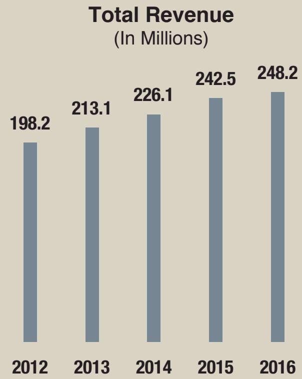
CARRIAGE
SERVICES

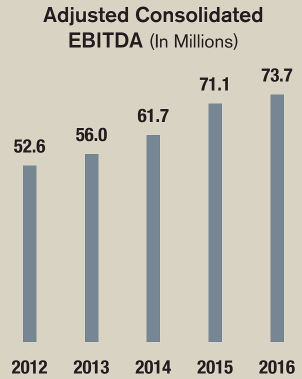
25

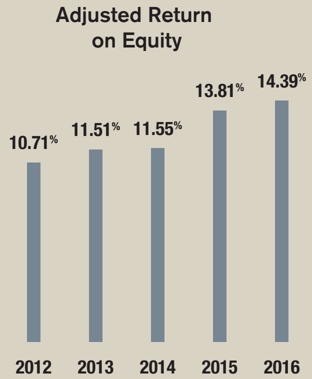
1991-2016

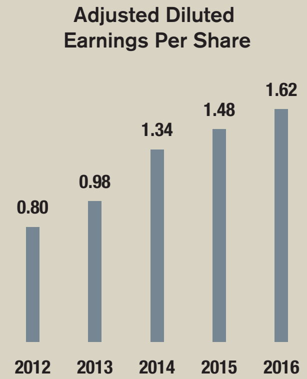
The Evolution Of Our Learning Journey

2016 ANNUAL REPORT





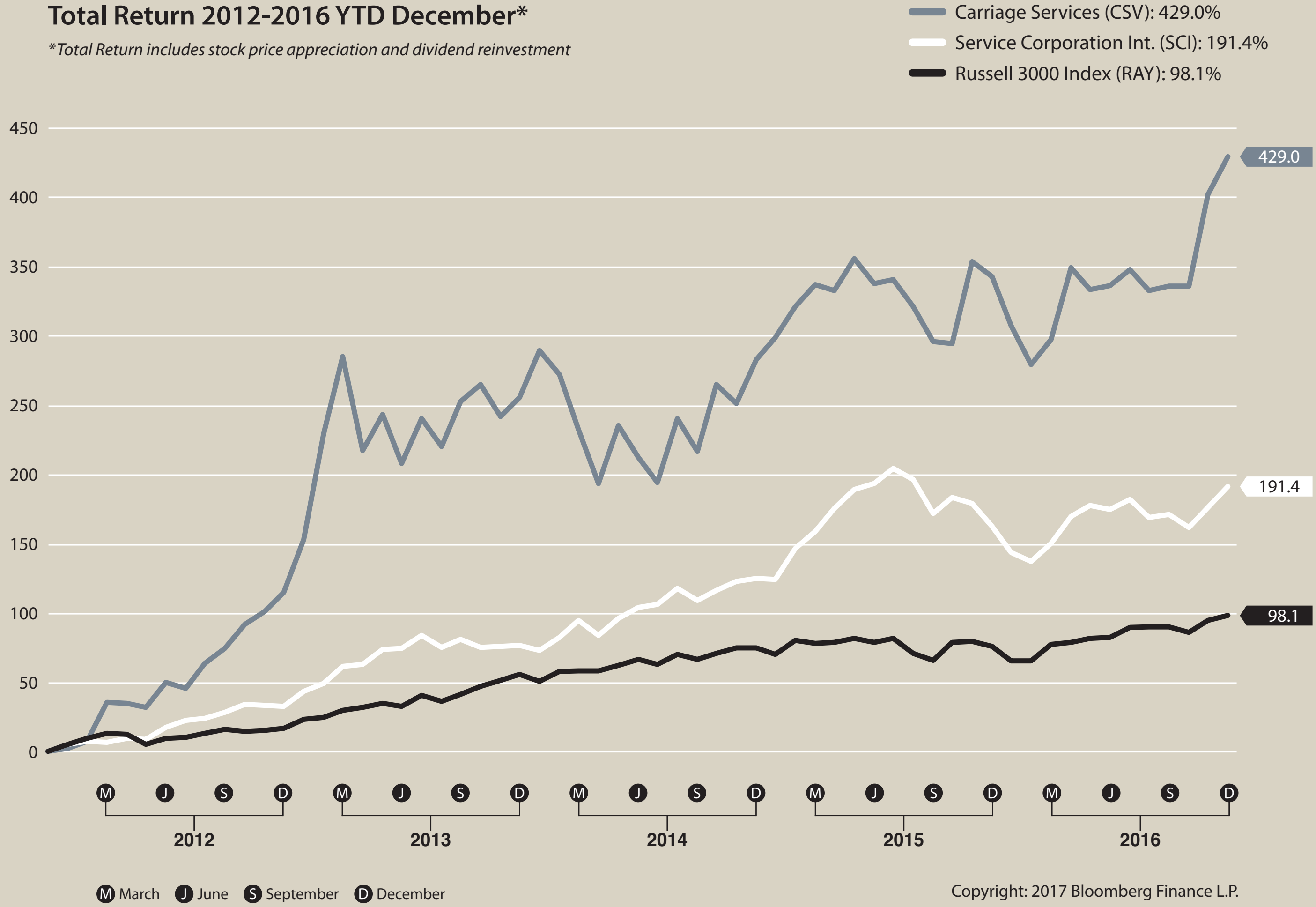




Source: Bloomberg Finance L.P.

Total Return 2012-2016 YTD December*

*Total Return includes stock price appreciation and dividend reinvestment



The results after five full years of our five year Good To Great Journey launched on January 1, 2012 have been remarkable, as reflected in the Total Shareholder Return graph above comparing the five full years ending December 31, 2016 (since January 1, 2012) of Carriage (up 429.0%), SCI (up 191.4%) and the Russell 3000 Index (up 98.1%). Carriage's Total Shareholder Return since our Good To Great Journey began has been 429.0% and our stock price has increased 411% from $5.60 per share on December 30, 2011 to $28.64 per share on December 30, 2016.

Shareholder Letter

*We recently reported our eighth straight record annual performance for 2016, which was the culmination of the first five year timeframe of **Carriage's Good To Great Journey** that never ends. Our achievements over the first five year **Good To Great** timeframe compared to our base year of 2011 were phenomenal, as reflected in the following highlights:*

- Total Revenue CAGR of 6.4%;
- Proforma[1] Adjusted Consolidated EBITDA CAGR of 10.8%;
- Proforma[1] Adjusted Consolidated EBITDA Margin increase of 550 basis points;
- Proforma[1] Adjusted Free Cash Flow CAGR of 16.1%;
- CSV share price CAGR of 38.6%;
- Total Shareholder Return of 429% including dividends.

[1] Excludes reported Non-GAAP withdrawable Trust Income from 2011-2015, a policy effective beginning in 2016 but shown for consistent comparative purposes on a proforma basis as if this policy was effective January 1, 2011.

Key five year investment merit takeaways include the following:

- Increased by almost 23% our debt leverage capacity on the same revenue base;
- Increased by 111% our ability to self-finance from Free Cash Flow a more rapid pace of acquisitions;
- Substantially increased returns on invested capital of both our existing Same Store and Acquisition Funeral and Cemetery Portfolios;
- Increasing margin trends will materially benefit long term investment returns on future acquisitions using our Strategic Methodology whose criteria are predictive of future revenue growth;
- Substantially increased our financial flexibility to pursue additional opportunistic value creation capital allocation decisions; and
- Cash earning power Adjusted Consolidated EBITDA Margin of 29.7% is a company and industry milestone and is more than 300 basis points higher than our much larger benchmark competitor.

The operational and financial quantitative achievements along with the huge investment value creation benefits outlined above were driven since 2011 by an unrelenting and hard edged leadership focus on qualitative improvements at all levels and in all parts of our company as reflected in the following highlights:

- Creation of and "trial and error" Darwinian upgrading of senior leadership team (Operations and Strategic Growth Leadership Team) comprised of currently eight members (vetted from twenty three different members over five years) who are culturally and collaboratively aligned as leader owners of all parts of Carriage and will join me in leading the second five year timeframe of **Carriage's Good To Great Journey** that never ends:
    - Mark Bruce, EVP and Chief Operating Officer;
    - Paul Elliott, SVP and Regional Partner;
    - Shawn Phillips, SVP and Head of Strategic Development;
    - Viki Blinderman, SVP and Principal Financial and Chief Accounting Officer;
    - Ben Brink, SVP, Chief Financial Officer and Head of Trust Investments;
    - Brijesh Patel, VP of Operations Analysis and Planning Group;
    - Gabe Ngo, VP and Head of Strategic Development Support.

- Upgrading of field operating and sales leadership across our portfolio of businesses under the leadership of Mark, Paul, Shawn and our field operations Directors of Support;

- Upgrading of leadership and processes of home office support departments, primarily driven by Viki, Ben, Brijesh, Gabe and Jeff Parker, Head of IT; and reorganization for more effective/efficient support of our operating businesses, i.e. an overhead organization that will add value to our operating businesses and enable them to get better over time by becoming more successful at Standards Achievement;

- Cleaned up under the leadership of Viki and Ben our confusing Non-GAAP reporting so that Non-GAAP results beginning in 2017 would converge with GAAP results except for the accretion of the discount on our Convertible Subordinated Notes;

- New leadership under Ben and Viki for a more active and effective Investor Relations Program whose goal is to attract over time a community of institutional investors with a profile of long term shareholder partners;

- New leadership under Shawn and Gabe for more effective execution of our Strategic Acquisition Model using updated and proven Strategic Criteria and Methodologies, the goal of which is a faster pace of high quality acquisitions over the next five years which have a higher revenue and earnings growth profile relative to our existing Same Store Portfolio (owned at least five years);

- Creation in early 2012 of a Visual Schematic of Carriage's High Performance Culture Framework that depicts all the elements, linkages and dynamics of our operations, consolidation and value creation platform;

- Creation beginning on January 1, 2012 of a new five year **Good To Great** value creation award based on sustained Standards Achievement which had twelve initial winners out of forty-three Managing Partner possibilities, each of whom received substantial pay-outs in February 2017, half in cash and half in CSV stock. As a group these winners had CAGR in Revenue and Field EBITDA over the first full five year **Good To Great** timeframe of 4.9% and 10.0%, respectfully;

- Began to recognize quarterly in our earnings releases our quarterly High Performance Hero Managing Partners and in our Annual Report the annual **Being The Best Pinnacle of Service Award** winners as well as for the first time in our 2016 full year earnings press release and in this Shareholder Letter the twelve **Good To Great** value creation award winners.

The last section of my 2015 annual shareholder letter was titled "Carriage as a Compounder Company." This section articulated then and even more so now a passionate conviction that as the co-founder, Chairman, CEO and largest individual shareholder with literally "all my net worth eggs in the Carriage basket, I wish I owned a lot more of our company." In order for others outside our company to fully comprehend why at 74 years young I would so strongly feel this way (unwise and naïve at best, risky and completely stupid at worst), it will be necessary to retrace the first 25 year history of Carriage's Learning Journey.

The Two Part History Of The Evolution Of Our Learning Journey

Upon reflecting about how to write about our first quarter century of history, it seemed that breaking the Carriage Evolutionary Learning Journey into two parts made the most sense. Part I will cover the period from founding on June 1, 1991 to December 31, 2003, which is when we eliminated the traditional Budget and Control business model used across corporate America along with all the other time consuming and energy draining annual, quarterly and monthly budget processes and hierarchical management methodologies for operating and consolidating a highly fragmented industry.

On January 1, 2004, we began Part II of the Carriage history by implementing our innovative initial Funeral Standards Operating Model as a replacement for the Budget and Control Model and thus began a journey of learning, experimentation and continuous improvement over the next thirteen years that was defined by three distinct phases. First, we had to evolve into a good operations company before becoming a good consolidation company, which then led finally over the last five **Good To Great Journey** years to Carriage becoming a superior value creation platform for our industry, as reflected in our thirteen year performance history in the chart below:

Carriage's Performance vs. S&P 500

Year	Return on Equity of Carriage	Percentage Annual Change Per-Share Book Value of Carriage	Percentage Annual Change Per-Share Market Value of Carriage	Percentage Annual Change S&P 500 with Dividends Included
2004	9.9	7.7	33.5	10.9
2005	(0.9)	(19.7)	1.2	4.9
2006	3.9	(0.8)	1.8	15.8
2007	7.2	7.4	72.9	5.5
2008	5.5	4.3	(77.2)	(37.0)
2009	6.7	7.8	95.5	26.5
2010	7.1	5.4	23.4	15.1
2011	7.0	4.4	15.5	2.1
2012	10.7	7.9	112.0	16.0
2013	11.5	15.0	64.5	32.4
2014	11.6	13.8	7.3	13.7
2015	13.8	(2.6)	15.0	1.4
2016	14.4	13.0	18.8	12.0
Compounded Annual Gain - 2004-2016		**4.5%**	**17.1%**	**7.8%**
Overall Gain - 2003-2016		**77.2%**	**674.1%**	**164.0%**

Part I Overview

I must provide upfront warning that Part I is a brutally honest and specific long confession of my leadership sins as co-founder, Chairman, CEO and only remaining corporate senior leader and Board Member survivor of Carriage over our first 12½ years, which was a process of unleashing institutional memories that were equal parts painful and liberating.

