CARRIAGE SERVICES, INC.

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10:30 a.m. ET

CID: 28690356

Operator: Good day ladies and gentlemen and welcome to the Carriage Service Year End 2015 Earnings Webcast. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will follow at that time.

If anyone should require operator assistance during the conference, please press star and then zero on your telephone keypad. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Chris Jones, representing Carriage Services.

Sir, you may begin.

Chris Jones: Thank you and good morning everyone. We're glad you could join us. We'd like to welcome you to the Carriage Services conference call. Today we will be discussing the company's 2015 annual results, which were released after the market closed yesterday.

Caring Services has posted the release, including supplemental financial tables and information on its website, at carriageservices.com. This audio conference is being recorded and an archive will be made available on Carriage Services' website.

Additionally, later today, a telephone replay of this call will be made available inactive through February 21st. Replay information for the call can be found in the press release which was distributed yesterday.

On the call today from management, is Mel Payne, chairman and chief executive officer and Ben Brink and Viki Blinderman, co-chief financial officers.

Today's call will begin with formal remarks from management, followed by a question and answer period. Please note that during the call, management will make forward-looking statements in accordance with the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995.

I'd like to call your attention to the list associated with these statements which are more fully described in the company's reports filed on form 10-K and other filings with the Securities and Exchange Commission.

Forward-looking statements, assumptions or factors stated or referred to on this conference call are based on information available to Carriage Services as up-to-date. Carriage Services expressly disclaims any duty to provide update to these forward-looking statements, assumptions or other factors after the date of this call to reflect the occurrence of events, circumstances or changes in expectations.

In addition, during the course of the morning's call, management will reference certain Non-GAAP financial performance measures. Management's opinion regarding the usefulness of such measures, together with the reconciliation of such measures through the most directly comparable GAAP measures or historical periods are included in the press release and the company's filings with the Securities and Exchange Commission.

Now, I'd like to turn the call over to Mel Payne, chairman and chief executive officer.

Melvin C. Payne: Thank you Chris. Welcome to our 2015 annual performance conference call. Believe me when I say we do not take your interest in our company and your time for granted. We view your time and attention and participation in our call, just like we view our capital. It's a highly precious thing and we will not waste it. One thing I will promise you today, this will not be like any call you have ever heard before. That's easy to say, but I promise you, we will do our best. I will lead this call off by referencing an article in the New York Times by **Andrew Ross Sorkin dated February 1, 2016:** And this is Andrew writing. He's on CNBC as I'm sure everybody knows.

Some Heresy on Wall Street: Look Past the Quarter

Most money managers clamor for companies to provide detailed guidance on their next quarter, down to the penny - but not the world's largest investor.

Laurence D. Fink, co-founder and chief executive of Blackrock, which with more than $4.6 trillion in assets under management makes it the world's largest investor, sent a letter to 500 chief executives late Monday urging them for the first time to stop providing quarterly earnings estimates.

"Today's culture of quarterly earnings hysteria is totally contrary to the long-term approach we need," Mr. Fink wrote.

"To be clear, we do believe companies should still report quarterly results - long-termism should not be a substitute for transparency,”. But C.E.O.s should be more focused in these reports on demonstrating progress against their strategic plans than a one-penny deviation from their E.P.S. targets or analyst consensus estimates."

While Mr. Fink wants to eliminate quarterly guidance, he is also making perhaps an even more controversial request, asking chief executives and company boards to provide “a strategic framework for long-term value creation" that could extend to multiple years.

"Annual shareholder letters and other communications to shareholders are too often backwards-looking and don't do enough to articulate management's vision and plans for the future," Without management providing a roadmap for the next few years, he said, "some short-term investors (and analysts) offer more compelling visions for companies than the companies themselves, allowing these perspectives to fill the void and build support for potentially destabilizing actions."

In an interview, Mr. Fink said he wrote this letter now to get ahead of proxy season, a period during the spring when many companies hold their annual meetings and vote on shareholder resolutions. He hopes to influence how chief executives discuss their companies’ performance goals in their annual letter to shareholders.

When I -- that part is over, now it is me. When I saw this article, it struck a passionate cord that we have had at Carriage for a long time. And I will speak more directly to, to how we are going to do things going forward in the future when Viki and Ben have their say and let them -- at the end of the call.

I will now turn the call over to Viki Blinderman co-CFO with Ben Brink, for some color commentary on our 2015 full year performance.

(Viki Blinderman): Thank you Mel. We have an incredible amount of substantive discussion of our financial results in our earnings release as we are extremely proud of the year-over-year growth in all of key valuation performance metrics, the increasing degree and amount of our revenue growth falling straight to our field and adjusted consolidated EBITDA margins, the clear and compelling value creation financial dynamics, related to the Carriage operating consolidation platform and last, but most importantly, the 44% annual compounded share price appreciation over the first four years of our good to great journey.

I would like to direct everyone to our website to view our five-year and five-quarter trend reports, available in printable formats, which our are Non-GAAP reporting format that provides a detailed and transparent five year view, over the 2011 to 2015 timeframe of the recurring and increasing earning power of Carriage as we have executed our three models in alignment with our five guiding principals and ten-year vision.

Also, please read our company and investment profile, which is a comprehensive explanation of Carriage ideas and concepts that provide a deeper understanding of our company and presents a five-year, roughly right-range scenario for the 2016 to 2020 timeframe that continues to reflect the idea of Carriage of a superior value creation investment platform.

As always, Ben and I welcome the opportunity to address investors' and analysts' questions one on one after this call.

It's with great pleasure that we report Carriage's year-end 2015 results. To recap our operating results, our same-store funeral home businesses increased the number of families they served by 0.9%, while increasing same-store funeral revenue by 3.3%, and same-store funeral field EBITDA 8.3%, or $3.9 million, which led to a 180 basis point increase in same-store funeral field EBITDA margin for the year to a record 38.4%.

Our funeral home acquisition portfolio acquired since 2010 has continued to accelerate its high performance, reflected by a year-over-year increase in acquired funeral home EBITDA of $3.9 million, which led to a 240 basis point increase in acquisition funeral field EBITDA margin for the year to a record 39.8%, even more impressive because it was higher than our funeral same-store margin by a record 240 basis points.

