., as shares become vested), the holder will realize ordinary income in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares, and, subject to the application of Section 162(m) of the Code, the Company will be entitled to a corresponding deduction. Dividends paid to the holder during the period that the forfeiture restrictions apply will also be treated as compensation income to the holder and deductible as such by the Company. However, the recipient of restricted bonus stock may elect to be taxed at the time of grant of the bonus stock based upon the fair market value of the shares on the date of the award. If the recipient makes this election, (i) the Company will be entitled to a deduction at the same time and in the same amount (subject to the limitations contained in Section 162(m) of the Code), (ii) dividends paid to the recipient during the period the forfeiture restrictions apply will be taxable as dividends and will not be deductible by the Company, and (iii) there will be no further federal income tax consequences when the forfeiture restrictions lapse.

SECTION 162(M) OF THE INTERNAL REVENUE CODE. Section 162(m) of the Code precludes a public corporation from taking a deduction for compensation in excess of \$1 million paid to its chief executive officer or any of its four other highest-paid officers. However, compensation that qualifies under Section 162(m) of the Code as "performance-based" is specifically exempt from the deduction limit. Based on Section 162(m) of the Code and the regulations issued thereunder, the Company believes that the income generated in connection with the exercise of stock options, alternate appreciation rights and limited rights granted under the 1995 Plan should qualify as performance-based compensation and, accordingly, the Company's deductions for such compensation should not be limited by Section 162(m) of the Code. The 1995 Plan has been designed to provide flexibility with respect to whether bonus stock awards will qualify as performance-based compensation under Section 162(m) of the Code. The Company believes that certain awards of bonus stock under the 1995 Plan will so qualify and the Company's deductions with respect to such awards should not be limited by Section 162(m) of the Code. However, certain awards of bonus stock may not qualify as performance-based compensation and, therefore, the Company's compensation expense deductions relating to such awards will be subject to the deduction limitations of Section 162(m) of the Code.

The 1995 Plan is not qualified under Section 401(a) of the Code.

The comments set forth in the above paragraphs are only a summary of certain of the United States federal income tax consequences relating to the 1995 Plan. No consideration has been given to the effects of state, local, or other tax laws on the 1995 Plan or award recipients.

#### 4. PROPOSAL TO AMEND THE 1996 STOCK OPTION PLAN

##### AMENDMENTS TO THE 1996 STOCK OPTION PLAN

On January 7, 1997, the Board of Directors approved a proposal to amend the Company's 1996 Stock Option Plan (the "1996 Plan") to (i) address changes to Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and (ii) qualify the 1996 Plan under Section 162(m) of the Code. The Board of Directors' approval of the amendments to the 1996 Plan was subject to stockholder approval. If the Company's stockholders do not approve the amendments to the 1996 Plan by January 6, 1998, then (a) any award made under the 1996 Plan on or after January 7, 1997 will be void and canceled in its entirety and (b) the 1996 Plan will terminate with respect to any shares for which awards were not granted prior to January 7, 1997.

The proposed amendments to the 1996 Plan include the following: (i) replacement of the requirement that the 1996 Plan be administered by a committee which qualifies the plan under Section 16b-3 of the

Securities Exchange Act of 1934 with a requirement that the 1996 Plan be administered by a committee of "outside directors" within the meaning of section 162(m) of the Code; (ii) imposing a limitation of a maximum of 200,000 shares of Common Stock that may be subject to awards granted under the 1996 Plan to any one employee during a calendar year; (iii) revision to the transfer restrictions on awards (other than incentive stock options) which allows the Committee to approve proposed transfers; (iv) elimination of the provisions which prevent the Committee from (a) extending the period during which any award may be granted or exercised or (b) extending the term of the 1996 Plan, without obtaining stockholder approval; and (v) adding a requirement that the Committee obtain stockholder approval in order to change the class of individuals eligible to receive awards under the 1996 Plan. A description of the reasons for these proposed amendments is set forth in Proposal 3.

The affirmative vote of a majority of the voting power of the shares of capital stock present or represented by Proxy at the Meeting will be required to approve this proposal. THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THIS PROPOSAL TO AMEND THE 1996 STOCK OPTION PLAN.