For those of you who believe in the uniqueness and sustainability of what we have achieved, especially over the last five years, you will find Part I informative and helpful toward understanding the motivations and excitement about the future of all our leaders and employees today, as well as what drove the initial innovation and subsequent thirteen year evolution of our High Performance Culture Framework. For the skeptics, which have far outnumbered the believers in the past, I'm not sure whether Part I will hurt or help. If nothing else you should conclude after reading Part I that our existing businesses, leaders, employees and company in 2017 have been "stress tested" over many years and are fantastically resilient and quite wonderful!

I have learned over my long career that the greater part of wisdom is first learning why a customary way of doing something is not always the best way for the creation of the most value (in this case, operating and consolidating funeral homes and cemeteries). This point is especially relevant given the significant differences in the current operating portfolio profiles of the two largest remaining public deathcare consolidators, SCI (bigger, more metropolitan and denser footprint of properties) and Carriage (smaller, more suburban and geographically distributed properties).

For anyone wanting to be the best at what they do, the biggest mistake and surest path to mediocrity is to simply copy and try to improve upon with incremental steps the methodologies and ways of thinking about how to do something that have been pioneered by others a long time ago. I would hazard a guess that more than thirty regional and national consolidators have started up in the highly fragmented deathcare industry over the last 30-40 years (vast majority backed financially by venture capital or private equity firms), all of which used a version (some more, some less) of the methodologies SCI had pioneered beginning in the early 1960's.

None of these consolidators were able to innovate and sustain a new operations and consolidation framework that sufficiently differentiated their long term operational and financial performance and attractiveness as a home to the best remaining independents. So eventually they all sold either directly or indirectly through bigger consolidators to SCI, enabling SCI to achieve Darwinian scale.

Because I had absolutely zero idea of how best to operate and consolidate funeral homes and cemeteries on June 1, 1991, we made the same mistake of simply copying what other consolidators had been doing for over forty years, i.e. trying to be like a little SCI, which wasn't possible because they were the first to acquire the biggest businesses in the biggest markets at historically discount prices with their pioneering consolidation and operation ideas in the 1960's, 1970's and 1980's.

Part II Overview

Part II will cover the evolution of our Funeral and Cemetery Standards Operating, 4E Leadership and Strategic Acquisition Models into what we now refer to as a High Performance Culture Framework for operating and consolidating the deathcare industry for superior value creation. Interestingly, I have come to the epiphany that none of the ideas and concepts created and evolved in Part II would have been possible if not for all the learning from mistakes in Part I. Moreover, I have also concluded that there was no way to short cut the dynamic and disruptive adaptive process of our evolution into a high performance culture company that just happens to be in the funeral and cemetery business.

Even though I have written extensively about our innovative and extraordinarily effective Funeral and Cemetery Standards Operating Models over the last five years, we believe these profoundly simple high performance ideas and concepts have not yet been very well understood, perhaps because of their extreme unorthodox and counterintuitive nature. This shareholder letter is another attempt to crack the "out of the box" thinking code for those of you interested in Carriage as a long term investment.

I decided to document in this shareholder letter critical periods in our 25 year history with three primary purposes in mind. First, only by studying history do we have any hope of not repeating the mistakes of the past. Second, to acknowledge and honor the first class Managing Partners and Former Owners who were instrumental in teaching me the right way of operating our high value personal services and sales businesses. And third, this shareholder letter will be a 25 year history sequential guide of the complex and often confusing nature of our dynamic and adaptive evolutionary learning journey.

Carriage over the last thirteen years has evolved into a laboratory for high performance culture continuous improvement ideas where the best ideas regardless of source win the day. But not surprisingly we find the best ideas bubble up from our High Performance Heroes and their employees in our operating businesses. I'm very proud of that state of affairs for our company in 2017 and would like to thank all the wonderful leaders and employees who have contributed to our success.

Personal Preface To Founding Of Carriage Services

Prior to co-founding Carriage in 1991, I had twenty-four years of personal learning journey experience that included two years of active military service including Vietnam (1966-1968); two years in Tulane's MBA Program (1969 - 1970); five years in the private placement department (10–15 year unsecured fixed rate high yield commercial and industrial loans) of Prudential Insurance (1971-1975); five years in the Chemical Division of Texas Commerce Bank (1975-1980); and ten years in the corporate restructuring and turnaround business (1981-1991), the last five of which was as the co-founder and senior partner in my own business.

During this prolonged formative career phase, there were a number of lessons learned and strong convictions developed that had huge implications for the future evolution of Carriage, which are highlighted below:

- Power of decentralized decision making by entrepreneurial leaders of small units or teams to achieve centralized enterprise goals or missions without a smothering top down central authority and bureaucratic organizational structure and culture (counterinsurgency teams in the countryside of Vietnam "winning hearts and minds" and Texas Commerce Bank);

- Power of providing high performance culture teams with four major elements of human motivation theory, i.e. Growth, Achievement, Responsibility and Recognition, glued together with generous high performance incentive structures (Tulane MBA Program);

- Fascination with why some companies in the same industry become great, some fail, but most are mediocre to one degree or another (Prudential Private Placement Department and Texas Commerce Bank);

- Operational and Financial Data Analytics and Trends over at least five years (unit volumes, prices per unit, store by store P+L analysis and trends, product line revenue and gross margin analysis and trends, seasonal and cyclical trends, etc.) can provide deep insights into where a company derives its Free Cash Flow and earnings power and whether it can be reliably sustained under stressful environments and grown under friendly environments (Prudential);

- Long life operating assets and permanent working capital requirements should be financed with a capital structure with long term liability components (Prudential);

- How to build a high performance culture company that just happened to be in the banking industry using a decentralized decision making organizational structure to achieve centralized high performance standards related to profitability of customer loan and deposit assets and associated ROIC (Visionary Chairman and CEO Ben Love of Texas Commerce Bank during a five year period when TCB went from second largest bank in Houston by assets to one of two Triple A rated banks in U.S.);

- Much more important and a lot more fun to be the best (as opposed to being the biggest) in an industry by the high performance standard of being the most profitable on a given portfolio of assets (ROA) and revenue (EBITDA Margin) which are the quantitative financial characteristics of a high performance culture that attracts the very best talent (Prudential and Texas Commerce Bank);

- Cash Flow from operations and reliability and sustainability of FCF growth is the sustenance for a successful enterprise over long up and down business cycles (Prudential and turnaround business);

- Excessive leverage is specific to an industry and company and is linked to predictability of cash earnings and sustainability of cash earning power of the enterprise – too much leverage and too little reliability and sustainability of FCF can be a company killer (Prudential and turnaround business).

It took me over three years to decide to co-found Carriage for a variety of reasons after being offered an acquisition line of credit subject to my personal guaranty from a new finance subsidiary of SCI that had been formed by former associates of mine from Texas Commerce Bank. Primarily, I was becoming successful in my restructuring and turnaround business and could not come to terms with the nature of death as a business in which I would spend the rest of my career.

My hesitation and doubts about a funeral business career disappeared when my brothers' oldest son (18 years) killed himself, his best friend in the passenger seat, and a mother of three small children in the other car in a tragic accident in Lawrenceville, Georgia in January 1991. The visitations for friends and family for all three funerals were handled by the same large funeral home in Lawrenceville on the same night.

After witnessing the noble work of the funeral director daughter of the owner, especially in her sensitive handling of each family and their interactions on that night, I told my brother and wife on the way to the Atlanta airport that I was highly even passionately motivated to start a funeral company that would over time become the best in the industry. At the time I had no idea how becoming the best at this noble work would be defined and measured or how difficult and long that journey would turn out to be.

PART I: THE EVOLUTION OF OUR LEARNING JOURNEY

I was able to secure a $6 million funding commitment (PIK Preferred at 9% coupon) and 49%/51% common equity split for the three management co-founders and the wealthy individual financial investor, respectively, along with a $35 million guidance line of credit with my personal guaranty from Provident Services, the finance company subsidiary of SCI. The good news is that I was able to negotiate governance arrangements with our wealthy financial backer (he and I were the only Board members) and buy/sell terms that let me build the company for the long term, which has not been the case for almost all other consolidators backed by venture capital or private equity (build and sell in 5 -7 years).

The greatest challenge we faced at the beginning was explaining the long term vision for our company and how that vision would be achieved.

Based on my prior experience and convictions, I wrote our **Mission Statement** and **Five Guiding Principles** on a single piece of paper, which we sent with a small cover letter to a group of funeral home owners in Texas doing over 100 funerals a year explaining that we would become a regional company of 35-40 firms (when asked, I said our geographic strategy was to go wherever Southwest Airlines flies!). We received two favorable responses to this outreach, one of which led to our first acquisition of a small business near Houston on January 26, 1992, eight long months after founding the company. No doubt about it – getting to first base is the hardest part of scoring and then winning the game!

As it has turned out 25 years later, the day we thoughtfully wrote down the vision and mission of what our company stood for and how we would think about the business and others who joined us over time was the day that forever changed the future course of our history. Nothing else since then comes close to the profound defining nature of these words:

Mission Statement:

We are committed to being the most professional, ethical, and highest quality funeral and cemetery service organization in our industry.

Guiding Principles: To Achieve Our Mission, We Are Committed To The Following Principles:

- Honesty, Integrity and Quality In All That We Do.
- Hard Work, Pride of Accomplishment, and Shared Success Through Employee Ownership.
- Belief In The Power of People Through Individual Initiative and Teamwork.
- Outstanding Service and Profitability Go Hand-In-Hand.
- Growth of The Company Is Driven By Decentralization and Partnership.

From Founding in June 1991 To IPO in August 1996

My dream and vision for Carriage was to become the best operator and consolidator in the industry, which I presumed would also lead to a very high valuation over time. Plus, it would simply be so much fun to collaborate on this idea with others who were likeminded about **Being The Best** at what they do and winning as a team.

I was coached and schooled by my former colleagues in SCI's acquisition finance company to focus only on funeral homes in the 100-300 annual calls range (industry language for atneed funeral volumes based on "first call" to a funeral home after a death). They explained the high FCF nature of the atneed funeral business (without aggressive preneed sales program) versus the low FCF nature (sometimes negative) of the cemetery business (unless large with huge heritage of burials) whose economics are driven by aggressive preneed property sales on typically 3 – 7 year financing terms requiring permanently large working capital.

My finance company former colleagues also schooled me on what normalized EBITDA Margins of revenue to expect (33%-36%) from operating good individual funeral home acquisitions and the customary multiples of EBITDA and revenue (6 times and 2.2 times) being paid for acquisitions by other consolidators during this period. And of course I was schooled on all the consolidation concepts that had proven highly successful for SCI since the early 1960's, i.e. clustering, scale and centralized vendor buying power, centralized pricing of products and services, and an aggressive preneed funeral sales program to create a large backlog of future funeral revenue and trust investments, etc., all earning power concepts that were intended to create efficiencies and as a result lead to higher Consolidated EBITDA Margins and Free Cash Flow.

However, none of my former colleagues schooled me on wise capital allocation to achieve superior investment returns on invested capital, which for a start-up with only overhead and no operations or history in the business would have been premature in any event.

Just as we were getting started as a baby company, the deathcare consolidation mania began to take hold and accelerate, driven by the proliferation of public companies (Loewen Group of Canada, Stewart Enterprises, ECI and SCI) and institutional investor demand for their equity and debt securities. There were also a significant number of private consolidators during the early to mid-1990's, all of which were subsequently acquired by either Loewen or SCI, which turned out to be a stroke of circumstantial luck for Carriage.

SCI acquired Arlington, Sentinel Group, and Gibraltar Mausoleum from 1991 to 1995 and began to view Carriage as the preferential buyer of properties they could not keep pursuant to FTC Consent Decrees as well as numerous others that they deemed undesirable or non-strategic at the time of our purchases. From September 1992 to April 1996 we acquired a total of twenty properties in four separate transactions from SCI that were mostly small businesses in smaller markets in Kansas, Michigan, Tennessee, Kentucky, Georgia, Florida and Texas.

These early SCI packaged divestitures along with our acquisition of numerous other independents during this formative period provided the critical mass to begin building the home office support and field operations infrastructure necessary to be both a successful operator and consolidator of independent funeral homes.

As I have often said about this phase and later after the 1999 crash, we were in the lemonade business trying to turn around our acquired lemons into desirable businesses to own for the long term, which notwithstanding low purchase prices was a business that had very low returns on invested human capital. It was literally a PhD education in what not to do to build a successful company in our industry. However, learning what not to do is not the same as learning what is best to do, wisdom that came much later in our journey.

Because of our growth from 1991-1995, we twice raised additional equity, once in 1994 from a small group of wealthy young friends of our initial financial backer and again in late 1995 from an institutional pre-public investor when we were contemplating an IPO.

From IPO in August 1996 To Public Industry Market Peak in January 1999

The public market mania around deathcare consolidation in the 1990's was driven by two major ideas, neither one of which turned out to be valid, at least not yet. First, only about 10%-12% of all funeral homes and cemeteries in that timeframe had thus far been acquired, meaning there were literally thousands of remaining acquisition candidates in our still highly fragmented industry. We have learned the hard way that only a small percentage but still a significant absolute number of remaining independent family businesses meet our highly selective strategic acquisition criteria in 2017.