Our cemetery operations also leveraged an 8.9% growth in total cemetery operating revenue for the year, into an additional 24.1% growth in total cemetery field EBITDA, which together with our higher funeral portfolio performance has produced a total field EBITDA margin for 2015 of 41.9%, a 190 basis point increase, a historically high margin.

These great results are truly reflective of the efforts of our high-performance 4E leaders and their employees. Carriage is continually focused on ensuring the right person is in the right seat on each local business enterprise bus and within our Houston support team that are committed daily to the success of each business.

Our most gratifying high-return investment is in the right people, which drives our sustainable high performance and leads to increasing shareholder value over the long term.

In the beginning of the year, we announced our two major areas of focus for 2015 with an average per cremation contract and cemetery pre-need property sales, both of which have improved materially, especially after the June 2015 managing partner meeting where we focused on these areas.

We have seen a 6.6% increase in the average revenue per contract from families that choose cremation as an option, driven by improved engagement of our funeral arrangers with our cremation families. Cemetery pre-need property sales increased 9.6% and the average sale per cemetery pre-need contract increased 13%. We had tremendous success during 2015 in recruiting and developing cemetery sales teams led by high-performance sales managers and managing partners.

Our total overhead as a percentage of total revenue has decreased from 15.1% to 14.3%. Our expectation is that total overhead as a percentage of total revenue will continue to decline as our fixed components of overhead stabilize, reflecting the attrition from 15 members to 9 members during 2015 in the operations and strategic growth leadership team.

Next, I would like to focus on the continuing growth in our approximate cash earnings power as defined by our adjusted consolidated EBITDA and adjusted consolidated EBITDA margin. For 2015, our adjusted consolidated EBITDA increased $9.5 million to a record $71.5 million, representing a 15.4% increase, while our adjusted consolidated EBITDA margin increased 200 basis points to a record 29.3%.

As a result, our adjusted free cash flow increased 13% to a record $43.7 million (18% of our total revenue) which equals $2.38 per diluted share and equates to an adjusted free cash flow yield of 11.6% as of yesterday's share price of $20.60.

We anticipate our rolling four quarter outlook adjusted free cash flow to be between $41 million and $45 million, which will equate at the $43 million mid-point to approximately $2.56 free cash flow per share for 2016, offering current shareholders a free cash flow equity yield of 12.4%.

In 2014, Carriage benefited from the reversal of a $1.7 million tax accrual related to the resolution of an IRS audit which contributed 10 cents to adjusted EPS last year. Excluding this tax accrual benefit, our 2015 adjusted diluted earnings per share would have increased 19.4% over 2014. Since announcing our good to great journey in the beginning of 2012, we have increased our adjusted diluted earnings per share over 131%, which equates to a compounded annual growth rate of 23.3% on a compounded revenue growth rate of 7.4%.

Because of our 2015 outstanding operating results, our growth in the 2015 adjusted free cash flow, and a materially lower share count for 2016, we are increasing our rolling four quarter outlook adjusted diluted earnings per share by 4 cents, to a range of $1.69 to $1.73. As we stated in the third quarter earnings release, we no longer include forecasted acquisition activity in our rolling fourth quarter outlook. We will only include acquisition candidates signed under letter of intent that we are confident will close within the next 90 days. The current outlook does not include any potential acquisition candidates.

As noted in our release, we have completed our $45 million share repurchase program purchasing 1.9 million shares at an average of $23.34 per share. The impact of the share repurchases will be fully reflected in our results beginning in 2016.

Last week, we announced the seventh amendment to our credit facility that enabled the reduction in pricing by 37.5 basis points, extended the maturity another five years to 2021, which coincides with our convertible notes, reset the term loans at $150 million, and reduced the size of the revolver to $150 million, and upsizing the available borrowing under the accordion provision to $75 million.

Annual cash interest savings will amount to $900,000 based on current rates. And after the close of the amendment, we have approximately $100 million available under the revolver. Our total debt to adjusted consolidated EBITDA leverage ratio is five times at the end of 2015, which is expected to reduce incrementally in 2016. These terms will allow us to lock in our current low cost capital structure that, combined with our outstanding results, will be an important component for Carriage to continue to allocate our growing free cash flow over time among various investment options so as to maximize the intrinsic value of Carriage per share over the next 10 years.

Now, I'd like to turn the call back over to Mel.

Melvin C. Payne: Thank you, Viki.

Dave DeCarlo, Vice Chairman and President of Carriage, and one of the two senior members of our OSGLT, the other being me, is not here today. And I am speaking for him. We talked this morning. He has the primary responsibility for Corporate Development. Dave is an icon in our industry and has deep, trusting relationships from his 23 years at Matthews. He has been traveling frequently to visit with likely and prospective acquisition candidates that might be interested in a succession planning solution during the next 12-24 months. Dave and his key Lieutenant, Michael Cumby have also developed numerous video testimonials and materials that are available on our website as well as an online magazine sent monthly to about 900 independent business owners, explaining the stark differences between Carriage and all other consolidation companies that are active today(only a handful) but also including the differences between Carriage and any consolidators over the past 30 - 40 years, which number at least 20 - 30 of meaningful size.

A huge selling point for Carriage is that we have control as a public company over our long term destiny as we are creating value through high and sustainable operating and financial performance. We can then execute our three defining company models in alignment with our Five Guiding Principles and Ten Year Vision, whereas almost all the other private consolidators throughout the history of industry consolidation have been financially backed and controlled by venture capital or private equity with a typical get in/sell out time horizon of 5 - 7 years. SCI eventually acquired all of them either directly or indirectly through the acquisition of other large public consolidators such as Stewart Enterprises, Alderwoods, etc. So today except for the other two public companies, SCI and Stonemor, which is primarily a cemetery sales company with a REIT structure, we have the industry landscape being very positive for Carriage over the next ten years.