#### SUMMARY DESCRIPTION OF THE 1996 PLAN

The terms of the 1996 Plan, including the amendments described above, are summarized below:

(1) ADMINISTRATION. The 1996 Plan is administered by the Compensation Committee (the "Committee") of the Board of Directors, which is constituted to permit the 1996 Plan to comply with Section 162(m) under the Code. The Committee has sole and complete authority and discretion to select participants and grant options under the 1996 Plan; determine the terms and conditions upon which options under the 1996 Plan are granted including any vesting schedule; and make all determinations deemed necessary or advisable for the administration of the 1996 Plan.

(2) ELIGIBILITY. All employees (including officers and directors who are also employees) of the Company and its subsidiaries are eligible to receive options under the 1996 Plan, subject to approval of the Committee.

(3) AVAILABLE SHARES AND INDIVIDUAL AWARD LIMITATIONS. The maximum number of shares of Class A Common Stock that may be issued under the 1996 Plan is 600,000 shares. The maximum number of shares of Class A Common Stock that may be the subject of options granted under the 1996 Plan to any one employee during any calendar year is 200,000 shares.

(4) STOCK OPTIONS. The 1996 Plan provides for the grant to eligible employees of incentive stock options under Section 422 of the Code and non-qualified stock options. The exercise price for any stock options are determined by the Committee and cannot be less than the fair market value on the date of grant. The fair market value of the Class A Common Stock on any date means the average of the high and low sales prices on such trading date as reported by the Nasdaq National Market System. The exercise price of an option granted under the 1996 Plan may be paid in cash, in shares of Class A Common Stock (valued at fair market value at the date of exercise) or by a combination of such means of payment as may be determined by the Committee.

(5) STOCK APPRECIATION RIGHTS. The 1996 Plan provides that stock appreciation rights may be granted to employees in conjunction with options. Stock appreciation rights give the holder, among other things, the right to a payment in an amount equal to the difference between the fair market value of the Class A Common Stock at the date of exercise and the option exercise price. Such payment may be made, at the election of the holder (subject to the consent or disapproval of the Committee of any election to receive cash), in cash, in shares of Class A Common Stock (valued at fair market value at the date of exercise), or by a combination thereof.

(6) STOCK SPLITS AND CAPITAL READJUSTMENTS. The 1996 Plan provides that the total number of shares covered by each award will be proportionately adjusted in the event of a stock split, reverse stock split, or other similar capital adjustment effected without the receipt of consideration by the Company. Further, the total number of shares covered by the 1996 Plan, the exercise price per share under each option, the annual limitation on the number of shares that may be subject to options

awarded to each employee, and any other matters deemed appropriate by the Committee, may be appropriately adjusted in event of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares, or similar transaction.

(7) AMENDMENT. The Board of Directors may amend, modify or terminate the 1996 Plan at any time, but no amendment may be made without approval of the stockholders of the Company which (i) increases the maximum aggregate number of shares of Common Stock which may be issued under the 1996 Plan, or (ii) changes the class of individuals who are eligible to receive options under the 1996 Plan.

#### UNITED STATES FEDERAL INCOME TAX ASPECTS OF THE 1996 PLAN

The United States federal income tax consequences to the Company and participants with respect to stock options and stock appreciation rights awarded under the 1996 Plan are similar to the United States federal income tax consequences associated with stock options and alternate appreciation rights awarded under the Company's 1995 Stock Incentive Plan. For a summary of such tax consequences, see "3. Proposal to Amend the 1995 Stock Incentive Plan."

#### 5. PROPOSAL TO AMEND THE 1996 NONEMPLOYEE DIRECTORS' STOCK OPTION PLAN

##### AMENDMENTS TO THE 1996 NONEMPLOYEE DIRECTORS' STOCK OPTION PLAN

The Board of Directors has approved a proposal to amend the Company's 1996 Nonemployee Directors' Stock Option Plan (the "Directors' Plan") to: (i) make eligible to participate in the Directors' Plan any director who is an employee of the Company or any of its subsidiaries, but is not an executive officer of the Company, provided such director does not participate in any other stock incentive plan of the Company, (ii) provide for an option grant to purchase 15,000 shares of Class A Common Stock when a new director is appointed or elected to the Board (or 25,000 shares if such new director becomes a member of the Executive Committee), (iii) change the name of the Directors' Plan to "1996 Directors' Stock Option Plan," and (iv) make certain other changes to the Directors' Plan to address changes to Rule 16b-3.