The second compelling idea at the time was that the huge baby boomer population born after World War II were about to start dying and would lead to never ending and accelerating gains in revenue and profits for companies with a large footprint of portfolio properties in the U.S.

There was simply no way a management team or investor could lose in a "deathcare consolidation company", so big time greed by all parties settled in for almost ten years and was the order of the day. Almost overnight our mature, local revenue challenged industry turned into a "growth story" that every growth investor had to own.

We were courted to go public in late 1995 and early 1996 by numerous bulge bracket and regional investment banks as if we were in a "good" beauty contest. There were probably 9-10 sell side deathcare analysts covering the industry public sector, as secondary common equity issuances were necessary to fund the faster and faster pace of acquisitions. There were 6-8 active industry brokers and each decent acquisition candidate would have 4-6 offers from different consolidators (a "bad" beauty contest).

GAAP Strategy – Growth At Any Price!

We launched our IPO in August 1996 on the NASDAQ exchange through Merrill Lynch as our primary underwriter by issuing 3.9 million shares at $13.50 per share, which increased $3 per share on the first day of trading. Like all the public deathcare companies in the 1990's, our capital structure consisted of a Bank Revolving Credit with borrowings that grew rapidly because of acquisitions until we were leveraged to a degree that required a secondary common share offering whose proceeds were used to pay down our revolving bank debt.

Then the whole process was repeated again except faster, akin to getting on a treadmill that gets faster and steeper and eventually dangerous to get off even if you were inclined to do so. I actually considered stopping all acquisitions in 1998 but was concerned that our stock price would collapse and we would be acquired by one of the other consolidators, as I had already been approached several times by each of Loewen Group, Stewart Enterprises and ECI.

Armed and dangerous with about $50 million of real cash equity from our IPO, we began to grow like a weed through acquisitions at increasingly high multiples of proforma future performance of "integrated" acquisitions (took ten more years to get good at the integrated part!). We expanded aggressively into the West including Northern California, Idaho, Nevada, Washington and Montana, as well as the Northeast, mid-Atlantic and Southeast including Massachusetts, Connecticut, New York, New Jersey, Maryland, Virginia, Indiana and Alabama. Our field operations and home office staff expanded exponentially to manage the budget and control model of the rapidly expanding and geographically dispersed portfolio.

Thinking back now about our comical acquisition and organizational structure strategy, it can be summed up in too many instances as, "If it's a funeral home, cemetery or combination business, no matter where it is or what size, quality, demographic trends, etc., just buy it now because it will be worth much more later!" And if we have an effective manager of a single business, then promote him/her to an area manager, then regional manager, etc., until we have promoted them completely out of their area of competence, insuring their failure as a manager and simultaneously putting great stress on the businesses for which they were responsible. In other words, we absolutely mastered "The Peter Principle!"

We also had built a large group to find, analyze, negotiate and close acquisitions but not to effectively integrate them. We operated our rapidly growing portfolio of funeral homes and cemeteries through two separate geographically overlapping divisions, as the "service culture" nature of the funeral business compared to the "sales culture" nature of the cemetery business in our industry and with all public companies were historically akin to mixing oil with water.

We also had built up a nationwide preneed funeral selling organization that was 4 – 5 layers deep with percentage overrides from the top through every layer to the bottom layer where actual sales to client families were made. And finally, we bought a training company in 1998 to achieve our **Mission** of **Becoming The Best** and spent millions and millions training employees at each business over the next six to eight years without any lasting measurable result. We now have no institutional training program.

Too Good To Be True To Stay That Way – January 1999 Market Crash

Writing now about the public deathcare company mania and idiocy phase in the 1990's is more than a little humbling, especially as I believed at the time that my considerable prior experience and knowledge would surely provide me a leg up on spotting any red flags about gathering financial storms that were a danger to our company and the creditors, vendors and investors who believed in what we were doing. But when your share price goes from $13.50 in August 1996 to $29.25 in the first week of 1999, you begin to think, "Look at us – only in America - what a great country – what a great industry - what a great company!"

However, there were a few "data points" that caused me to begin questioning whether this accelerating public/private company arbitrage game was "Too Good To Be True" and therefore wouldn't stay that way. First was our annual company theme for 1998, "$28 in 98!" In my own mind I'm still trying to live that one down!

Second was when a major institutional shareholder small cap portfolio manager from Boston flew to Houston in mid-1998 and hosted me for dinner at the city's best restaurant after our equity market capitalization had soared in less than 2½ years from $130 million at our IPO to almost $450 million at the end of 1998. He told me so much money was pouring into their equity funds that Carriage was being downgraded from a small-cap to a microcap and would be handled by a different portfolio manager! Ouch! I began to question what this meant for our sector and company and more generally the raging bull market of the 1990's.

Third, acquisition candidates had begun to be acquired on "proforma future 10% revenue increases and 45% EBITDA Margins" after the sale that were developed and presented to bidding "finalists" by industry brokers at nose bleed multiples that only made sense if the proforma future performance of the acquisition was achieved and sustained and public company Consolidated EBITDA multiples remained in the 12-14 times range.

Fourth, we began to be judged by "Mr. Market" on the growth and size of our "annual acquisition spend target" rather than on traditional fundamental metrics of shareholder value creation (capital allocation, FCF, EVA, ROIC, EPS, EV to EBITDA Multiple, etc.). As long as Mr. Market was accessible and encouraging for more and more acquisition mania activity, i.e. **GREED**, our sector share prices continued to surge. Our share price on the last trading day of 1998 closed at $28.44, achieving our annual theme of $28 in 98. Way too easy to stay true!

Finally, while we were growing rapidly in a sector whose stock prices were selling at 30 plus times proforma EPS based on acquisitions, Carriage was not producing any Free Cash Flow from operations, which I found increasingly alarming. This meant that we were completely dependent for cash and liquidity on borrowings from our bank syndicate and on the issuance of new common shares when we hit our leverage limit with our banks.

Moreover, I learned later after the deathcare public sector crash that the GAAP accounting for our sector at the time was much too liberal and resulted in book earnings being completely out of alignment with cash earnings, which changed substantially in 2001 under GAAP with the accounting rule SAB101 and again in 2005 when we no longer could capitalize and amortize over a long timeframe our preneed funeral selling expenses.

During the Christmas Holidays at a ski resort in Telluride, I told my wife that all of our good fortune had come too fast and easy and seemed too good to be true to last. So on the first business day of 1999 I called Credit Suisse First Boston and initiated a five million share secondary offering (following one in May 1998 in a move to NYSE) whose almost $150 million of net proceeds would be used to reduce the $265 million of outstanding borrowings under our syndicated Bank Revolving Credit.

From Public Industry Market Crash in January 1999 to December 2003

Much like the laws of nature and physics, sooner or later the chickens come home to roost, and so it was for our sector and company. Our stock price continued to rise in the first two weeks of 1999, hitting a peak of $29.25. We were within three days of launching our five million share secondary offering when SCI announced a huge earnings shortfall for their Fourth Quarter and Full Year 1998 performance.

The deathcare consolidation mania had officially and suddenly ended as capital market access to the equity and syndicated bank markets began to erode rapidly and eventually over the course of 1999 access to any new capital was closed completely. Mr. Market got "fearful" and cancelled our equity offering!

Sector share prices collapsed with CSV falling like a rock from $29.25 to $17-$18 by April 1999, where it hit buying resistance and stabilized for a while. Sensing that we should move fast to refinance our $265 million Bank Revolver on much longer terms for protection against future financial dangers (hello – is anybody home in your brain?), we quickly found a tight but accessible capital markets niche for a hybrid security that was non-callable convertible preferred stock with the name of Tides Securities (convertible at $20.44 per share) with a thirty year maturity, 7% coupon deferrable (PIK) for up to five years with no governance or cross default issues, deductible for tax purposes whether or not the coupon was paid in cash or PIK, and deeply subordinated to all debt including trade payables both in liquidation and priority of payments.

As a former debt guy, I could not believe this "made only in America" capital with mostly equity characteristics was available, so we raised $90 million in April 1999 followed quickly in May 1999 by a $110 million senior unsecured notes private placement with seven insurance companies ($25 million maturing in four years, $60 million in six years and $25 million in eight years), using the almost $200 million of total proceeds to pay down our syndicated Bank Revolving Credit borrowings from $265 million to $65 million.

These two quick financial moves later saved our company from bankruptcy but could not restore my reputation for integrity, which had been my most important personal characteristic and asset, especially with our own wonderful people and loyal and committed Former Owners and Manager Operating Partners. A significant number (8-10) of the Former Owners who joined their family business with the **Carriage Being The Best Family** of businesses had taken substantial amounts of their consideration in CSV shares because of our **Mission Statement** and **Guiding Principles** and my leadership of this vision for our company.

In August of 1999 Stewart Enterprises issued $200 million of common equity at about $11 per share, eventually saving them from bankruptcy, which was the last pure common equity raised publicly by a deathcare consolidation company up until today in 2017, a reflection of the amazing cash earning power that has been developed by both SCI and Carriage since 1999. Loewen Group filed bankruptcy in June 1999 and SCI, Stewart Enterprises and Carriage came close to the same fate over the next two years. The deathcare sector suddenly had almost no sell side equity analyst coverage – and no one cared!

Our inability to deleverage at the beginning of 1999 with a huge equity offering I now view as a gift or blessing that just keeps on giving, as we did not have a huge proliferation of new shares and common share overhang to deal with years later, inasmuch as we only issued public shares twice, once in our IPO in August 1996 and again in May 1998. Moreover, we were forced to Darwinian “adapt or die” innovate and create our own FCF equity to survive and later thrive.

Fresh Start Restructuring Program

As we navigated through 1999 and 2000, we began to exhibit the same performance symptoms of declining revenues, earnings and equity market valuation that had plagued the public industry sector (but not the independent funeral and cemetery private sector) since the beginning of 1999. As a former “restructuring and turnaround expert,” it was time for bold and fast action, so I developed in collaboration with our lead insurance company (American General – later AIG) and lead bank (Bank of America) a comprehensive restructuring program named appropriately Fresh Start, which was developed with the following goals and principal elements:

Fresh Start Goals:

- Increasing and better aligning our earnings and cash flow;
- Reducing our debt;
- Restoring market value credibility to our balance sheet;
- Re-accessing the capital markets;
- Restoring credibility to our operating and consolidation model.

Fresh Start Principal Elements:

- Downsizing our corporate organization;
- Changing our operating leadership;
- Changing our preneed funeral organizational strategy;
- Stratifying by performance our funeral and cemetery portfolios;
- Implementing action plans to improve underperforming businesses;
- Disposing of some underperforming businesses;
- Adjusting the carrying basis of other underperforming businesses; and
- Modifying financial covenants with lenders to facilitate execution of Fresh Start.

Questioning Who We Are And What We Stand For

During early August 2001 we had a two day offsite retreat of our corporate and operational leadership team to revisit every word of our **Mission Statement** and **Guiding Principles** to see if that's where we had gone off track with our operating and growth strategy and to modify our **Mission Statement** and **Guiding Principles** if necessary. I still retain for its historical yet precious intangible value a marked up copy of our **Mission Statement** and **Guiding Principles** with the many recommended changes from that retreat. We did not ultimately change one word but over time every person who recommended a change was gone from Carriage.

Reading *Good To Great* – Learning We Were Not Yet Good!

Later in 2001 we had another intended two day offsite retreat after the book ***Good To Great*** was published by Jim Collins. We were all excited to brainstorm how we would take Carriage from **Good – To – Great**, as Jim had profoundly stated that, "We believe that almost any organization can substantially improve its stature and performance, perhaps even become great, if it consistently applies the framework of ideas we've uncovered."

I kicked off the retreat on a Saturday morning by asking whether anyone (7 - 8 leaders) had any ideas about the **Good To Great** concepts and how they could be applied at Carriage, but there was a long deafening silence. I then said I have a question to start the retreat related to the Hedgehog Concept in Chapter 5 that posed three questions that **Good To Great Companies** should be able to answer, as follows:

1. What are you deeply passionate about?
2. What drives your economic engine?
3. What can you be the best in the world at?

I thought the first two questions were laydowns for a weekend retreat, so I asked if anyone had an idea about what we could be the best in the world at? When there was another even longer deafening silence, I said, "Never mind - I'm sorry for being guilty of wasting everyone's time. This retreat is over because it just occurred to me that this wonderful book is about going from **Good To Great** – and we are not even close to good! Forget the book and this retreat and let's go back to work." It would be another ten years before a new corporate leadership team and I revisited the framework of ideas in **Good To Great**.

By August of 2003 we had achieved most of the four financially oriented and measurable Fresh Start goals by implementing all of the principal elements and were clear for the first time in years of any near term financial crisis. We had finally been able to refinance the remaining borrowings from our crisis era large bank syndicate with a $40 million credit facility from a two bank group.

The other important point to make about Carriage during the height of the financial crisis phase from January 1999 through August 2003 was that we were the only consolidator (and by far the smallest) to navigate this period without ever having any of our debt secured, without any covenant or payment defaults, without any shareholder lawsuits, without any financial restatements, and proudly were the only company in our industry to pass the Sarbanes-Oxley internal controls test on our first try and each year thereafter.

I point out that Carriage avoided all these fundamental characteristic symptoms of risk because we hear often from investors that our relatively small size makes Carriage inherently more risky, unpredictable and prone to a negative surprise than much larger companies. We would diplomatically beg to differ with that view of the world.

However, I could not stop thinking about the fifth and most critical long term Fresh Start goal – restoring credibility to our operating and consolidation model.

