

**CARRIAGE SERVICES, INC.**  
**(the "Company")**

**CORPORATE GOVERNANCE GUIDELINES**

**Revised February 24, 2005**

**I. DIRECTOR QUALIFICATIONS**

It is the intent of the Company's Board of Directors (the "Board") that the Board will have a majority of directors who meet the criteria for independence required by the New York Stock Exchange ("NYSE"), and in any event the Board shall be in compliance with the NYSE's director independence guidelines when and as required by those guidelines. The Corporate Governance Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of new Board members as well as the composition of the Board as a whole. This assessment will include members' qualifications as independent, as well as consideration of diversity, age, skills, and experience in the context of the needs of the Board. Nominees for directorship will be selected by the Corporate Governance Committee in accordance with the policies and principles in its charter. The invitation to join the Board should be extended by the Board itself, acting by and through its Chairman of the Board and/or the Chairman of the Corporate Governance Committee, as the Board's representatives. In addition, they should consult with the Chief Executive Officer ("CEO") regarding the experience, expertise and potential added value of any potential candidate for the Board. A director who experiences any change in circumstances that would effect his or her qualification as an independent director shall immediately advise and consult with the Chairman of the Board and the Chairman of the Corporate Governance Committee. No director may serve on more than five other public company boards or on the audit committee for more than three other public companies. Directors should make a good faith effort to advise the Chairman of the Board and the Chairman of the Corporate Governance Committee in advance of accepting an invitation to serve on another public company board. The Board does not believe it should establish term limits. While term limits could help insure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole. As an alternative to term limits, the Corporate Governance Committee will review each director's continuation on the Board every three years, in advance of the full Board Meeting at which nominations are considered for the class of positions which includes that director. This will allow each director the opportunity to confirm his or her desire to continue as a member of the Board. No director may be nominated to a new term if he or she would be age 75 or older at the time of the election.

**II. DIRECTOR RESPONSIBILITIES**

The basic responsibility of the directors is to exercise their business judgment and act in what they reasonably believe to be in the best interests of the Company and its stockholders. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the

Company's senior executives and its outside advisors and auditors. The directors shall also be entitled to have the Company purchase reasonable directors' and officers' liability insurance on their behalf, to the benefits of indemnification to the fullest extent permitted by law and the Company's charter, by-laws and any indemnification agreements, and to exculpation as provided by state law and the Company's charter. Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting should generally be distributed in writing to the directors before the meeting, and directors should review these materials in advance of the meeting. The Board has no policy requiring that the offices of Chairman and the CEO be held by different persons. The Board believes that this issue is best addressed from time to time by the Board under the totality of the circumstances, based on factors deemed relevant by the Board, from time to time. The Chairman will establish the agenda for each Board meeting. At the beginning of the year the Chairman will establish a schedule of agenda subjects to be discussed during the year (to the degree this can be foreseen). Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise at any Board meeting subjects that are not on the agenda for that meeting. The Board will review the Company's long-term strategic plans and the principal issues that the Company will face in the future during at least one Board meeting each year. The non-management directors will meet in executive session at least quarterly; executive sessions may, but need not, occur on the same day as regular meetings of the full board. The Lead Director designated under Section V below shall preside at these executive sessions, and his name will be disclosed in the annual proxy statement. The Board believes that the management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. But it is expected that Board members would do this with the knowledge of the management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of management.

### **III. BOARD COMMITTEES**

The Board will have at all times an Audit Committee, a Compensation Committee and a Corporate Governance Committee. It may (but need not) also have an Executive Committee and any other standing or ad hoc committees from time to time established in accordance with the Company's bylaws. All of the members of these committees will be independent directors under the criteria established by the NYSE. Committee members will be appointed by the Board upon recommendation of the Corporate Governance Committee with consideration of the desires of individual directors. It is the sense of the Board that consideration should be given to rotating committee members periodically, but the Board does not feel that rotation should be mandated as a policy. Each committee will have its own charter. The charters will set forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure and operations and committee reporting to the Board. The charters will also provide that each committee will annually evaluate its performance. The Chairman of each committee, in consultation with the committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The Chairman of each committee, in consultation with the appropriate members of the committee and management, will

develop the committee's agenda. At the beginning of the year each committee will establish a schedule of agenda subjects to be discussed during the year (to the degree these can be foreseen). The schedule for each committee will be furnished to all directors.