The reason for the amendment to expand the eligibility requirement of the Directors' Plan is to allow two existing directors, Robert D. Larrabee and Mark F. Wilson, who are employees but not executive officers of the Company, to participate in the Directors' Plan provided they do not concurrently participate in any other stock incentive plans of the Company. Both Mr. Larrabee and Mr. Wilson are former principals of companies that have been acquired by the Company. When the Company acquired their former companies, the Company desired to keep both of them as employees so that the Company could avail itself of their knowledge and expertise. Mr. Larrabee became a director in August 1996, and Mr. Wilson became a director in January 1997. Since Mr. Larrabee was not eligible to participate in the Directors' Plan, the Company in August 1996 granted Mr. Larrabee an option to purchase 15,000 shares of Class A Common Stock under the 1995 Stock Incentive Plan. In January 1997, the Company granted Mr. Wilson an option to purchase 15,000 shares of Class A Common Stock under the Directors' Plan subject to stockholder approval of this proposal.

The Board believes that it would be appropriate to compensate Mr. Larrabee and Mr. Wilson for their services as directors under the Directors' Plan rather than under either the 1995 Stock Incentive Plan or the 1996 Stock Option Plan. The Company also anticipates that this type of situation could occur in the future. Accordingly, the Board believes that it would be advisable to amend the Directors' Plan to allow Mr. Larrabee, Mr. Wilson and any future director in a similar situation to participate in the Directors' Plan. If this proposal is approved by the Company's stockholders, Mr. Larrabee and Mr. Wilson will each receive an option grant to purchase 6,000 shares of Class A Common Stock effective as of the date of the Meeting.

The Board also desires to amend the Directors' Plan to provide for an option grant to purchase 15,000 shares of Class A Common Stock when a new director is appointed or elected to the Board (or 25,000 shares if such new director becomes a member of the Executive Committee). The Directors' Plan provided for an initial option grant to each eligible director in office on the date of the Company's initial public

offering of 15,000 shares of Class A Common Stock with an additional option grant to purchase 10,000 shares of Class A Common Stock if such director also served on the Company's Executive Committee as of such date. The Directors' Plan, however, did not provide for an initial option grant of Class A Common Stock for subsequent directors appointed or elected to the Board. The Board believes this change is appropriate to provide for a meaningful initial equity stake in the Company for future eligible directors. The Board believes this is especially important since the Company does not pay cash compensation to its eligible directors. When Mark F. Wilson was appointed to the Board on January 7, 1997, the Board, subject to stockholder approval of this proposal, awarded Mr. Wilson an option to purchase 15,000 shares of Class A Common Stock under the Directors' Plan.

The Board has not decided how the options granted to a newly appointed or elected director would vest. Instead, the Board would like to remain flexible for setting an appropriate vesting schedule when any future director is elected or appointed.

Finally, the Directors' Plan would be amended to change the name of the Directors' Plan to "1996 Directors' Stock Option Plan" to eliminate the word "Nonemployee." Since the Directors' Plan is being amended to allow an employee director to participate, the Board feels that it would be appropriate to change the name to more accurately describe the Directors' Plan.

The affirmative vote of a majority of the voting power of the shares of capital stock present or represented by Proxy at the Meeting will be required to approve this proposal. THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THIS PROPOSAL TO AMEND THE 1996 NONEMPLOYEE DIRECTORS' STOCK OPTION PLAN.

#### SUMMARY DESCRIPTION OF THE DIRECTORS' PLAN

The terms of the Directors' Plan, including the amendments described above, are summarized below:

(1) AUTHORIZED SHARES. The aggregate number of shares of Class A Common Stock that may be issued pursuant to the exercise of options granted under the Directors' Plan is 200,000 shares (subject to adjustment upon a reorganization, stock split, recapitalization, or other change in the Company's capital structure). Shares issuable pursuant to the nonemployee Directors' Plan may be authorized but unissued shares or reacquired shares, and the Company may purchase shares required for this purpose.

(2) ELIGIBILITY. A director who is not an executive officer of the Company and does not participate in any other stock incentive plans of the Company shall be eligible to participate in the Directors' Plan (hereinafter an "Eligible Director").

(3) INITIAL IPO OPTION GRANT. On the date of the Company's initial public offering ("IPO") in August 1996, each nonemployee director at such date, or who was elected to the Board at such date, received a stock option to purchase 15,000 shares of Class A Common Stock at an exercise price per share equal to the initial public offering price of \$13.50 per share; provided that any nonemployee director then serving on the Executive Committee also received an additional stock option to purchase 10,000 shares of Class A Common Stock at the same price.