Dave and his team have been maintaining active relationships with over 200 businesses in our industry and have developed a prospect list of 114 businesses that they think have a genuine interest in learning more about our Standards Operating Model and High Performance Culture Framework. This past quarter they visited with owners of 25 of these businesses and received signed confidentiality agreements and data for analysis from fifteen (or 60%) of the owners to explore a transaction. Four were brought to us by brokers and eleven were originated through our corporate development efforts. Our goal in the future is to get to 100 percent self-origination of the right businesses when they're ready to have a succession planning solution. We have issued four LOI offers over the last several months, of which two were represented by brokers and the owners went with a higher bid after we gave our highest and best offer based on our Strategic Criteria Ranking score using the ten weighted criteria under our Strategic Acquisition Model. The other two LOI offers are progressing and we are optimistic about finalizing a transaction for these businesses this year.

We believe that in investing, patience is a huge virtue. We are generally making offers to businesses that have a Strategic Criteria Ranking score of 60% to 80% out of 100, as these are the larger businesses in good markets with an attractive Client Family Revenue Profile and more favorable burial /cremation mix trend.

These highly desirable strategic businesses under the leadership of a strong Managing Partner should more predictably grow future revenue at a compound rate of 2-4% over at least the first 5 years, and at least 2% over the second 5 years of our ownership, producing even higher rates of growth in

Field EBITDA and returns on invested capital over time under our Standards Operating Model. These operating and financial leveraging dynamics both in same store, which we've owned at least five years, and acquisitions, which we have bought in the last five years, over time are clearly presented in our Five Year Trend Reports.

We are being highly disciplined on valuation and our calculated judgment of the risk/reward ROIC relationship in the future over at least a 5-10-year time frame, as our capital is precious because we make our own from Free Cash Flow. Our Strategic Acquisition Model goal is to acquire really good funeral and cemetery franchises in really good strategic markets at fair, (win-win) prices, when the motivations of the owner are that they need a succession planning solution, meaning, not a low or too high price, which in the case of a too high price we have learned inevitably leads over management of the business to achieve an adequate investment return, and over time damages the heritage and value of the business.

We are in the business of acquisitions getting better under our framework as opposed to getting worse.

After an effective integration of an acquired business, our Standards Operating Model goal is to have these higher revenue growth profile businesses achieve higher and sustainable operating and financial performance, enabling Carriage as a value creation platform to build a higher growth profile of revenue and profitability over the next five to ten years. Of course the Strategic Acquisition Model and Standards Operating Model are no better than the leaders and employees executing them, so outstanding execution of our 4E Leadership Model is the critical driver of Carriage being a superior value creation platform over the long term. As we say, using the Carriage High Performance Culture language, **First Who, Then What!**

With that, I'd like to turn it over to Ben.

Ben Brink: Thank you, Mel.

With the recent down draft in the equity and fixed income markets we believe this is a good opportunity to update current and potential shareholders about our pre-need trust accounting, positioning and strategy.

Our pre-need trusts have not been immune to the current market volatility, as we had a negative return of 3.1% in our discretionary trust assets last year. As of the year end, we had accumulated $23 million of unrealized losses in our pre-need trusts, and that has increased through the first few weeks of this year, particularly due to the continued weakness in the high-yield bond market and more recent weakness in financial stocks, which has negatively affected our portfolio of ‘Too Big To Fail’ regional bank and insurance company long gated warrants that were issued as part TARP during the financial crisis.

We have built our positions in the TARP warrants since 2010, have recognized approximately $8.5 million in capital gain from those positions and we have paired back about 25 to 30% of those positions in 2015 because of what we rightly predicted would be a continuation of the historically weak global and domestic interest rate environment.

Our current repositioning strategy focuses on taking advantage of the current weakness in the high-yield fixed income market by adding credits to our portfolio, where we can be assured that these companies can pay their interest and principal when due, even in an economically stressed industry environment.

We have successfully executed similar strategies during the financial crisis in 2008 and 2009 and again in 2011 after the S&P downgrade of the Triple A U.S. credit rating. We believe there are and will continue to be opportunities in the high-yield fixed income market that are similar to those periods, offering recurring income at material discounts to face value, and therefore, the future prospect of capital gains, although we recognize that the current environment is distinctly and materially different than those time frames.

We believe that the volatile market environment will last throughout the year and that the execution of our repositioning strategy will be ongoing accordingly.

As part of our repositioning strategy, we anticipate realizing losses within our trust portfolio as we rotate into securities that offer better relative value versus some of our current holdings and as we continue to reduce our exposure to our core equity holdings, which currently represent about 20% of our total discretionary portfolio.

These realized losses will be allocated to the underlying pre-contracts and be recognized in our financial revenue over the life of those contracts, which average 11 years for our pre-need funeral trust contracts and 15 years for our pre-need cemetery trust contracts. These losses will be partially offset within our trust over time by the increase in recurring annual income from this portfolio relative value repositioning.

The anticipated effects of our repositioning strategy for the current year are reflected in our roughly right rolling four quarter outlook, which as noted on pages two and six of our earnings release, does not reflect a material decline in Carriage's earning power due to the current market environment and execution of our portfolio repositioning strategy.

Since Carriage took full control of the investment decisions of our pre-need trust portfolio in the fall 2008, our discretionary trusts have had a total return of 163% and have earned approximately $111 million in realized capital gains and income net of fees and taxes.

Based on these results and our analysis of the underlying pre-need contracts in these trusts, we have consistently categorized our pre-need trusts as overfunded. Given the effects of the realized losses that will be taken as part of our repositioning strategy, we anticipate the pre-need trust will remain overfunded and the average revenue per pre-need trust contract to be delivered in the future will remain higher than our current at-need average revenue per contract.

I would also like to take this opportunity to address some of the questions we typically receive regarding the accounting for our pre-need trust. Carriage recognizes GAAP pre-need revenue in two ways. The first is when one of our businesses provides the service and delivers the merchandise on the pre-need funeral or cemetery contract at the time of death. We do not recognize any pre-need cemetery or funeral GAAP revenue on merchandise that could be delivered prior to death occurring, although we've been offered such regulatory compliant “technical services” by vendors in the past.