#### **IV. DIRECTOR ACCESS TO OFFICERS, EMPLOYEES AND ADVISORS**

It is the Board's policy that all directors be encouraged to learn and be as current as possible about the Company's operations, business practices, condition, trends, people and properties. Discussing such topics and other matters of relevant interest to directors directly with Company officers, employees and outside advisors is an ideal way for directors to stay current. Therefore, directors shall have full and free access to officers and employees of the Company, as well as outside advisors, such as Company attorneys, accountants and media consultants. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO or the Secretary or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and will, to the extent not inappropriate, copy the CEO on any written communications between a director and an officer, employee or advisor of the Company. The Board welcomes regular attendance at each Board meeting of senior officers of the Company, although for sake of efficiency, such attendance shall be coordinated by the Chairman. If the CEO wishes to have additional Company personnel as attendees on a regular basis, this suggestion should be brought to the Board for approval.

#### **V. LEAD DIRECTOR**

There will be a Lead Director who qualifies as independent within the meaning of these Guidelines, appointed by a majority of the Company's non-management directors. The Lead Director's role is to facilitate the functioning of the Board of Directors independently of management and to enhance the quality of the Board's governance. The Lead Director will be a member of the Corporate Governance Committee and, while it is functioning, the Executive Committee. The Lead Director holds office for a three-year term commensurate with that person's term as director, or until such earlier time as he or she ceases to be independent, resigns or is replaced by a majority vote of the non-management directors. Among other things, the Lead Director shall serve as an independent contact for other non-management directors to discuss any matter involving Company governance; preside over any scheduled meetings of the non-management directors of the Company; report to the Chairman and the CEO any issues raised by the non-management directors; be available to the Chairman to consult on matters appropriate for review in advance of discussion with the full Board of Directors; and advise the Chairman as to the quality, quantity and timeliness of the flow of information from Company management that is necessary for the independent directors to effectively and responsibly perform their duties. Although Company management is responsible for the preparation of materials for the Board, the Lead Director may specifically request the inclusion of certain material.

## **VI. DIRECTOR COMPENSATION**

The form and amount of director compensation will be determined by the full Board in accordance with a written compensation policy adopted by the Board, as the same may from time to time be amended or modified, and the Board will conduct an annual review of director compensation. The Board will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

## **VII. DIRECTOR ORIENTATION AND CONTINUING EDUCATION**

All new directors must participate in the Company's Orientation Program, which should be conducted within two months of the annual meeting at which new directors are elected. This orientation will include presentations by senior management to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Business Conduct and Ethics, its principal officers, and its internal and independent auditors. In addition, the Orientation Program will include a visit to Company headquarters in Houston, Texas. All other directors are also invited to attend the Orientation Program.

## **VIII. CEO EVALUATION AND MANAGEMENT SUCCESSION**

The Compensation Committee will conduct an annual review of the CEO's performance, as set forth in its charter. The Board of Directors will review the Compensation Committee's report in order to ensure that the CEO is providing the best leadership for the Company in the long- and short-term. The Corporate Governance Committee should make an annual report to the Board on succession planning, including contingencies in the event of an emergency. The entire Board will work with the Corporate Governance Committee to consider a long-range plan for CEO succession. In this process, the CEO will be consulted regarding the nature and implementation of a succession plan, the timetable therefor, and at the appropriate time, the CEO's recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

## **IX. ANNUAL PERFORMANCE EVALUATION**

The Board of Directors will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Corporate Governance Committee will receive comments from all directors and report annually to the Board with an assessment of the Board's performance. This will be discussed with the full Board following the end of each fiscal year. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board could improve.