(4) INITIAL OPTION GRANT TO SUBSEQUENT DIRECTORS. Any new Eligible Director who is appointed or elected to the Board subsequent to January 1, 1997 shall receive an initial option grant to purchase 15,000 shares of Class A Common Stock, or 25,000 shares if such new director also becomes a member of the Executive Committee at such date. If an Eligible Director is elected to the Board for the first time at an annual meeting of stockholders, such Eligible Director shall receive both the initial option grant and the annual option grant described in the next paragraph.

(5) ANNUAL OPTION GRANT. On the date of each annual meeting of stockholders, each Eligible Director shall receive a stock option to purchase 6,000 shares of Class A Common Stock.

(6) TERMS OF OPTION GRANTS. All stock options granted under the Directors' Plan are non-qualified stock options not entitled to special tax treatment under Section 422 of the Code, and have a term of ten years from the date of grant. Except for the initial options granted contemporaneous with

the Company's IPO, the exercise price of all other stock options granted under the Directors' Plan will be the "fair market value" of the Class A Common Stock on the date of grant. Fair market value, as of any date, means the average of the high and low prices of the Class A Common Stock on such date, as reported on the Nasdaq National Market System or on any exchange that the Class A Common Stock shall then be traded. The number of shares covered by each option and the exercise price per share will be proportionately adjusted in the event of a stock split, reverse stock split, stock dividend, or similar capital adjustment effected without receipt of consideration by the Company.

(7) TERMINATION AFTER DEATH, DISABILITY OR CHANGE OF CONTROL. All options granted under the Directors' Plan will also become fully vested and exercisable in full if an Eligible Director's membership on the Board terminates by reason of death or disability or upon the occurrence of a "Change of Control" while a nonemployee director is a member of the Board of Directors. The Directors' Plan provides that a Change of Control occurs (i) if the Company is dissolved and liquidated, (ii) if the Company is not the surviving entity in any merger, consolidation, or reorganization, (iii) if the Company sells, leases or exchanges, or agrees to sell, lease, or exchange, all or substantially all of its assets, (iv) if any person, entity or group acquires or gains ownership or control of more than 50% of the outstanding shares of the Company's voting stock (based upon voting power), or (v) if, after a contested election of directors, the person who were directors before such election cease to constitute a majority of the Board of Directors. Upon termination of an Eligible Director's membership on the Board of Directors, the Eligible Director will have three months (12 months if such termination is by reason of death or disability) to exercise his or her options, but only to the extent such options are vested as of the date of such termination.

#### UNITED STATES FEDERAL INCOME TAX ASPECTS OF THE DIRECTORS' PLAN

The United States federal income tax consequences to the Company and participants with respect to stock options awarded under the Directors' Plan are similar to the United States federal income tax consequences associated with non-qualified stock options awarded under the Company's 1995 Stock Incentive Plan. For a summary of such tax consequences, see "3. Proposal to Amend the 1995 Stock Incentive Plan."

#### 6. RATIFICATION OF SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board has selected Arthur Andersen LLP as the Company's independent public accountants for the year ending December 31, 1997, and has further directed that management submit the selection of the independent accountants for ratification by the stockholders at the Meeting. Arthur Andersen LLP has audited the Company's financial statements since 1992. Representatives of Arthur Andersen LLP are expected to be present at the Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Stockholder ratification of the selection of Arthur Andersen LLP as the Company's independent public accountants is not required by the Company's By-laws or otherwise. In the event the Company's stockholders fail to ratify the selection, the Board will reconsider whether to retain that firm. Even if the selection is ratified, the Board, in its discretion may direct the appointment of a different independent accounting firm at any time during the year if the Board feels that such a change would be in the best interests of the Company and its stockholders. The affirmative vote of the holders of a majority of the voting power of the shares of capital stock present or represented by proxy at the Meeting will be required to ratify the selection of Arthur Andersen LLP.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THIS PROPOSAL TO RATIFY THE SELECTION OF ARTHUR ANDERSEN LLP.

#### OTHER BUSINESS

Management does not intend to bring any other business before the Meeting and has not been informed that any other matters are to be presented at the meeting by others. In the event that other matters properly come before the Meeting or any adjournment thereof, it is intended that the persons named in the accompanying proxy and acting thereunder will vote in accordance with their best judgment.