Earnings from trust investments are allocated to the underlying pre-need contracts when they are recognized in the trust, and therefore, Carriage is not required to mark to market the value of trust assets to the underlying pre-need contracts in a given period.

In our highly transparent trend reporting, we recognize the principal amount of delivered pre-need contracts in funeral and cemetery field revenue while the income earned on that principle is reported in our funeral and cemetery financial revenue section. Funeral financial revenue also includes income earned from pre-need insurance contracts that have matured.

The second way we recognize pre-need revenue is from current income earned through our cemetery perpetual care accounts that is used to offset the care and maintenance expenses in each of our cemeteries. This perpetual care income is recognized in our trend reports through the cemetery trust earnings section.

The Non-GAAP withdrawable trust income section in our trend reports reflect the change in the available income we are able to withdraw from pre-need cemetery trusts in three states that allow cash income to be withdrawn prior to the maturity of a contract. The intent is to show the true cash earning power of Carriage. It is important to note that the amount of reportable withdrawable trust income has been steadily declining over the past five years while our adjusted consolidated EBITDA and margin have been materially increasing.

In fact, if we pro forma out all withdrawable trust income starting in 2011, our adjusted consolidated EBITDA margin would have increased approximately over 500 basis points from 24.2% in 2011 to 29.1% in 2015. Since withdrawable trust income is tracking the change in available income, it is more dependent on short-term realized gains or losses within the trust.

Consistent with our repositioning strategy, as previously described, we expect withdrawable trust income to be modestly negative in 2016. This expectation is included in our rolling four quarter outlook for the year.

Our discretionary pre-need trust portfolio, which are the assets that are under Carriage's direct investment management, are 100% of our pre-need cemetery merchandising & service trust, 100% of our cemetery perpetual care trusts and approximately 70% of our pre-need funeral trusts. The remaining pre-need funeral trust are either in states that restrict investment options, typically to bank CD’s or U.S. Treasuries, or trusts where the pre-need contract restricts the movement of funds to another trustee.

Revenue from matured pre-need funeral contracts, including insurance and trust, is equal to approximately 20% of our total annual funeral revenue. Pre-need funeral trust revenue is 8% of total funeral revenue. Revenue from matured pre-need cemetery contracts is approximately 11% of our total cemetery revenue, while income earned from our perpetual care trust is 10% of our total cemetery revenue.

And with that, I would like to turn the call back over to Mel.

Melvin C. Payne: Thank you, Ben.

Since Viki, Ben and I assumed responsibility for Investor Relations at mid-year 2015, we have learned at three investor conferences in late September / early October and a trip in early December to New York and Boston to meet one-on-one with some of our existing investors, as well as prospective investors, that there is generally a very weak understanding of what makes Carriage so uniquely different as an operating, consolidation and value creation platform in the funeral and cemetery industries. In other words, whereas Larry Fink stressed in his letter that most CEOs and Boards have not developed and provided to investors a compelling strategic framework for long term value creation, we have already developed an extraordinarily well defined strategic framework for long term value creation but obviously have not communicated it well enough publicly.

That is changing. We believe our current share price is highly discounted to the intrinsic value per share of our company, as reflected by our active share repurchase program in the last half of 2015. For that reason this conference call together with our comprehensive press release yesterday marks a completely NEW BEGINNING at how we present and discuss our company on conference calls, as well as at industry conferences and one-on-one discussions with investors.

So I have Good News and Bad News. Starting with the Bad News judging from the conference call questions we have been historically asked in the past, which now becomes Good News when thinking about the questions we will hopefully be asked in the future. So the Good News/Bad News is that we will no longer respond to questions on our quarterly conference calls about the details of quarterly performance because we do not view "short term finish line results" as having any relevance to long term value creation as we execute our three models over five year timeframes in alignment with our Five Guiding Principles. If you have questions for short term performance modeling purposes, please call Viki or Ben offline our conference.

None of what we have accomplished since 2011, highlighted at the bottom of Page 3 in our earnings release, should be a surprise because I have written in exhaustive detail about the high performance culture ideas and concepts that have evolved since 2003 to become Carriage Services of 2016. All of these simple high performance ideas and concepts have been covered in annual shareholder letters, quarterly press releases and last year in a comprehensive Investor Reference Book, and are perfectly captured in the Visual Schematic of our High Performance Culture Framework available in our Company and Investment Profile, that we publish and update quarterly, which is available on our website.

My own highly opinionated view is that consolidation of our industry over the last fifty plus years has been way over-managed for short term yet unsustainable maximum profit, and way under-led for long term and sustainable market share and profitability growth through highly motivated, skilled and culturally aligned leaders and employees. The over-focus on quarterly results misses completely the highly competitive, local, entrepreneurial, high value and noble personal service and sales nature of what we do in each business in each market in which we operate, each of which has local unique challenges and opportunities not prone to centralized solutions. In order for an investor or analyst to judge whether I'm completely right or terribly wrong about this view, you should pay us a visit to meet our operating and support team leaders in Houston, or come at 10 o'clock on a Friday, and you'll see a high-performance leadership dynamic in action, or better yet visit any of our approximately two hundred businesses in thirty states to meet our wonderful leaders and employees, as we are a highly transparent open book of a company. We have nothing to hide.

We would be highly complimented and honored at any time and in any place to share with you what we have learned over the past twenty-five years as to effective operations and consolidation techniques in our industry, starting most importantly with what not to do if you are serious about **Being The Best** at what you say you want to be the best at, i.e. operating locally, consolidating nationally and creating high value for our client families, employees, suppliers, creditors and shareholders through the hard and noble work of our leaders and employees. At all levels of our company, which numbers three including me, our leaders are encouraged to take risks, learn from mistakes and as a result get better and better over time, which is the nature of a **Good To Great Journey** that never ends because we are constantly redefining what **Great** means so that we never get **Good** enough to be **Great**! That's a journey of a lifetime.