Why Can't We Be Good At What Drives Our Economic Engine?

Since Fresh Start had been initiated in late 2000, I had become increasingly dissatisfied with the operating and financial performance trends of our funeral and cemetery portfolios, as we were broadly losing market share under the operating leadership of our funeral and cemetery divisions. Much like a pied piper I toured repeatedly around our funeral and cemetery operating portfolio of businesses with our operating leadership harping over and over on the importance of market share volumes as the critical driver of local high performance and value creation. We had been "roughly right" tracking market share trends at each business each month for ten years by competitor in each market using obituary count.

Carriage's Ten Truths Of A Service Business

I had actually begun to focus obsessively on this key local funeral service and cemetery sales and service revenue and earnings driver in 2001 by developing **Carriage's Ten Truths of a Service Business**, which were as follows:

1. Market Share Equates To Market Value.
2. Market Share Is: Heritage, Relationships, Goodwill, Outstanding Service, and Leadership.
3. Select and Grow The Right People and They Will Grow Your Market Share.
4. Market Share Growth Leads To Well-Managed Profitability and Vice Versa.
5. Market Share Growth Is A Building Process; Market Share Loss Can Happen Quickly.
6. Market Share Lost Is Growth Opportunity Lost.
7. Market Share Loss Is Bad; Not Knowing Where It Was Lost and Why Is Worse.
8. The Budget Is Not To Be Worshipped, But Rather Used As A Tool For Success.
9. Performers Must Not Pay For Under-Performers.
10. Manage Each Business Uniquely; Only Fools Manage Consolidated Results.

Our three year (2001 - 2003) funeral home portfolio performance trends in particular since 2000 had shown steady deterioration from market share losses and revenue declines in too many businesses because of weak managers and corporate field operations oversight in general. Our head of funeral operations simply did not hold managers accountable for weak or even bad performance.

Our diverse portfolio of properties (about 125 funeral home facilities under 80 – 90 managers) were also characterized by mostly low Field EBITDA Margins with a large population of businesses having annual margins consistently in the high teens and 20%-30% range, another large population in the 30%-35% range, and a small but consistent group in the 36%-42% range with occasional annual outliers in the 43%-46% range. This smaller group of businesses in the 36%-42% Field EBITDA Margin range seemed to look more or less the same operationally and financially year after year no matter what their budget required.

The small high performance group (diverse in geography and size of business) also seemed less sensitive to the uncontrollable vagaries of their business and market (death rate variability, flu season severity and timing, cremation versus burial mix change, competitor moves, etc.). I began to wonder why the vast majority of our portfolio (85%-90%) couldn't perform like this small minority (10%-15%) of our portfolio.

Rethinking A Business Model Barrier To What Drives Our Economic Engine

Yet no matter how many times I gave the sermon on the mount about the critical nature of market share volumes and the positive or negative impact of volume trends on the operating leverage dynamics of our high fixed cost local businesses, our operating leaders at all levels could not turn the tide of our broadly declining market share and associated operating and financial performance trends. I was constantly asking whether there was manager talent we could recruit to reverse declines in market share in a given business and market only to hear repeatedly "yes", but he/she is "the key employee" at a competitor and we can't afford them because that amount of manager compensation isn't in line with our pay policies and in any event "isn't in our budget."

So I took a three week vacation to Sardinia with my family, which was an opportunity for cleansing and freeing the mind for innovative thinking.

Upon returning home, we embarked on an improbable if not nearly impossible learning journey of business model and high performance culture innovation and continuous improvement that would increase our Total Funeral Field EBITDAR Margin (before rent but including financial revenue) almost 1,000 basis points from about 33%-34% in 2003 to 42.8% in 2016. Wow! That would not prove easy and seemed to take forever – but if it were easy, then anybody could do it!

Oh No It's Budget Season Again

Each year I would kick off the funeral home budget season in August by getting a spread sheet with five years of relevant summary data on each business, listed by region (West, Central and East) and sub-region. The first column was the number of atneed funeral contracts (volume) by business by region, the second column was atneed average revenue per funeral contract (average revenue per unit of volume or ARPC) which when multiplied produced the third column, Total Revenue. The fourth column was the locally controllable business EBITDA without any accounting, field operations or home office overhead allocations, which was the metric I had initially learned to use for valuation of acquisitions and which we later in 2007 began to call Field EBITDA with our transparent Trend Reports. The fifth column was Field EBITDA Margin which was simply equal to Field EBITDA divided by Total Revenue.

After reflecting on my historical knowledge of the performance trends of each business and market, I would "guesstimate" number of funerals, average funeral revenue, Total Revenue and Field EBITDA Margin improvement (or not) for the next budgeted performance year based on our specific operating management initiatives in that business and market. Then I would simply multiply the guesstimated EBITDA Margin times the forecast revenue to derive Field EBITDA for the next year. Then I added them all up to see how much potential improvement in Field EBITDA could be achieved in each sub-region, region and total portfolio in the next year.

But even though we tried to improve our budget process each year before pushing the highly detailed by line item preliminary format down to our managers for a final round or two of revisions and "buy in", most of our budgets were out of whack with actual performance by April of the budgeted year. The focus of operations and corporate support then became managing and minimizing the biggest negative Field EBITDA variances to budget for the remainder of the year. Our monthly individual business reporting was purely financial (no operating data) with monthly, quarterly and year-to-date actual income statements compared to budgeted performance with variances shown in each case.

For purposes of our annual public company guidance, we discounted our budget by at least 15%-20% and eventually stopped providing annual and quarterly guidance at all, viewing this process and the Wall Street annual and quarterly EPS estimate system as weak short term thinking for a company wanting to be the best at what we do in the long term.

Giving Up On Budgets – Now What, But First Who?

I had concluded on a Friday night after returning from Sardinia in August 2003 that after so many years under the budget and control model, this process was never going to work well enough for us to become a good operating company. More profoundly, I concluded that improving incrementally all the copy-cat methodologies that I had learned and employed for operating and consolidating funeral home and cemetery businesses would never achieve the fifth Fresh Start Goal of "Restoring credibility to our operating and consolidation model".

In other words, it had become an impossible mission to restore credibility to an operating and consolidation model that in my experience with Carriage never should have had any credibility in the first place. Everyone did it this way because that's always how it had been done. I committed to rid our company of budgets and all the time consuming processes related to them including our incentive programs and annual manager appraisals.

Funeral Standards Operating Model

Over the weekend I framed out eight simple funeral high performance operating and financial standards with the ones detailed in this paragraph evolved over the next three years from the initial version developed in August, 2003. These **Being The Best Standards** centered around market share trends (volume standard in the current year exceeds volume average of last three years, weighted 30% of 100%), average revenue trends (ARPC increases 2% annually, weighted 15%), profit margin trends comprised of three categories of earning power percentage ranges (Gross Margin Range % of revenue, weighted 10%; S&B Range % of revenue, weighted 12%; and Field EBITDA Margin Range % of revenue, weighted 10%), and finally bad debt as % of revenue, weighted 3% (leading indicator of future market share losses).

The Gross Margin and S&B Ranges were three percentage point ranges in a correlated matrix of four groupings related to volumes and ARPC, while the Field EBITDA Margin Range was four percentage points using the same grouping matrix. These three primary profitability percentage ranges along with the other high performance standards meant that the Standards Operating Model was designed to be flexible for decentralized decision making by our Managing Partners and is not designed for unsustainable maximum short term profitability, i.e. 100% Standards Achievement each year.

The standards are biased by the heavy weightings on the two revenue standards (45% total weighting on volume and ARPC growth) so that the model provides a flexible, local decision making framework for both short and long term operating and financial performance with a goal of organic growth in market share and revenue at sustainably high profit margins. We also have designed our two generous Managing Partner incentive programs (annual **Being The Best**) and five year (**Good To Great**) around high Standards Achievement through long term outstanding execution of our Standards Operating Model, which we have defined as averaging annually over 70% Standards Achievement.

Finally and most importantly, I implemented two people standards (Right Quality of Staff and Continuous Upgrading of Staff, each weighted 10%), although I had no idea how these people standards would be defined. My thinking then and even more so now is that, without highly motivated and skilled employees in a high value personal service business, you are nowhere and over time will lose market share as surely as night follows day. These people standards combined with the later focus on entrepreneurial leadership would turn out to be the critical drivers of the success of our learning journey.

Best Business Operating Leaders As First Standards Council

On Monday when I would have normally given my initial budget spreadsheet to our corporate operations and budget group, I instead called seventeen of our best Managers and Former Owners for a top secret two full days off-site retreat. No one at their business or in our field operations or home office would know the purpose of this confidential meeting other than this group of seventeen top field operating leaders and me.

After three days we had brainstormed and framed out on a whiteboard beginning versions of the eight simple standards detailed on the prior page (many more were proposed, discussed, debated and eliminated – for example, a standard for annual preneed funeral sales) that would constitute our first **Being The Best** Funeral Standards Operating Model. I told attendees at the retreat that I would write the new Standards Operating Model up and roll it out to all our funeral businesses (75% of revenue) effective January 1, 2004, and for the first time I would become head of operations and restructure, simplify and improve our funeral service strategy (e.g. random and unexpected service kindness for free) for serving our client families.

My thinking on our "high value personal service and sales business" then and now is that we are only limited by our imagination and the quality and mindset of our people who serve client families when they are most in need of "high value" services at the time of death of a loved one. The enemy of anyone wanting to be "great" in our business is the person looking at us in the mirror each morning who is willing to settle for "good"!

Because I wasn't a funeral director, I thought that the idea of a Funeral Standards Operating Model would not have sufficient credibility for our field operating leaders and employees unless they all knew these seventeen well known and highly respected Managers and Former Owners as a group fully supported this dramatic change in how we managed our businesses and company. So I asked the group of leaders in this retreat to become Carriage's first Standards Council responsible for Standards Achievement and thereby approval of **Being The Best** incentive bonuses for each Managing Partner and business at the end of each year, and to also provide oversight and control over any proposed changes to any of the **Being The Best** standards in the future.

Funeral Standards Groupings – Flexible Nature of Decentralized Decision Making

Our funeral home portfolio today can be broken into four volume groupings of A-B-C-D each correlated in a matrix with four ARPC groupings of 1-2-3-4, meaning there are sixteen total subgroupings. Regardless of where a business in our portfolio is located geographically, it will fall into one of the sixteen subgroupings and have the same eight high performance funeral operating standards as every other business in its subgrouping.

Most of our portfolio today falls in our B and C Groupings with our A Grouping being smaller businesses performing fewer than 125 funerals annually and our D Grouping being bigger businesses performing more than 400 funerals annually. Shown below is a condensed version of the Standards Operating Model Matrix that reflects the eight subgroupings of only our B and C Funeral Groupings.

BEING THE BEST STANDARDS OPERATING MODEL

Funeral Home Groupings	Group	B	C	B	C	B	C	B	C
	Funeral Contracts	125 - 250	251 - 400	125 - 250	251 - 400	125 - 250	251 - 400	125 - 250	251 - 400
	Group	1		2		3		4	
	ARPC	<$4,500		$4,500 - $6,000		$6,001 - $7,500		>$7,500	
Funeral Home Standards	Gross Margin %	87 - 89%	87 - 89%	86 - 88%	86 - 88%	85 - 87%	85 - 87%	85 - 87%	85 - 87%
	Salaries & Benefits %	28 - 30%	27 - 29%	26 - 28%	26 - 28%	26 - 28%	26 - 28%	26 - 28%	26 - 28%
	Bad Debt %	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
	Field EBITDAR %	37 - 41%	38 - 42%	38 - 42%	39 - 43%	39 - 43%	41 - 45%	39 - 43%	41 - 45%

Never could I have predicted at the time how this new analytical high performance standards framework for funeral operations would get traction and begin to evolve, slowly and very bumpily at first, until it had literally transformed, sometimes radically and Darwinian, every corporate and field operational aspect of our company over the next thirteen years.

Back To The Future - Mission Statement and Guiding Principles

Reflecting back on our first 25 years of history, it is clear now that over the first 12½ years all the methodologies we used for operation and consolidation of our industry were completely out of alignment with most of the words in our **Mission Statement** and **Guiding Principles**. None of what Carriage has evolved into in 2017 would have been possible if not for the blessing of having affiliated with a large number of first class operating partners during our first 12½ years, as they were simultaneously my best teachers and cheerleaders on what we were doing right, but also my tough love coaches and critics on what we were doing wrong.

More than anyone else, they were responsible for the knowledge I gained that led to the idea of our Standards Operating Model and for bringing my leadership of our company back in alignment with our **Mission Statement** and **Guiding Principles**.

When the world and Mr. Market are serving up one glorious gift after another (IPO, surging share price, son ringing bell to open NYSE on May 8, 1998, nothing but love from sell side analysts, investment bankers, etc.), you accumulate a huge community of "fair weather friends". But when your sector and company finally get their comeuppance by having the "too good to be true" public company treadmill snatched out from under them, you find that all your fair weather friends have suddenly disappeared.