Proposals of stockholders intended to be presented at the next Annual Meeting of Stockholders, and otherwise eligible, must be received by the Secretary of the Company (at the address indicated on the first page of this Proxy Statement) no later than December 1, 1997 in order to be included in the Company's proxy material and form of proxy relating to that meeting.

#### ADDITIONAL INFORMATION

##### ANNUAL REPORT

THE ANNUAL REPORT TO STOCKHOLDERS FOR THE YEAR ENDED DECEMBER 31, 1996 IS BEING MAILED TO ALL STOCKHOLDERS ENTITLED TO VOTE AT THE MEETING. THE ANNUAL REPORT TO STOCKHOLDERS DOES NOT FORM ANY PART OF THE PROXY SOLICITING MATERIALS. COPIES OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1996, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, ARE AVAILABLE WITHOUT CHARGE TO STOCKHOLDERS UPON REQUEST TO THOMAS C. LIVENGOOD, EXECUTIVE VICE PRESIDENT AND SECRETARY, CARRIAGE SERVICES, INC., 1300 POST OAK BLVD., SUITE 1500, HOUSTON, TEXAS 77056.

REGARDLESS OF THE NUMBER OF SHARES OWNED, IT IS IMPORTANT THAT THEY BE REPRESENTED AT THE MEETING, AND YOU ARE RESPECTFULLY REQUESTED TO SIGN, DATE AND RETURN THE ACCOMPANYING PROXY AT YOUR EARLIEST CONVENIENCE.

By Order of the Board of Directors  
THOMAS C. LIVENGOOD  
SECRETARY

Houston, Texas  
March 31, 1997



CARRIAGE SERVICES, INC.

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF  
THE COMPANY FOR THE ANNUAL MEETING OF STOCKHOLDERS ON MAY 7, 1997

The undersigned, hereby revoking all prior proxies, hereby appoints Mark W. Duffey and Thomas C. Livengood, and each of them, his true and lawful proxies, with full and several power of substitution, to vote all the shares of Class A or B Common Stock or Series D or F Preferred Stock of CARRIAGE SERVICES, INC. standing in the name of the undersigned, at the Annual Meeting of Stockholders of CARRIAGE SERVICES, INC. to be held on May 7, 1997 and at any adjournment(s) thereof, on all matters coming before said meeting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE PROPOSALS AS STATED BELOW AND, UNLESS A CONTRARY CHOICE IS SPECIFIED, THIS PROXY WILL BE VOTED FOR EACH OF SUCH PROPOSALS.

SEE REVERSE  
SIDE

PLEASE MARK YOUR  
VOTES AS IN THIS  
[X] EXAMPLE.

VOTE FOR all  
nominees listed

VOTE  
WITHHELD

NOMINEES: Melvin C. Payne,  
C. Byron Snyder and  
Robert D. Larrabee.

1. ELECTION OF  
THREE CLASS I  
DIRECTORS for  
a three-year term  
ending at the 2000 Annual Meeting of Stockholders.  
VOTE FOR all nominees listed, except vote withheld  
from the following nominees(if any):

[ ]

[ ]

1. ELECTION OF  
THREE CLASS I  
DIRECTORS for  
a three-year  
term  
ending at the  
VOTE FOR all

FOR  
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AGAINST  
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ABSTAIN  
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2. Proposal to amend Article IV of the Certificate of  
Incorporation to change the authorized shares of  
capital stock.
3. Proposal to amend the 1995 Stock Incentive Plan.
4. Proposal to amend the 1996 Stock Option Plan.
5. Proposal to amend the 1996 Nonemployee Directors'  
Stock Option Plan.
6. Proposal to ratify Arthur Andersen LLP as the  
independent public accountants of the Company for  
1997.
7. In their discretion, the Proxies are authorized to  
vote upon any other business as may properly come  
before the meeting or any adjournment(s) thereof.

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PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD PROMPTLY BY USING THE  
ENCLOSED ENVELOPE.

SIGNATURE: \_\_\_\_\_ DATED: \_\_\_\_\_ , 1997  
PRINT NAME: \_\_\_\_\_

(Please sign exactly as your name appears at left. For joint  
accounts, each joint owner should sign. Executors, administrators,  
trustees, etc., should also so indicate when signing.)