So instead of the normal quarterly questions we get on our call, I will attempt to be proactively helpful to those of you on the call by providing a short wish list of questions that we view as having profoundly important investment merits to existing and prospective long term shareholders. There are many more if you are curious and interested, but the short list is as follows:

1. How does your **Mission of Being The Best** relate to your three models and relatively new **Vision** of Carriage becoming recognized by institutional investors as a superior Consolidation, Operating and Value Creation Investment Platform?

2. Why does your public reporting, which you referred to as NON-GAAP Trend Reports, differ so radically from SEC mandated GAAP sector reporting in your quarterly and annual filings, and what can investors learn from your Five Year and Five Quarter Trend Reports that they can't learn from traditional financial analysis of your filings?

3. How do your operating and strategic acquisition growth models hold up against revenue trends for a mature industry in the face of secular headwinds for funeral homes and cemeteries related to declining deathrates and increasing cremations versus traditional burials?

4. Isn't Carriage at a disadvantage trying to execute your Ten Year Vision of affiliating with the best remaining independent businesses in the best remaining markets because Carriage hasn't been around as long and isn't known as well as some others, and/or can't pay as much because Carriage lacks the financial muscle?

5. How can you attract the best talent, and what is important to the best talent that aligns with the high performance ideas, concepts and Guiding Principles of Carriage?

6. How do you manage a public NYSE company with no operating or overhead budgets, fixed short term financial targets or goals, and no initiatives

to deal with desirable corporate financial performance by standardizing solutions to gain efficiencies?

7. Why do you refer to Carriage as being a High Performance Culture company that just happens to be in the funeral and cemetery industries, and how do you prove your point?

8. Why are you still working so hard at seventy-three years of age, and isn't your age and no publicly defined succession plan a major risk for investors, or for owners of good businesses who might fear the company would be sold if you were no longer there?

Now, those are my eight pet questions, but I have many more, and I've been wondering why more people didn't call me -- or any of us here in this room today -- about questions that, we found out we got out and got to know you, you really had on your mind. They were great questions.

None of us are too busy to spend time with you, especially me. I would be honored with any personal calls. We're not an ivory tower kind of place. Call me any time. I would be honored to talk to you about anything at any time.

And with that, I'm going to also change the end of this call to honor why we have achieved what we have over the last four full years, and why we achieved such a high margin of profit per dollar revenue, and a high cash earning power, defined be adjusted consolidated EBITDA margins, that I don't believe has ever been achieved in the over 50 years of consolidation by anybody.

Why is that? I'm about to tell you why. We have a passionate conviction that 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.

In this past year, we hit it out of the park with high-performance heroes. I would like to call out 40 high-performance heroes for the full year 2015.

Now, this is -- these are not just words. These are actual people and businesses with employee teams that are completely winning in their market, against the competition.

We have 23 what we call Being the Best Pinnacle of Service Award winners this year. That means they had to average 70% (standards) achievement over three full years. This is not easy to do.

In addition, we had nine Being the Best Pinnacle of Service Award winners over three full years -- 70%, and 100% for the last year. That's 32. Then we had an additional four that achieved 100% of standards this recent year, but did not achieve the three-year average of 70 -- not yet.

Then we had another nine that achieved the three-year average -- the business, but they haven't been in tenure long enough as managing partner to win the -- what we call the Pinnacle of Service Award, all of which -- these 40 -- 36 people and their spouse or their significant other will travel to Montreal in late April for a four-day, three-night trip where we treat them like the kings and queens that they are.

They are high-performance heroes that will not take -- they are not limited by a budget to what they can achieve. That's the key of the people power that is producing all of this high performance that is sustainable and is getting better over time.

It will not stop because we have the right people in our businesses across America. These are for this past year
Kyle Incardona, Hillier Funeral Home, Bryan-College Station, Texas
Chris Chetsas, Cataudella Funeral Home, Methuen, Massachusetts
Justin Luyben, Evans-Brown Mortuaries & Crematory, Sun City, California
Chad Woody, Watson-King Funeral Homes, Rockingham, North Carolina
Chris Duhaime, Funk Funeral Home, Bristol, Connecticut
Frank Forastiere, Forastiere Group, Springfield, Massachusetts
Cesar Gutierrez, Heritage-Dilday Memorial Services, Huntington Beach, California
Ken Duffy, Sidun Group, Red Bank, New Jersey
Jason Higginbotham, Lakeland Funeral Home, Lakeland, Florida
Ken Pearce, Alameda Group, Oakland, California
Robert Mclary, Kent-Forest Lawn Funeral Home, Panama City, Florida
Patty Drake, James Drake/ Whaley-McCarty, Cynthiana, Kentucky
Jason Cox, Lane Funeral Home - South Crest, Rossville, Georgia
Mark Cooper, Seaside Funeral Homes, Corpus Christi, Texas
Tom O'Brien, O'Brien Funeral Home, Bristol, Connecticut
Andrew Cumby, Cumby Family Funeral Homes, High Point, North Carolina
Steven Mora, Conejo Mountain Memorial Park, Camarillo, California
Tim Hauck, Cape Coral Group, Cape Coral, Florida
Randy Valentine, Dieterle Memorial Home, Montgomery, Illinois
Verdo Werre, McNary-Moore Funeral Service, Colusa, California
Cyndi Hoots, Schmidt Funeral Homes, Katy, Texas
Brad Shemwell, Lathan Funeral Home, Elkton, Kentucky
Jeff Moore, Palms Memorial Park, Dayton, Texas.