That's when I turned for help to my real **First Who** "foxhole buddy operating partners", who are proudly listed below by year of affiliation and to whom this 25th Anniversary Shareholder Letter is dedicated with honor and respect:

1992: Gene Carlson (deceased) and Betty Carlson, Carlson Colonial Funeral Home, and Dick Morris, Kirby Morris Funeral Home, El Dorado, Kansas;
1992: Bill Fields, Steen Funeral Homes, Ashland, Kentucky;
1993: Ed English, Lane Coulter Funeral Home, Redbank, Tennessee;
1993: Jimmy Williamson (deceased) and sons Gabby and Chuck Williamson, Williamson & Sons Funeral Home, Soddy Daisy, Tennessee;
1993: Butch Williamson, Lane Southcrest Funeral Chapel, Rossville, Georgia;
1996: Dwayne Spence, Dwayne Spence Funeral Homes, Canal Winchester & Pickerington, Ohio;
1996: Ron Duhaime and son Chris Duhaime, Funk Funeral Home, Bristol, Connecticut;
1996: Tom O'Brien, O'Brien Funeral Home, Bristol, Connecticut;
1996: Doug Reinke, Dakan Funeral Chapel, Caldwell, Idaho;
1997: Jimmy Shemwell and Wayne Pearson and Jimmy's sons Brad and Andy Shemwell, Latham Funeral Home, Elkton, Kentucky, and Maddox-Fuqua Hinton Funeral Home, Hopkinsville, Kentucky;
1997: Mark Wilson, Wilson & Kratzler Mortuaries & Rolling Hills Cemetery, Richmond, California;
1997: Dan Stevens, Baker Stevens Funeral Home, Middletown, Ohio;
1997: Greg Brudnicki, Kent-Forest Lawn Funeral Home & Cemeteries, Panama City, and Emerald Coast Funeral Home, Fort Walton Beach, Florida;
1998: Jack Fischer (deceased) and son Jeff Fischer, Darling & Fischer Mortuaries and Los Gatos Cemetery, San Jose, California;
1998: Frank Forastiere, Forastiere Funeral Homes, Springfield, Massachusetts;
1999: Dorn Rademacher, Relyea Funeral Chapel, Boise, Idaho;
1999: Chuck Hennessey (deceased), Hennessey Funeral Homes & Crematory, Spokane, Washington.

PART II – THE EVOLUTION OF OUR LEARNING JOURNEY

Implementation of our Funeral Standards Operating Model on January 1, 2004 was consistent with the idea that in order to become the best consolidation company we first had to become good at operating funeral homes and cemeteries.

Our abbreviated **Mission Statement** of **Being The Best** then came to mean maintaining or modestly growing our annual number of funerals and cemetery interments at each business (market share) and average revenue per funeral and interment over time at slightly increasing and sustainable Field EBITDA Margins that reflected the positive financial impact of local operating leverage through our high fixed cost facilities. Our portfolio of cemeteries was not large enough to develop a comparable cemetery operating model at that time, so we deferred its development until the funeral model could be tested against several years of data for effectiveness.

Early Years Of Trial & Error: 2004 – 2005: Getting To The Other Side

There was very little financial performance improvement in our funeral portfolio in 2004 and 2005. And I was actually shocked after two years of Funeral Standards Achievement data, although admittedly I did not know what to expect with the new framework at the beginning of 2004. Our consolidated portfolio Funeral Standards Achievement was less than 50% and we still had many businesses below the minimum Funeral Field EBITDA Margin of 33%.

When we initiated the Standards Operating Model at the beginning of 2004, we had about thirty-five people in Corporate Operations both in support groups in Houston and located regionally to manage performance in our portfolio previously utilizing the Budget and Control Operating Model. With mounting frustration over our lack of progress in 2004 and 2005, I began to terminate our five funeral regional managers one by one.

It is a fascinating “data point” now to note that only two of that original thirty-five corporate operating team personnel made it past the major management reorganization on November 4, 2011 (me and Peggy Schappaugh, who is now the Manager of our Operations Analysis and Planning Group who had been hired in August 2003 “to do budgets”). All thirty-three people who eventually didn’t make the cut (and many others who replaced them) were highly competent with a budget and control model and the associated processes and hierarchical layers of management authority that syncs up with a top down model of performance management.

We have learned through large amounts of turnover and the regrettably high cost of turnover that previously successful operating and financial people can’t make the adjustment to a completely new and decentralized way of adaptive thinking about the locally complex dynamics of our business. A history of hierarchical top down experience means in most cases they can’t “mentally and behaviorally compute” that our leadership goal is to give up complete centralized operational control and decision making to a “**Right Who** Managing Partner” who would be able to lead a local highly motivated and skilled team of employees in a Carriage operating business to a high and sustainable level of **Being The Best** Standards Achievement.

We now refer to a leader who joins our company from a career of success somewhere else as needing to get to “the other side” where the rest of us live, work and play in a high performance culture world. It typically takes someone new 18-24 months to get to the other side but most don’t make it. We are shameless analogy thieves, which we use internally for effective communication in our High Performance Culture Language, but we also give credit where credit is due. We stole “the other side” high performance culture analogy from Ray Dalio and Bridgewater Associates.

The bottom line after two full years of operating under our Funeral Standards Operating Model was that the idea did not seem to be broadly working and we were still clueless on our two people standards weighted 10% each or 20% of Total Standards. Something had to be done to change this “going nowhere fast” performance trend. But first, let’s pause to reflect upon what we know now in 2017 but didn’t know in the first 12½ years or even well enough in 2004 and 2005.

From Founding Until Now - Wish I Had Known Then What I Know Now

I have learned by talking about and presenting our company to institutional investors over the last twenty plus years as a public company that there is generally a very weak understanding about the local and very entrepreneurial nature of our business. There is a strong institutional investor bias to viewing SEC sector reporting consolidated results as meaning more than they actually do because at the individual business and local market level our business is very entrepreneurial and dynamic with different competitors in a never ending war for more market share.

What is fascinating is the similarity of the local competitive market dynamic in our industry to the concept of counterinsurgency, a concept that was formulated and developed by the U.S. in Vietnam (British in various places before that), the central element of which was to “win the hearts and minds” of the local people living in the hamlets and villages of the countryside. As a young lieutenant on the front lines of pioneering this concept in Vietnam in 1967/1968, I learned that our “civil affairs” teams of about 6-7 soldiers each were only as effective as our entrepreneurial leadership and the ideas we came up with for the people to help themselves with our organizational and financial support for supplies acquired locally (no reliable military supply chain).

Each area of the Vietnam countryside was different with a huge diversity of ethnic groups, religions and geographical and topographical variances, and most importantly the level of as well as nature of insurgent activity, so the local needs and ideas that worked best for our seventeen teams across the country were just as diverse. What became crystal clear very quickly, however, is that none of the senior commanders up the chain of command had a clue what to do. In other words, “cookie cutter counterinsurgency” just didn’t “cut it” and would have been as effective and sustainable as our 1998 Carriage theme of $28 in 98!

The same local diversity dynamic holds true with the nature of each of our local businesses and markets, as our home office and field operating organization can't possibly know on a 24/7 basis what to do to effectively deal with the complex competitive dynamics of each unique local business and market. The best we can do is get the right entrepreneurial leaders in each business and support these "**Right Who**" leaders to be successful at growing their business over time. I have recently outlined these points in Carriage's written materials, all of which have been institutionalized over the past thirteen years into our core convictions and beliefs about our company, business and industry:

- High Performance Ideas and Concepts of Carriage are 100% aligned with our **Mission of Being The Best** and **Five Guiding Principles**, which are the Qualitative Elements that drive our High and Sustainable Quantitative Performance;

- Words in the form of ideas, concepts, high performance standards, recognition, Mission, Vision and Guiding Principles matter greatly to people with exceptional talent, especially those who are part of high performance teams – so over time we have developed a unique Carriage High Performance Culture Language;

- Nature of each of our businesses is high value personal service and sales delivered locally through highly motivated, skilled and culturally aligned leaders and employee fully involved in their communities;

- Nature of each market in which we operate is highly competitive for market share with each market and Carriage business being unique as to its competitive opportunities and challenges that are not prone to centralized solutions or top down initiatives;

- Weak leadership locally will make a healthy and/or dominant business weaker in competitive standing (market share) over time, whereas strong 4E Leadership and the "Right Quality of Staff" in a Carriage business will produce high and sustainable performance from a good business almost overnight, consistent with the high performance concept of **First Who, Then What**;

- A few simple high operating performance standards that do not change over time weighted heavily toward long term growth in funeral volumes and preneed cemetery property sales, which are the primary drivers of locally produced economic value creation through the financial dynamic of operating leverage, attracts the top entrepreneurial and competitive talent to Carriage businesses that do not need to be managed – just supported, recognized and rewarded like a partner; and

- Nature of our industry is akin to "birds of a feather flock together", as we have found that making Carriage highly selective on acquisitions and talent is attractive to the best remaining independent businesses and top entrepreneurial talent who want to join an elite club of "Only The Best" Carriage businesses and Managing Partners.

Learning And Adapting With Four Major Turning Point Moves In 2006 and 2007

We made three major turning point moves in 2006 and one in 2007 that would greatly accelerate our learning journey and lead to much higher operating and financial performance in the future.

After observing the Standards Achievement data from 2004 and 2005, we had a surprising epiphany, as follows:

- Managers that we previously viewed as A Players were mostly B Players who could manage their business performance to a negotiated budget but could not grow market share volumes through highly motivated and skilled staff over time (the key operating driver for the financial dynamic of operating leverage);

- Managers that we previously viewed as B Players were actually C – or D+ and in the past only got circumstantially lucky to achieve their budget performance because of positive external factors, i.e. an increase in deaths in their market, a negative change in ownership or management of a competitor, etc.;

- Managers that we previously viewed as C Players were F's and all had to go!

It became observably obvious at this point that our Standards Operating Model was not a "management model or management system" akin to the budget and control model. It was much more of an entrepreneurial leadership model requiring leaders who were hungry for more business and skilled at coming up with ideas and ways to beat their local competition in the constant battle for market share.

4E Leadership Model

In April of 2006 we made our first turning point move when we adopted the 4E Leadership Model as the Carriage Leadership Model for assessing and recruiting Managing Partners to lead each business as well as to profile and assess all other members of corporate leadership. The 4E Leadership Model had been developed under Jack Welch when he was CEO at General Electric and I had become familiar with it over the years as a student of his evolving view of leadership versus management during my career as a turnaround professional.

We got really lucky when a book titled "**Jack Welch and the *4E's of Leadership***" was written by Jeffrey A. Krames and published in 2005. It was a simple to understand model which I thought fit our company and the nature of our business well. Moreover, we could customize the elements of the model for our organization, all of which aligned perfectly with our **Mission Statement** and **Guiding Principles**. Its sequential 4E Leadership elements sandwiched between personal characteristics of integrity and passion were as follows:

ENERGY	ENERGIZE	EDGE	EXECUTION
• Drive • Embraces Change	• Vision • Sparks Others	• Strong Competitor • Makes Difficult Decisions	• Delivers Results • Consistent Performer

After adopting our new 4E Leadership Model, we assessed all of our managers in April 2006, which reflected that we had to replace about thirty-three Managing Partners. This group comprised about 40% of our total and were concentrated in our Northern California, Central Region and Mid-Atlantic and Southeastern portfolios. We began to replace and recruit new managers at an accelerating pace. Since 2006 we have continuously evolved the calibration and definition of 4E Leadership characteristics and now find attracting 4E Leaders as Managing Partners for our portfolio of businesses has become much easier because of our reputation of empowering top talent and recognizing and rewarding them generously for high performance.

Beginning of Organizational Structure and Culture Transformation

The second turning point move in 2006 was when we collapsed our cemetery and funeral divisions together, meaning we had decided to have one high performance culture aligned with our **Mission** and **Vision** of **Being The Best** whether in the funeral or cemetery business. And anyone who wasn't a "**One Team, One Vision**" collaborative team player, well – NEXT! We then developed a simple new Cemetery Standards Operating Model (back of the envelope but with five years of data). We implemented the new cemetery operating framework on January 1, 2007 and it has evolved and advanced since then under our operating and sales leadership and Standards Council.

Strategic Acquisition Model

The third turning point move in 2006 was development of our first Strategic Acquisition Model. We analyzed the operating and financial performance of our entire funeral and cemetery portfolio for the five years ending December 31, 2005 and ranked every business as A, B or C based on their performance but also on longer term performance driving characteristics such as market size, business size, competitive standing (market share) trends, burial/cremation ARPC mix trends, demographics, strategic nature of business and market, i.e. could it be desirable in the future to invest more capital for growth, etc. From this analysis we developed our first Strategic Acquisition Model and set five and ten year plans for growth by acquisition from cash and Free Cash Flow.

Beginning with the initial Strategic Acquisition Model with six criteria that were poorly defined, we have evolved over the last twelve years a Strategic Growth Framework and Capital Allocation Strategy for long term value creation using our Strategic Ranking and Strategic Acquisition Valuation Methodology shown below.

	Strategic Ranking and Strategic Acquisition Methodology	Weighting
1	Seller Motivation Alignment	5%
2	Large Strategic Market	15%
3	Large Strategic Business	15%
4	10 Year SS Volumes	15%
5	Average Revenue Per Contract	15%
6	Competitive Standing Trend	10%
7	Burial/Cremation Mix Trend	10%
8	Demographic Trends	5%
9	Institutional Brand Strength	5%
10	Barriers to Entry	5%
TOTAL		**100%**

Our senior leadership team has practiced the above qualitative ranking methodology on many acquisition candidates over the last several years (most that rank less than 60% don't make the cut). We use three easy to obtain pieces of information before collaborating as a team on a Strategic Ranking for an acquisition candidate: ten years of volume history by business location (reflects market share trends); three full years and YTD interim of individual client family contract data (reflects trend in client family revenue profile); and finally, operating team "boots on the ground" assessment of the facilities and market of the candidate and all competitors.