Now for the nine that did the three-year pinnacle of service plus 100% for '15:

James Bass, Emerald Coast / McLaughlin) Mortuary /McLaughlin Twin Cities Funeral Home, Fort Walton Beach, Florida
James Terry, James J. Terry Funeral Home, Downingtown, Pennsylvania
Kristi AhYou, Franklin & Downs Funeral Homes, Modesto, California
Ken Summers, P.L. Fry & Son Funeral Home, Manteca, California
Richard Munoz, Connolly & Taylor, Martinez, California
Bill Martinez, Stanfill Funeral Home, Miami, Florida
Andy Shemwell, Maddux-Fuqua-Hinton Funeral Homes, Hopkinsville, Kentucky
Terence Shotkoski, Cloverdale Funeral Home, Boise, Idaho
Michael Nicosia, Ouimet Brothers Concord Funeral Home, Concord, California

And the four 100% standards award winners:
Benjamin Friberg, Heritage Funeral Home & Crematory, Fort Oglethorpe, Georgia
Matthew Simpson, Fry Memorial Chapel, Tracy, California
Curtis Ottinger, Heritage Funeral Home, Chattanooga, Tennessee
Jeff Seaman, Dwayne R. Spence Funeral Home, (Canal Winchester), Ohio

And we have four Houston support team high performance heroes for this past year. That's (Trisha Hughes), accounting; (ErasmoArreola), accounting; (Wayne Sartin), office operations; and (Jake Johnson), operations and financial analyst.

With that, I would like to open the call for questions.

Operator: Thank you.

Ladies and gentlemen, if you would like to ask a question at this time, please press star and then one on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key.

And again, to ask a question at this time, please press star and then one.

And our first question comes from the line of (Alex Paris) with (Barrington) Research. Your line is now open.

(Alex Paris): Good morning, everyone.

Melvin C. Payne: Good morning, Alex.

(Alex Paris): Lots of information on that call. Thank you very much. I have a...

Melvin C. Payne: It's available in written -- written commentary because the voice recognition has not been perfected.

(Alex Paris): Oh, good.

I've got a few followup questions on the press release. And this might be for Ben or Viki.

With regard to the rolling four quarter outlook, obviously it has ranges for each revenue EBITDA, net income, and EPS. What has to happen, or what's assumed at the low end of those ranges versus the high end of those ranges?

(CROSSTALK)

Ben Brink: Yeah, Alex, I would say the -- you know, the mid-point, as we kind of expect will happen based on our current trends and what we see in the operating business currently. And so we leave ourselves, you know, a little bit of room on both sides for up-side or downside performance. But, you know, we feel pretty confident that those numbers are solid in how we're looking at the business going forward.

(Alex Paris): Okay. Then within revenues, and specifically with regard to your comments about trust-related impact of the repositioning of the portfolio, and understanding that it impacts the financial statements in more than one way. Just so I understand it correctly, are you saying that the line item that is financial services revenue and financial services field EBITDA will be down as a result of these changes, as you recognize -- realize losses? I realize you don't mark to the market unrealized losses, but will they be down in 2016 versus 2015? That's the way the press release...

(CROSSTALK)

Ben Brink: In comparison with 2015, yes, they will be lower. That's our expectation.

(Alex Paris): Okay.

(CROSSTALK)

Ben Brink: But not materially lower and it's kind of hard to pinpoint exactly what it's going to be as we kind of make this repositioning strategy throughout the year.

(Alex Paris): And the unrealized losses, as you said, are going to be recognized over the -- the remaining life, right?

Ben Brink: Right.

(Alex Paris): So, 11-year to 14-year? So if it were, you know, let's just say a $1 million loss, if it had 10 years left, it would be $100,000 a year, right?

Ben Brink: Correct.

(Alex Paris): (inaudible) over the 10 years.

Melvin C. Payne: When we took over our trust in mid-October or late, Alex, we had to maneuver out of a lot of existing investments that had material -- major losses. If you look at our trend reports, over the last roughly over the last five years which are available, you will see an increasing financial revenue even though we took huge losses in '08, '09. We began to see huge gains because we repositioned during late '08 and all through '09 we began to see huge gains from our repositioning, mostly in '10.

We didn't have a way to really get credit for that. We had a hard time explaining it to investors. And it was only when we got into 2011 that we put in place a different structure that gave us more flexibility on how we report. And then we got lucky because the market took a huge (swoon) again after August 5th, early August 8th, which was a Monday of '11. And we were able to rotate again. We took some losses by selling equities and rotated into more of the fixed income securities. I like to call it getting the second bite at the apple because we knew all the securities.

And they were all selling at big prices -- discounts to par. So that's when you saw a big uptick in our recurring income, especially in perpetual care. So, I mean, we've been through this a few times. It hasn't affected the earning power of the company. On the contrary, we seem to emerge from it stronger than ever. I would expect that would be the case here, not this year, next year and thereafter.

Do you agree with that, Ben?

(Alex Paris): Very good. Yeah, sounds good. I understand.

And then I guess one followup question to that. So do you -- are you going to be harvesting these losses, you know, realizing these losses in the equity portfolio only? (A). And (B), does that shift the mix in future years? Today, it's 24% equity, you know, with the balance being fixed income and cash. Will you have a smaller equity component? Or no, that's not the case?

Melvin C. Payne: Yeah, I mean, the way we look at it is real simple. If you get into generic allocations of capital to equity, fixed income and all that, you kind of get confused. We look at it more simply. And if we can buy a company -- I think Ben said -- we don't -- we do our own credit work here. So if we can buy a company that we believe will make their interest and principal payments when due, regardless of the credit rating agencies -- in fact, we look at what they're downgrading as places to look harder. We did that in '08, '09 when they downgraded all the financials, even though they were too big to fail.

So, they're slow in reacting to things that are getting economically distressed. So we look at that as a place to look and do good work, and think clearly about what it is we're doing. And if we can get out of equity where we think it's a dangerous world out there internationally, could be recessionary here. We don't know. If it is, it's not going to affect Carriage.

But we look -- we look at fixed incomes -- if we can buy recurring income at a price that is way discounted or materially discounted from the face amount, we get high rent while we wait for Mr. Market to come back into alignment with the actual health of the company. So we view that as an equity opportunity, not just an allocation to fixed income.

It's a contractual equity opportunity, as opposed to buying an equity, and there's no contract on whether it goes up or down. That's how we view it.

(Alex Paris): Gotcha. Thank you very much for that color.

Then with that rolling four quarter outlook, what tax rate are you assuming? I think you were 38% in 2015. And what share count are you assuming? And related, now that you've completed your current authorizations, are we done for a while on share repurchases?

Melvin C. Payne: This is Mel.