We have determined from all of our ranking practice that a total ranking between 60%–80% is the sweet spot for new acquisitions that have predictability of higher revenue and earnings growth over the first five to ten years of our ownership and which will be able to sustain high Standards Achievement under the framework of our Standards Operating Model. Over the next ten years our goal is to add larger businesses in larger markets that rank high using our Ten Strategic Criteria so that over time our total funeral and cemetery portfolio will take on a higher growth and earnings profile as well.

We are targeting businesses that rank in the high 60% and above range realizing that these will also carry higher initial Field EBITDA acquisition multiples which nevertheless over time will prove justified based on long term returns on invested capital. Our vision over the next ten years is to add a larger volume grouping to the four volume groupings in our existing funeral portfolio, perhaps a category with annual funeral contracts from 400-700 and a final grouping of 700 and over, which would mean adding higher margin businesses that would continue the upward trend over the last five years of our Adjusted Consolidated EBITDA Margin.

In early 2005 we had publicly issued $130 million of ten year unsecured 7⅞% high yield senior notes and used the proceeds to refinance the remaining borrowings on our $45 million secured Bank Revolving Credit as well as the $85 million remainder of our privately placed insurance company unsecured senior notes, brought current our eighteen months of deferred PIK interest on our Tides Securities, plus put $10 million cash in the bank while we continued to focus on operations and FCF. We had finally become completely clear of debt issues with no maturities for ten years, adequate annual fixed charge interest ($18 million) coverage and money in the bank.

So during 2005 and 2006 we began to selectively divest properties that did not fit with the characteristics of a business that could achieve at least our Minimum Standards. By the end of 2006 we had accumulated $42 million in cash on our balance sheet from FCF and divestitures and were prepared financially and by that time operationally under our Standards Operating Model to resume selective growth by acquisition using our new Strategic Acquisition Model framework.

As we were bringing 2006 in for a close, I was getting increasingly excited by the substantial improvement in our funeral portfolio operating performance and the target acquisition candidate list of new and bigger businesses in larger markets that were strong possibilities for closings in the first half of 2007.

Then something quite weird and wonderful happened just before Christmas that had huge turning point consequences in 2007 and thereafter.

Just When You Think Carriage Is Becoming Good – SURPRISE!

I received a phone call from a Lehman Brothers investment banker who had a client that wanted to buy Carriage for $6.25 cash (we were trading for less than $5 per share and had $2.50 per share in cash!) and was willing to pay me whatever it took to exit gracefully, as they already had an experienced, successful CEO from the industry to take my place.

The offer to purchase Carriage followed a disastrous third quarter conference call when I was asked whether we could sell our entire Central Region and most of the Western Region funeral portfolio since it was obvious we couldn't turn them around, as well as whether we could sell Rolling Hills, our largest cemetery in Richmond, California for the same reason. I was stunned because I had been looking at our improving individual business Field EBITDA performance trends (and all the weak manager terminations) and found out after the call that the investors were looking at our SEC filings! What's wrong with this picture?

I later determined that our Chief Accounting Officer at that time had not accrued over the last several years an almost $2 million long term incentive payment to a Former Owner Operating Partner who had acquired our northern California portfolio in 1997 and 1998 under a ten year partnership ending at year end 2006. Our Chief Accounting Officer had allocated this huge one time incentive payment (due to this portfolio performing so well compared to our acquisition underwriting performance) down to all of our northern California operating businesses, making it appear as if they were performance dogs in our SEC filings. Moreover, Rolling Hills had recently incurred a one-time $800,000 environmental cleanup charge, which also made it appear to be a turnaround candidate.

The proposed buyer of Carriage turned out to be a large private equity buyer with $32 billion under management at the time. I met with the principal in late January 2007 and was able to buy time until we released our 2006 Full Year and First Quarter 2007 Earnings Press Release.

We had a record 2007 first quarter operating performance and closed two large combination acquisitions in Corpus Christi, Texas and Camarillo, California, two of the seven acquisitions closed in 2007 with Total Revenue of about $25 million, all with eventually very high Field EBITDA Margins.

Long and Short Term Non-GAAP Performance Trend Reports

Because of the confusing cost accounting for one time special items in 2006 that I concluded had triggered the friendly but serious takeover offer for Carriage, I had all of our accounting staff read the book ***Beyond Budgeting*** co-authored and published in 2003 by Robin Fraser and Jeremy Hope. I wrote extensively in our 2016 second and third quarter earnings releases about this book and the extensive research by its authors on business models that move "***Beyond Budgets***". Our operations and accounting teams then held a brainstorming session for purposes of developing longer term "trend reports" that would track the improved execution of each of our businesses under the framework of our Standards Operating Model and the subsequent increases in our operating and financial performance.

Our fourth turning point move in 2007 was to create an innovative framework of short and long term Non-GAAP Performance Reporting more suitable for our unique operations and consolidation framework.

We framed out new reporting for each business on a monthly basis called field operating and financial trend reports. These reports include four full years of operating and financial data plus the most recent rolling twelve months on the left side and on the right side the most recent three months and rolling three months with comparable data from the prior year. Finally, we show comparable year to date performance to the far right. This data captures locally controllable cash operating performance without the burden of confusing accounting allocations from the "suits up the chain of command!"

Since we had no more budgets, we also had no actual to budget variances to be concerned about, so instead we show the six **Being The Best Quantitative Standards** beside each of the appropriate actual performance standard metrics to reflect whether the business is achieving each standard or trending toward achievement during the balance of the year. It becomes crystal clear very quickly whether there are material performance issues or not.

We now publish Five Year (four full years and recent twelve months) and Five Quarter Non-GAAP Corporate Trend Reports that track short and longer term trends in revenue, profits and profit margins by numerous categories as well as three overhead categories that are the most transparent of any we have ever seen in any company in any industry. In other words, there is no place to hide weak performance, forcing us to get better at producing sustained high operating and financial performance over time.

In my 2015 Shareholder Letter, I covered the four full financial performance years since 2011 of the value creation dynamics of our five Field EBITDA categories as well as the value creation leveraging of our consolidation platform, overhead, capital structure and Free Cash Flow capital allocation. We also publish quarterly an updated Company and Investment Profile that has a comprehensive explanation of the concept of our Trend Reports.

We had established an in-house group of operational and financial planning data analysts in June 2006 (starting with Peggy Schappaugh) who are assigned by region and business to assist and support each Managing Partner for increasing Standards Achievement over time. If any of you ever wonder what Carriage is all about operationally or about any business, just call Peggy or one of our other analysts. That's what I do.

Our first quarter 2007 earnings release and bullish outlook for 2007 under our new Trend Reports (our share price surged above $7 per share) led to a congratulatory call from the principal of the private equity firm. When asked what price it would take to acquire Carriage, I said our future has never been brighter and is priceless. And that was that.

2008/2009 Market Crash to CSV's November 4th, 2011 GTG Transition Date

Our share price peaked briefly over $10 per share in October 2007 as our performance continued to surprise on the upside, then began a long decline as the preliminary symptoms of The Great Recession and market panic and crash in the last half of 2008 and first half of 2009 began to show themselves. First there was Bear Stearns in March 2008, volatility (especially in financial sector), liquidity and leverage issues in investment bank affiliated Structured Investment Vehicles (SIV's), etc. Then in September 2008 we had the failure of Lehman Brothers, sale of Merrill Lynch to Bank of America, AIG bailout, etc., and the panic and crash was off to the races.

I had been studying various investment concepts, methodologies and icons since the "Black Monday" crash (Dow declined 22.6%) on October 19, 1987. However, I had focused deeply and intensely over the last fifteen years on learning from the profoundly simple yet clear investing concepts of Warren Buffett and Charlie Munger. My favorite book for learning about investing and human nature (joined at the hip) is ***Seeking Wisdom, From Darwin to Munger*** by Peter Bevelin, published in 2003. I highly recommend this amazingly wonderful book to anyone wanting to be a better investor and live a better life.

In early September, 2008 I promoted several other leaders to head operations, finance and our acquisition program while I began to focus almost entirely on our outsourced trust fund investments, which had returns historically that were acceptable and in-line with market returns. But after a deep dive into the asset allocations and very large number of intermediate sector funds in which we were invested, I concluded we had become so diversified that we were essentially "diworsified" and ill-prepared for a liquidity and credit starved market crash driven by irrational fears of nationalization of our "Too Big To Fail" banks and insurance companies.

Never Waste A Once In A Lifetime Market Crash And Panic

We took control of our trust funds on October 14, 2008 and executed a complete repositioning strategy over the next eighteen months focused on individual security selection with a large concentration in the TARP pari passu preferred stocks of "Too Big To Fail" financials (cents on the dollar – apparently we were "the market"). Consequently we were able to emerge from the market crash with trust funds that were hugely overfunded and had large recurring income from our fixed income portfolio (financial preferred stock and high yield notes).

Since October 2008 we have developed an in-house team of professionals under the leadership of Ben Brink to manage our trust assets. Over the past eight years we have continued to execute a strategy of individual company and security selection geared toward high yield fixed income securities and large market capitalization stocks. Given the long term nature of preneed contract liabilities and the permanent nature of the capital, we have the ability to take a long term and patient view of our investments and be most active in the portfolio at times of market distress and dislocation (i.e. Be Greedy when others are Fearful).

We view the permanent nature of this capital and the long term liabilities of preneed contracts as an important competitive investing advantage since we have no concerns about a sudden outflow of funds from our portfolio during times of market distress, nor do we feel the pressure to make short term decisions in order to beat a benchmark performance index. We believe that the permanent nature of the preneed trust funds has enabled us to remain patient, diligent yet opportunistic for occasional portfolio repositionings for better relative value opportunities. We believe our trust fund performance management strategy and methodology will lead to continued long term success of our trust fund investments.

Since the financial crisis we have had several other significant opportunities to reposition the portfolio for long term success. The two most significant timeframe opportunities were the six to nine months after S&P downgraded the Triple A credit rating of the United States on August 5, 2011, and most recently in the fourth quarter of 2015 through the first quarter of 2016 when the energy markets plummeted (oil price hit $26 per barrel before rebounding), triggering substantial declines and volatility in most other equity and fixed income sectors as well.

Both of these time periods gave us the opportunity to upgrade the credit quality of our large fixed income portfolio allocation at prices less than par, thereby positioning our trust funds for future capital gains while simultaneously increasing our recurring annual income. Since Carriage assumed responsibility for managing our trust funds in October 2008, the average annual return has been approximately 18%. We have recognized $108 million in capital gains net of fees and increased the recurring Financial Revenue as reported in our Trend Reports by 82% since 2009.

We view the in-house management of our trust funds as an integral part of our **Mission of Being The Best** and a critical support service for enhancing operating financial revenue for our Managing Partners and their operating businesses toward the goal of higher Standards Achievement over time. Our long term investing track record is confirmation that we are performing at a high level that is in complete alignment with the high operating and financial performance history of our operating portfolio of businesses.

Capital Allocation – CSV Shares As A Being The Best Investment

One of the best ways for Carriage to allocate capital to maximize the intrinsic value per share for the benefit of long term shareholders is to acquire CSV shares when we believe Mr. Market is selling our shares for less than their intrinsic value. We are completely opportunistic in our approach, meaning that we will be a buyer if the current price of our shares appears to materially discount the five year "Roughly Right Scenario" of our future performance as we execute our Standards Operating, 4E Leadership and Strategic Acquisition Models.

Over the past eight years we have executed three share repurchase programs, all of which occurred at times our company was getting better faster but Mr. Market had a relatively low priced opinion of our progress. Shown below are the total returns of these three repurchases excluding dividends calculated through year end 2016.

1. Second Quarter 2008 – Fourth Quarter 2009: 3.1 million shares purchased for $10 million at an average purchase price of $3.22 equal to a 789% total return.
2. Fourth Quarter 2011 – Second Quarter 2012: 800,000 shares purchased for $5.3 million at an average purchase price of $6.48 equal to a 342% total return.
3. Second Quarter 2015 – Fourth Quarter 2015: 1.9 million shares purchased for $45 million at an average purchase price of $23.34 equal to a 23% total return.

By far my favorite repurchase program was during the bottoming phase of the market crash and panic from November 2008 through March 2009. I remember three notable "data points". First, the relationship partner from our accounting firm at the time came for an emergency visit early in 2009 advising us that we should perform a rigorous funeral portfolio performance analysis for a potential goodwill impairment write-down because "the market" (CSV about $2 per share) was saying all our funeral goodwill was worthless!

Second, I got accused on our 2008 full year performance conference call in late January 2009 of "driving the company over a cliff" because we were not hoarding cash! And Moody's added a final indignity by downgrading Carriage's "liquidity rating", a rating I didn't even know we had (Bank of America was in our bank syndicate)!

What we were experiencing in Carriage's real high performance world during this period was the polar opposite of the "freaked out" reactions above (and many others including our Board at the time). We had no borrowings under our Revolving Bank Credit and our Tides Securities and high yield notes had long maturities, i.e. we faced no refinancing issue until early 2015, six years in the future. And profoundly, the operating performance of both our funeral and cemetery portfolios achieved records in the first half of 2009. Cash equity in the form of Free Cash Flow was gushing out everywhere! We just love trading with Mr. Market when he is panicked, depressed and acting as if the world is coming to an end!