We finished what we had approved. It depends on Mr. Market. We're going to be wise in allocating our capital where we can get the most bang for the buck in creating intrinsic value over time. We will remain flexible and savvy about it. We will not get over-leveraged by being stupid. But we're here to create value per share over the next five to 10 years. Every member of this team is an owner-leader committed to that vision of our company.

Ben Brink: Yeah. And (Alex), on the other questions, we -- we assumed a 40% tax rate, which is kind of where we ended the year in '15. And the share count we were assuming on a diluted basis was about 16.75 million, which is where we estimate it is after the share repurchases, and with no effects on the -- from the convertible notes based on our current share price.

(Alex Paris): Great. And then -- (sure), that's helpful. And then the last question I'll ask, and this is kind of keying off one of the questions that Mel teed up for us.

The performance of Carriage Services versus your competitors -- the ones that we can see -- versus the industry death rate has been superior over the last period of time -- certainly in 2015.

From your standards operating model, how are you able to achieve that, and do you expect that to continue? First off, I think same-store revenue growth on the funeral services side as well as the cemetery side has been significantly greater than the death rate and greater than -- probably traded competitors that I have information on.

So I just wanted a little bit more color there. Do you expect it to continue? And how do you achieve it, versus your competitors?

Melvin C. Payne: That's a wonderful question. Thank you, (Alex).

At the end of three -- you know, I had to look myself in the mirror and say, "I don't think using a budget and control model to manage (to) future corporate profitability goals, EPS skills, whatever -- I don't think it's effective."

I learned this business from the bottom up, starting with nothing and knowing nothing, and I followed what everybody else had done for 12, 13 years, and I saw where that got me.

And when we were in the early part of last decade, there were conference calls where I would actually list businesses that we knew were losing market share.

I mean, the list just seemed to never get smaller, and of course, it didn't help the stock price that I was that honest about it, but I don't know any other way to be. So we sold a lot of those businesses. I didn't see how we could turn them around. Paid down debt, refinanced all our debt.

So when we rolled out the standards operating model, it's very simple and powerful -- that's why it worked so well. It's like a language for really talented funeral managers -- we call the managing partners, because nobody in Carriage is a manager of these businesses, except the managing partner.

We really have created a framework that is more a leadership -- it's a leadership framework. It's all leadership, all the time, by everybody, including our cemetery sales counselors and managers, and including our funeral arrangers, with their families.

The (4-E) leadership model components work in every single job in the company. And the framework, over time, as these ideas got seeded, grew -- I mean, it took years and years and years of mistakes and going down this idea and that idea to evolve to what we are today.

And in late '06, I got a takeover offer from a private equity firm. I won't say who it is. They wanted to know what was my price, and they were going to buy me out -- they were going to bribe me to go away, going to have their own CEO.

But we -- I was just seeing the fruit of this idea -- I call it a standards operating model -- because the thing that drives revenue and volume performance in our business is the leadership locally and the people locally delivering what we call high-value personal services.

If you don't have highly motivated and skilled people locally in the business, you will not be the winner of market share in the business. If you try to management -- manage it from above to some predetermined target because of Wall Street, you will lose, and that is known throughout this industry.

We don't do that. That's a treadmill I refuse to get on. And so over the years, (Alex), what's happened is we've got more and more entrepreneurial people who are basically wanting to win locally by acting like an owner of that business.

And you saw we increased our accrual $.05 a share in the fourth quarter. And why is that? The reason is we had such a strong fourth-quarter finish. They hit it out of the park. They hit it out of the park when it wasn't supposed to be that kind of quarter.

This is the passionate belief we have that superior people -- talented and highly motivated, with skills -- can overcome, through their work and their own efforts, secular trends that otherwise are crippling or injuring many people in the industry.

I don't really care about the industry. We don't talk about the industry here. We're playing the golf course, and we play this game every day to win. It's all about winning. It's all about winning teams, here in the home office and in the field. And, (Alex), it's a wonderful thing to witness. They are winning.

(Alex Paris): Well, way to go. Thank you very much for that.

Incidentally, that $1.5 million incentive charge -- I didn't have it in my estimate. And it's a good thing, obviously -- you know, it's reflecting the outperformance of the organization.

But is that something that we should be expecting in every fourth quarter -- that there's going to be an accrual -- you know, for the strong performance?

(LAUGHTER)

Melvin C. Payne: Look, I sent a (theme) letter out yesterday -- you know, our fifth year. It's in the press release, 2016 -- we choose to be great. Now, that's "choose to be," because we never will get there.

And then that (theme) letter -- it was two pages plus -- it was sent to every employee. We report the way we do, we talk the language we do, because this is the language they are used to hearing, and they are used to being motivated by these kinds of recognition techniques.

I can't tell you how many are on this call, or will be listening in to this call later, but it will be a bunch, and whether or not we have -- I mean, we weren't very good at predicting how well we would do, especially in the fourth quarter -- and especially in the third quarter, and in the fourth quarter, which was a tough comparison.

I mean, that's the kind of surprise you just dream to get. So we didn't care one bit that we didn't hit the so-called consensus estimate, because Mr. Consensus never came around here to check on our people.

So we're going to do what we think is right for the company. We're going to do what is, especially, right for our people, because they produce the value for everybody else, and we're just getting carried by their good, noble work, and we'll keep doing that. So whether we're going to do it next year or not, I don't have a clue.

(CROSSTALK)

Melvin C. Payne: I hope so.

(LAUGHTER)

(Alex Paris): Yeah. Yeah. Definitely.

You know, the only -- there's no issue at all. It's a good thing. You know, outperformance, compensating your people for a job well done -- it just wasn't in my estimate, and it created sort of a false miss, because, had you not had that accrual, you would have topped consensus estimates for the quarter. And I know you don't...

Melvin C. Payne: Well, I understand -- you don't think we understood that?

(Alex Paris): Yep.

Melvin C. Payne: We did understand that. And that's why I wanted to wait and cover all this, get a fresh start with you and all the other people who cover us, because -- you know, I believe what (Larry Fink) says is true.