Allocation of our Free Cash Flow toward share repurchases will only occur when there is no other use of our capital with a higher return on invested capital with any certainty over the next five to ten years. However, the tremendous growth in Free Cash Flow over the last five years does not mean that other capital allocation uses such as growth capital expenditures or acquisitions would be mutually exclusive when we are repurchasing our own shares. We will always retain the financial flexibility necessary to execute opportunistic share repurchases of our company because we are what we know best.

Wrong People Off The Bus, Right People In Right Seats On The Bus

During 2010 and 2011 our operating performance trends began to deteriorate under the senior leadership at the time. It became obvious that there was broad frustration yet large, unleashed leadership performance potential across our portfolio of operating businesses.

In mid-November of 2011 after a major management reorganization on November 4, 2011, which we now refer to as our **Good To Great Transition Date**, we convened a large group of senior leaders and field operating and Houston support personnel to discuss whether the high performance ideas and concepts related to our Standards Operating Model had evolved over the prior eight years to a degree that could define Carriage as a "**Good Company**" if led and executed well by our operating leadership at all levels. In preparation for this strategic meeting on **Carriage's Ten Year Vision**, we all had to read the bestselling business book ***Good To Great*** by Jim Collins which was published in 2001.

There was a unanimous and exciting view at this meeting that we had indeed reached an early phase of "**Good Company**" and that our Managing Partners, Sales Managers and employees across our portfolio of businesses would be inspired to achieve higher levels of sustained operating and financial performance by the launching of a five year **Good To Great Journey** beginning in 2012 in combination with a new long term (five year) **Good To Great** value creation incentive program to complement our annual **Being The Best Pinnacle of Service Award**.

Accordingly, we established and then communicated companywide extraordinarily challenging goals over the five year timeframe beginning in 2012 and ending with 2016 consistent with the five year theme of taking Carriage from a **Good** company in 2012 to one considered **Great** by 2016 based on total equity market value growth and total shareholder returns over time.

Despite the dynamic and transformational changes in all areas of our company over the past five years, including the turnover, shrinkage and improved alignment of our senior leadership team and Board of Directors, a much lower cost capital structure, and the huge growth in our earning power and equity market value, we nevertheless realized over the last two years that the **Good To Great Journey** should not cross some artificial finish line at the end of 2016.

Instead, we concluded that such a special journey of learning among likeminded individuals in a quest for excellence should never end because there are still so many ways we can get better in every operational and support function area of our company. Our thinking now is that every time we might cross a high performance threshold of "goodness" and are approaching "great", we will redefine what greatness means for our company and industry and simply continue our **Good To Great Journey** that never ends.

Reflections and Acknowledgements

Reflecting back on the learning journey of our first 25 years, including 2016 and the beginning of 2017, I would like to acknowledge and thank a few people who have made a meaningful and lasting difference, especially in my thinking about important matters at important times:

First, Bob Waltrip, Founder, Pioneering Visionary and Chairman Emeritus of SCI, with whom I developed a special personal relationship over the years (survivor bonding!), especially after our sector crashed in 1999. Bob was the first to call to congratulate and thank me when we refinanced our remaining crisis era bank borrowings in the summer of 2003 (SCI received $5 million for 100% repayment of it's written off Provident loans). That meant a lot to me then and even more now.

Dick Strong, who took an interest in Carriage during the late 1990s as a growth stock portfolio holding in Strong Capital Management in Milwaukee. For years after the 1999 deathcare sector crash, Dick would visit me in Houston with encouragement and wise counsel that the toughest decisions can be made when expectations are the lowest and no one cares.

Without exception on each visit Dick would ask, "Mel, how many A Players do you have?" My favorite memory of this period was knowing Dick would ask the question on each visit and admitting over the next several years that the number of A Players in Carriage actually declined dramatically as I became better calibrated on how to define A Player performance. Dick, thank you for caring when no one else did and making a difference.

Peter Badger, a dear friend since 1987 and historically one of Houston's top mortgage securities traders and brokers, who became my daily "foxhole buddy" for over two years as we executed our trust fund repositioning strategy starting in October 2008. Peter would wander into the over-the-counter "fixed income securities for sale wilderness" each morning and develop a daily Carriage "shopping list" with ask prices by 10:00 AM of securities that fit the profile we were seeking to buy.

I thought the ask prices in most cases were "too good to be true" from October 2008 through 2010 but Peter never failed to get lower "bid prices" executed. It only occurred to me later that we were often "the market", i.e. there was no other price discovery because there were no other buyers, only sellers! Those were the good old days for sinful investment returns! Thank you Peter for this once in a lifetime investing adventure and journey together.

Bill Heiligbrodt (2009-2016) and Dave DeCarlo (2011-2016) for their contributions as Board Members as well as Executive Officers of Carriage during a critical transitional timeframe for our company.

Alan Weber, a long time shareholder who has provided encouragement and analytical relative returns investment counsel when I needed it most, especially in November 2008 when our Board would not initially support my plan to repurchase our shares during the bottoming phase of the market crash and panic. Alan also introduced me to the wonderful book ***The Outsiders,*** authored by Will Thorndike and published in 2012. ***The Outsiders*** featured chapters on eight legendary CEOs (Warren Buffett, Tom Murphy and Dan Burke, John Malone, Henry Singleton, etc.) who mastered capital allocation and thereby created outsized returns for their respective companies and shareowners over many decades.

I was able to meet Will this past year and subsequently host him as a special guest at our February 2017 Board Dinner and Meeting. Will's work and analysis on the importance of capital allocation for "Compounder Companies" led us to incorporate "Capital Allocation" into the Visual Schematic of our High Performance Culture Framework in early 2015, forever making wise capital allocation a core part of our high performance culture DNA. Thank you Will.

Alan Weber and Will Thorndike again for pointing me and my senior leadership team to the study of other companies from which we can learn much about capital allocation and value creation. Two of these unique companies have been Credit Acceptance and Constellation Software, led by CEO's Brett Roberts and Mark Leonard, respectively, whose shareholder letters have been not only educational but inspirational.

Lastly, I would like to acknowledge and thank Jim Collins, whom I have never met, for the groundbreaking research that he and his team did for ***Good To Great***, whose simple yet powerful high performance ideas and concepts have inspired me and our leaders and employees over the last five years.

Final Observations About The Past and Present

To conclude this Shareholder Letter, I will share a few observations and conclusions about human nature and the nature of our markets as well as what I believe to be the current state of the nature of Carriage.

- It is very difficult for most people (even some very smart ones) to think about something in a completely new, unorthodox, counterintuitive and unconventional way – which makes the uniqueness of Carriage as it has evolved pretty cool for those who "get to the other side!"

- Our small market capitalization size is a large hurdle to overcome with many institutional investors who perceive our small size as riskier and/or need to invest much larger pools of capital than the liquidity of our outstanding shares can accommodate, but we have learned to live with this frustration and focus only on maximizing the compounding of the intrinsic value of each of our shares over five to ten year timeframes into a "coulda, woulda, shoulda bought that" share price!

- Our organizational framework is designed around the idea of partnership. Our three models and high performance culture ideas and concepts as they have evolved over the last thirteen years have turned the classic methodology of consolidation upside down and made the most important jobs in the company those of our Managing Partners at the local business level rather than up the chain of command.

- The high performance culture ideas and concepts of Carriage as they have been implemented and evolved have dramatically flattened our organizational structure; eliminated numerous bureaucratic layers and the associated politics, perks and meaningless titles; simplified and eliminated in many cases the complexity of burdensome reporting, policies and procedures; and eliminated endless corporate process oriented initiatives - all characteristics that creep into most companies as they grow through a succession of enterprise leaders over time.

- Our High Performance Culture Framework is more cost effective organizationally, as the corporate organizational overhead does not "eat up" a substantial amount of the incremental financial performance of our field businesses, especially as we leverage our consolidation platform with growth by highly selective acquisitions, enabling more of the value creation to be shared with both those who create it locally and with public shareholders.

- The best remaining family owned funeral home and cemetery business franchises in the best markets will absolutely get better over time after full integration into our **Being The Best** framework of operations support.

- The innovation, evolution and application of our Standards Operating Model and High Performance Culture Framework for operating and consolidating the funeral and cemetery industry is akin to intellectual property that was developed over the last thirteen years which forms a "protective cultural moat" around Carriage's earning power.

- Curious and disappointed why no one has challenged our contention that Carriage's 29.7% Adjusted Consolidated EBITDA Margin in 2016 is not only a company but an industry milestone that has never been achieved. But even more profoundly, does anyone wonder, "What Does It Mean?"

- Intrigued why no one has had the curiosity to ask us about the book ***Beyond Budgeting*** co-authored and published in 2003 by Robin Frazer and Jeremy Hope or about their article "Who Needs Budgets" published in the February 2003 edition of Harvard Business Review. But really fascinated that the ideas and concepts they researched on a "radically decentralized" business model have gone nowhere fast in "Corporate America" over the last fourteen years.

- Fascinated to learn about and read ***The Evolution of Cooperation,*** authored by Robert Axelrod and published in 1984, from a recommendation in Mark Leonard's 2014 Constellation Software Shareholder Letter, a book he said changed his thinking on important business matters. After reading this book and a subsequent one titled ***Harnessing Complexity*** with the subtitle ***Organizational Implications of a Scientific Frontier***, co-authored by Robert Axelrod and Michael D. Cohen in 2000, I would postulate (maybe not so humbly) that Carriage has evolved into a rather advanced state of "harnessing the high performance complexity" of successfully operating and consolidating the highly fragmented funeral and cemetery industry for the huge benefit over time of long term shareowners.

The Future

Our long term future has never been as visible and bright as it is right now. But the best part is that we have a company full of leaders and employees who envision the future just as optimistically as I do and are perfectly aligned to execute their “Flywheel Effect” roles and responsibilities to make it happen. We are in a very good place in our company and in our industry as we enter the second five year timeframe of **Carriage’s Good To Great Journey** that never ends.

As I have done each year since 2012 with my annual theme letter to all employees to start off our year, I leave you with this final thought:

“Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice!”[2]

We Choose Greatness.

Respectfully,

Melvin C Payne

Melvin C. Payne
Chairman and Chief Executive Officer

[2] A quote from Jim Collins, Author of Good To Great, 2001 and Co-Author of Built To Last, 1994

CARRIAGE 2016 GOOD TO GREAT AWARD HIGH PERFORMANCE HEROES

At the beginning of 2012 we created a new five year incentive award with the name **Good To Great Award** that was directly linked to our annual **Being The Best Pinnacle Award** which itself is linked to High Funeral Standards Achievement over a full year, i.e. our **Good To Great Awards** require high and sustained **Being The Best Standards Achievement** over the full five years. We have had many wonderful performances over the last five years by High Performance Hero Funeral and Cemetery Managing Partners and Sales Managers and their teams of winning employees, so I am more than honored on behalf of our Standards Council members, senior leadership team and Board of Directors to announce our first **Good To Great Award** winners for the five year timeframe that began in 2012 and ended at year-end 2016, as listed below:

Kristi Ah You	Franklin & Downs Funeral Home; Modesto, CA
James Bass	Twin Cities Cremation Services and Funeral Home; Niceville, FL; and Emerald Coast Funeral Home/McLaughlin Mortuary; Fort Walton Beach
Kyle Incardona	Hillier Funeral Homes; Bryan, TX
Steve Mora	Conejo Mountain Funeral Home; Camarillo, CA
Ken Summers	P.L. Fry & Son Funeral Home; Manteca, CA
Robert Maclary	Kent-Forest Lawn Funeral Home; Panama City, FL
Chad Woody	Watson-King Funeral Homes; Rockingham, NC
Brad Shemwell	Latham Funeral Home; Elkton, KY
Michael Page	Allison Funeral Home; Liberty, TX
Patty Drake	Drake Whaley McCarty Funeral Home; Cynthiana, KY
Andy Shemwell	Maddux-Fuqua-Hinton Funeral Homes, Hopkinsville, KY
Tim Hauck	Cape Coral Group; Cape Coral, FL

CARRIAGE 2016 BEING THE BEST / PINNACLE OF SERVICE AWARD WINNERS

As an important part of our High Performance Culture tradition and language, and because we have a passionate conviction that RECOGNITION is the highest form of motivation, listed below are thirty-five **Carriage Being The Best Pinnacle of Service Award** winners for 2016:

James Terry	James I. Terry Funeral Home; Downingtown, PA
James Bass	Twin Cities Cremation Services and Funeral Home; Niceville, FL; and Emerald Coast Funeral Home/McLaughlin Mortuary; Fort Walton Beach
Bill Martinez	Stanfill Funeral Home; Miami, FL
Richard Munoz	Connolly & Taylor Funeral Directors; Martinez, CA
Benjamin Friberg	Heritage Funeral Home and Crematory; Ft. Oglethorpe, GA
Brad Shemwell	Latham Funeral Home; Elkton, KY
Joseph Waterwash	Baird-Case Jordan-Fannin Funeral Home & Cremation Service; Ft. Lauderdale, FL
Jason Higginbotham	Lakeland Funeral Home; Lakeland, FL
Jeff Moore	Sterling-White Funeral Home; Crosby, TX
Kristi Ah You	Franklin & Downs Funeral Home; Modesto, CA
Kyle Incardona	Hillier Funeral Homes; Bryan, TX
Jason Cox	Lane Funeral Home – South Crest Chapel; Rossville, GA
Michael Nicosia	Chapel of San Ramon Valley; Danville, CA and Quimet Brothers Concord Funeral Directors; Concord, CA
Robert Maclary	Kent-Forest Lawn Funeral Home; Panama City, FL
Tim Hauck	Cape Coral Group; Cape Coral, FL
Andrew Cumby	Cumby Family Funeral Homes; High Point, NC
Chris Duhaime	Funk Funeral Home; Bristol, CT
Chris Chetsas	Cataudella Funeral Home; Methuen, MA
John Fitzpatrick	Donohue Cecere Funeral Directors; Westbury, NY
Chad Woody	Watson-King Funeral Homes; Rockingham, NC
Ken Summers	P.L. Fry & Son Funeral Home; Manteca, CA
Matthew Simpson	Fry Memorial Chapel; Tracy, CA
Justin Luyben	Evans-Brown Mortuaries & Crematory; Sun City, CA
Curtis Ottinger	Heritage Funeral Home; Chattanooga, TN
Verdo Were	McNary-Moore Funeral Service; Colusa, CA
Andy Shemwell	Maddux-Fuqua-Hinton Funeral Homes, Hopkinsville, KY
Steve Mora	Conejo Mountain Funeral Home; Camarillo, CA
Patty Drake	Drake Whaley McCarty Funeral Home; Cynthiana, KY
Brian Binion	Steen Funeral Homes; Ashland, KY
Roger Allen	LaGrone-Blackburn-Shaw Funeral Directors; Amarillo, TX
Jeff Seaman	Dwayne R. Spence Funeral Home; Canal Winchester, OH
Ashley Vella	Deegan Funeral Chapels; Escalon, CA
Mike Conner	Conner-Westbury Funeral Home; Griffin, CA
Tim Miller	Fuller Funeral Home & Cremation Service (East); Naples, FL
Kim Borselli	Fuller Funeral Home & Cremation Service (Pine Ridge); Naples, FL

High Performance Culture Framework

CARRIAGE SERVICES, INC.
"BEING THE BEST"

Funeral and Cemetery Operating Company
Consolidator Of Independent Family Businesses
Value Creation Investment Platform

Five Guiding Principles

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

Concepts of Good To Great

First Who, Then What
Right People in the Right Seats
Flywheel Effect

Standards Operating Model

Market Share
People
Operating & Financial Metrics

Integrity

4E Leadership Model

Energy
Energize
Edge
Execution

Passion

Strategic Acquisition Model

Ten Year Vision
Strategic Markets
Strategic Market Methodology
Selective Growth Strategy

Being The Best League Table
Being The Best Annual Incentive
Good To Great Five Year Incentive

High Standards Achievement

Capital Allocation

Acquisitions
Internal Growth Projects
Share Repurchases
Dividends
Debt Repayment

Valuation Ranking Methodology

ROIC & LOI Methodology

Maximize Intrinsic Shareholder Value Per Share

Value Creation Financial Dynamics

Operating Leverage
Overhead Leverage
Capital Structure Leverage
Consolidation Platform Leverage

Five Year Trend Reports

Sustained High Financial Performance

Carriage Journey From Good To Great
Carriage Achieves High Valuation
Carriage Becomes Built To Last

ANNUAL OPERATING AND FINANCIAL TREND REPORT

This table uses Non-GAAP financial measures to present the financial performance of the Company. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported operating results or cash flow from operations or any other measure of performance as determined in accordance with GAAP. We believe the Non-GAAP results are useful to investors because such results help investors compare our results to previous periods and provide insights into underlying trends in our business. In addition, the Company's presentation of these measures may not be comparable to similarly titled measures in other companies' reports. The Non-GAAP financial measures include "Funeral, Cemetery and Financial EBITDA", "Total Field EBITDA", "Total Field EBITDA Margin", "Consolidated EBITDA", "Adjusted Consolidated EBITDA", "Adjusted Consolidated EBITDA Margin", "Adjusted Net Income", "Adjusted Basic Earnings Per Share", "Adjusted Diluted Earnings Per Share" and "Total Special Items, Net of tax". A full copy of our Annual Operating and Financial Trend Report and reconciliations of the Non-GAAP financial measures to GAAP measures are provided on our website, www.carriageservices.com.

(in thousands, except per share amounts)	2011	2012	2013	2014	2015	2016	CAGR
Same Store Contracts							
Atneed Contracts	20,717	21,555	21,515	21,648	21,802	21,428	
Preneed Contracts	5,528	5,436	5,585	5,271	5,346	5,208	
Total Same Store Funeral Contracts	26,245	26,991	27,100	26,919	27,148	26,636	0.3%
Acquisition Contracts							
Atneed Contracts	n/a	815	2,323	3,745	4,497	5,555	
Preneed Contracts	n/a	58	431	738	982	969	
Total Acquisition Funeral Contracts	n/a	873	2,754	4,483	5,479	6,524	
Total Funeral Contracts	26,245	27,864	29,854	31,402	32,627	33,160	4.8%
Funeral Operating Revenue							
Same Store Revenue	$131,859	$138,547	$138,606	$138,639	$142,690	$140,459	1.3%
Acquisition Revenue	n/a	4,662	15,245	25,613	33,678	40,165	
Total Funeral Operating Revenue	$131,859	$143,208	$153,851	$164,252	$176,368	$180,624	6.5%
Cemetery Operating Revenue							
Same Store Revenue	$36,481	$38,113	$40,181	$41,257	$43,336	$45,441	4.5%
Acquisition Revenue	n/a	166	298	1,599	3,321	3,506	
Total Cemetery Operating Revenue	$36,481	$38,279	$40,479	$42,856	$46,657	$48,947	6.1%
Total Financial Revenue	$13,973	$16,704	$18,744	$19,016	$19,477	$18,629	5.9%
Total Revenue	$182,313	$198,191	$213,074	$226,124	$242,502	$248,200	6.4%
Field EBITDA							
Same Store Funeral Field EBITDA	$46,093	$52,043	$50,674	$50,986	$54,620	$54,706	3.5%
Same Store Funeral Field EBITDA Margin	*35.0%*	*37.6%*	*36.6%*	*36.8%*	*38.3%*	*38.9%*	
Acquisition Funeral Field EBITDA	n/a	1,510	4,785	9,488	13,693	16,536	
Acquisition Funeral Field EBITDA Margin	*0.0%*	*32.4%*	*31.4%*	*37.0%*	*40.7%*	*41.2%*	
Total Funeral Field EBITDA	$46,093	$53,553	$55,459	$60,474	$68,313	$71,242	9.1%
Total Funeral Field EBITDA Margin	*35.0%*	*37.4%*	*36.0%*	*36.8%*	*38.7%*	*39.4%*	
Same Store Cemetery Field EBITDA	$9,370	$9,897	$11,757	$11,845	$14,045	$14,499	9.1%
Same Store Cemetery Field EBITDA Margin	*25.7%*	*26.0%*	*29.3%*	*28.7%*	*32.4%*	*31.9%*	
Acquired Cemetery Field EBITDA	n/a	(76)	(43)	351	1,088	1,168	
Acquired Cemetery Field EBITDA Margin	*0.0%*	*(45.8)%*	*(14.4)%*	*22.0%*	*32.8%*	*33.3%*	
Total Cemetery Field EBITDA	$9,370	$9,821	$11,714	$12,196	$15,133	$15,667	10.8%
Total Cemetery Field EBITDA Margin	*25.7%*	*25.7%*	*28.9%*	*28.5%*	*32.4%*	*32.0%*	
Total Financial EBITDA	$12,602	$15,255	$17,304	$17,689	$18,093	$17,504	6.8%
Total Financial EBITDA Margin	*90.2%*	*91.3%*	*92.3%*	*93.0%*	*92.9%*	*94.0%*	
Total Field EBITDA	$68,065	$78,629	$84,477	$90,359	$101,539	$104,413	8.9%
Total Field EBITDA Margin	*37.3%*	*39.7%*	*39.6%*	*40.0%*	*41.9%*	*42.1%*	
Total Overhead	$28,886	$30,272	$33,020	$34,127	$34,667	$35,898	4.4%
Overhead as a percentage of Revenue	*15.8%*	*15.3%*	*15.5%*	*15.1%*	*14.3%*	*14.5%*	
Consolidated EBITDA	$39,179	$48,357	$51,457	$56,232	$66,872	$68,515	11.8%
Consolidated EBITDA Margin	*21.5%*	*24.4%*	*24.1%*	*24.9%*	*27.6%*	*27.6%*	
Other Expenses and Interest							
Depreciation & Amortization	$9,450	$9,916	$11,635	$11,923	$13,780	$15,421	
Non-Cash Stock Compensation	1,870	2,174	2,916	3,832	4,444	2,890	
Interest Expense	18,089	17,088	13,437	10,308	10,559	11,738	
Accretion of Discount on Convert. Sub. Notes	-	-	-	2,452	3,454	3,870	
Loss on Early Extinguishment of Debt	201	3,031	-	1,042	-	567	
Loss on Redemption of Convert. Jr. Sub. Deb.	-	-	-	3,779	-	-	
Other, Net	(898)	(963)	(896)	195	45	1,788	
Pretax Income	$10,467	$17,111	$24,365	$22,701	$34,590	$32,241	25.2%
Net Tax Provision	4,448	6,794	9,245	7,255	13,737	12,660	23.3%
GAAP Net Income	$6,019	$10,317	$15,120	$15,446	$20,853	$19,581	26.6%
Total Special Items, Net of tax	$5,776	$4,213	$2,973	$9,348	$6,508	$8,757	
Adjusted Net Income	$11,795	$14,530	$18,093	$24,794	$27,361	$28,338	19.2%
Adjusted Net Profit Margin	*6.5%*	*7.3%*	*8.5%*	*11.0%*	*11.3%*	*11.4%*	
Reconciliation of Consolidated EBITDA to Adjusted Consolidated EBITDA							
Consolidated EBITDA	$39,179	$48,357	$51,457	$56,232	$66,872	$68,515	11.8%
Total Special Items	$9,395	$4,253	$4,550	$5,421	$4,261	$5,176	
Adjusted Consolidated EBITDA	$48,574	$52,610	$56,007	$61,653	$71,133	$73,691	8.7%
Adjusted Consolidated EBITDA Margin	*26.6%*	*26.5%*	*26.3%*	*27.3%*	*29.3%*	*29.7%*	
GAAP Diluted EPS	$0.33	$0.57	$0.82	$0.83	$1.12	$1.12	27.9%
Adjusted Diluted EPS	$0.64	$0.80	$0.98	$1.34	$1.48	$1.62	20.4%
Average Number of Diluted Shares Outstanding	18,397	18,226	22,393	18,257	18,313	17,460	-1.0%
GAAP Basic EPS	$0.33	$0.57	$0.83	$0.84	$1.16	$1.18	29.2%
Adjusted Basic EPS	$0.64	$0.80	$1.00	$1.35	$1.52	$1.71	21.6%
Average Number of Basic Shares Outstanding	18,359	18,126	17,826	18,108	17,791	16,515	-2.1%

CORPORATE INFORMATION

Carriage Services is a leading provider of deathcare services and merchandise in the United States.
As of December 31, 2016, Carriage operated 170 funeral homes in 28 states and 32 cemeteries in 11 states.

Board of Directors

Melvin C. Payne
Chief Executive Officer and Chairman of the Board

Bryan D. Leibman
President and Chief Executive Officer, Frosch Travel

Barry K. Fingerhut
Chief Executive Officer, Certification Partners, LLC

Donald D. Patteson, Jr.
Investor

James R. Schenck
President and Chief Executive Officer, PenFed Credit Union

Operations and Strategic Growth Leadership Team

Melvin C. Payne
Chief Executive Officer and Chairman of the Board

Mark R. Bruce
Executive Vice President and Chief Operating Officer

Viki K. Blinderman
Senior Vice President, Principal Financial Officer, Chief Accounting Officer and Secretary

C. Benjamin Brink
Senior Vice President, Chief Financial Officer and Treasurer

Shawn R. Phillips
Senior Vice President and Head of Strategic and Corporate Development

Paul D. Elliott
Senior Vice President and Regional Partner

Brijesh K. Patel
Vice President and Head of Operations and Analysis Planning Group

Gabriel Q. Ngo
Vice President and Head of Operations and Acquisitions Support

Independent Public Accountants

Grant Thornton LLP, Houston, Texas

Form 10-K Availability

The Company's Annual Report on Form 10-K for the year ended December 31, 2016 may be obtained by writing to: Investor Relations, Carriage Services, Inc., 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056; via the Company's website: www.carriageservices.com; or via the SEC's website: www.sec.gov.

Transfer Agent & Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
800-937-5449
www.astfinancial.com

Houston Support Office

Carriage Services, Inc.
3040 Post Oak Boulevard, Suite 300
Houston, Texas 77056
713-332-8400
www.carriageservices.com

Common Stock

Carriage Services, Inc.'s common stock is traded on the New York Stock Exchange under the symbol "CSV".

Forward-looking Statements

Certain statements made in this Annual Report by or on behalf of the Company that are not historical facts are intended to be forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on assumptions that the Company believes are reasonable; however, many important factors, as discussed under "Forward-Looking Statements" in the Company's Form 10-K for the year ended December 31, 2016, could cause the Company's results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by or on behalf of the Company.

CARRIAGE
SERVICES

Carriage Services, Inc.
3040 Post Oak Boulevard, Suite 300
Houston, Texas 77056

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