I've been disgusted by what's happened in governance since Sarbanes-Oxley. I mean, I know a lot about Enron and Worldcom. I mean, I know a lot, and I haven't seen anything happen since those laws were passed that made a company better. I've seen many things happen that made them worse.

And so we're long-term all the way. I wish I owned more of our stock today than I -- than I do. I'm here. I'm not leaving. I'm energized by it. We have a wonderful team, and I meant every word I said.

Come out and check us out. Go visit our places and see what the people say. I mean, see if we're telling the truth or just overly excited about what we do. I don't know. Go ask them.

(Alex Paris): All right. Well, thanks, Mel, thanks, team. And, Ben and Viki, I'll follow up after the calls...

(CROSSTALK)

Melvin C. Payne: Thank you, Alex. We really appreciate your questions.

Operator: Thank you. Our next question comes from the line of Scott Schneeberger with Oppenheimer. Your line is now open.

(Greg Charpentier): Hi, everyone. This is (Greg Charpentier) from (Oppenheimer) for Scott today. I was hoping you could discuss the puts and takes (the) respect to your free cash flow. Thanks.

Melvin C. Payne: The -- the what?

The puts and takes regarding our free cash flow? Was that the question?

(Greg Charpentier): Yes. Correct.

Melvin C. Payne: What is a put and take?

(Greg Charpentier): Just basically -- you know, the metrics that go into operating cash flow and cap ex expectations. Thank you.

Melvin C. Payne: I'd better take that on the...

(CROSSTALK)

Melvin C. Payne: Why don't you -- we'll call you back after the call and we'll go through that in detail. How about that?

(Greg Charpentier): All right. Great. Thank you for that.

And I guess how should we think about capital allocation with respect to M&A and share (of) purchases over the next year?

Melvin C. Payne: Well, I think you should think about it over the next five or 10 years. And we state it about as clearly as we can state it -- we don't have a rigid way of thinking about it.

Mr. Market will allow us opportunities, and when the opportunity gives us a superior return, whether it's buying in shares or acquisitions that we think will give us a superior return over 5 or 10 years and longer, we'll move quick.

But we don't have a rigid way of thinking about capital allocation. We have a very clear mission of creating the maximum intrinsic value per share over a five-to 10-year period.

Now it's a -- it's a not very well-known fact in this industry that there has been no common equity raise since August of '99. Now, I don't know if you knew that, I don't know of many other industries where that is the case. Why? Because everybody got dropped on capital allocation stupidity in the '90s and then didn't want to give us any more when we finally recovered. So we had to learn how to create our own out of operations and free cash flow.

Everything we've done since 2009 has been without issuing a secondary common share offering, and we do not want to do that in the future. In fact, we will not do that. We will grow smartly, selectively. We bought in shares; we have a lower share count. That's not going to stop our growth because it's modest, 6, 7%, let's say, over the next five years, but much higher rates of growth and adjusted consolidated EBITDA, which we have -- which we think approximates good cash flow, and adjusted diluted EPS.

So we're going to try to do what is right on a month-by-month basis, week-by-week, day-to-day, allocate the capital. We get together with our team here, we decide, we all talk about it. Everybody's learning about superior ways to invest here on this team minutes, and it's a lot of fun. So we're not a big company, we don't have these rigid -- we're going to do this over there and this over there and this over there this year. We're nimble and we're fast and we'll stay that way.

Ben Brink: Great. Thank you very much for that.

(Greg Charpentier): You bet.

Operator: Thank you. And again ladies and gentlemen, if you would like to ask a question at this time, please press star and then one. And our next question comes from the line of (Scott Macke) with Great Lakes. Your line is now open.

(Scott Macke): Good morning, guys.

Melvin C. Payne: Hey Scott.

(Scott Macke): Consistent with the new paradigm, I will not congratulate you on...

(LAUGHTER)

I will -- I will congratulate you on a nice year and a nice five years for that matter. Five years plus.

Melvin C. Payne: You know, that's funny, Scott. Great. We appreciate it.

(Scott Macke): So I appreciate, really appreciate the additional transparency on some of the trust items, and if you'll permit me a few questions, I want to circle back to that.

Melvin C. Payne: You bet.

(Scott Macke): First -- and this is somewhat redundant with an earlier question, but we've had the opportunity to spend a little time with you and we continue to be impressed by the EBITDA margin improvement. And was hoping that in addition to the standards operating model and the leadership structure you've put in place, if you might talk a little bit about some of the operating strategic support that you provide to the managing partners.

Melvin C. Payne: That's a wonderful question, Scott. You made my day. Do y'all want to cover that since y'all are in charge of two of the four support teams?

Female: Sure. Well, I'll start off...

(Scott Macke): But we have a -- we have three of them here.

Female: We have a few people in this room. So at the Houston support office, we have many different functions that you would probably find individually at a funeral home or cemetery if they were owned independently. I in particular lead the accounting, audit and tax group and the legal group. Ben?

Ben Brink: Treasury and pre-trust accounting.

Melvin C. Payne: And we have also have Gabriel Ngo here. So Gabe?

Gabriel Ngo: Hi Scott. I lead the human resources, payroll, IT and risk management function. So, I mean, essentially, how we look at it is we are a partner to our businesses in the field. I mean, simply put, a partnership relationship is based on trust, support and brutal honesty in terms of being foxhole buddies.

And so what we do that's different from any other organization is that instead of pushing an initiative down or holding to a policy or procedure, we believe that all support departments here have to be led, and that leadership is earning our overhead figure and supporting our businesses in the field and each other. So...

Melvin C. Payne: Yeah, we have one other guy -- he's not here today -- Brijesh Patel, and his full title, Scott, is Brijesh Patel, MGWWFF. That means what he's learning here means his mother's getting wronger and wronger faster and faster because she wanted him to go get a graduate degree.

Brijesh leads a group of analysts, operating analysts and planning analysts, financial analysts both for our existing businesses. Every business managing partner has the equivalent of their own financial advisor and operating advisor who does instant analysis on their business over time as they get results in. And we have an incredible system, so they can really know by using the dashboard how well they're doing relative to the standards as they go through each week, each month. They don't have to wait until there are statements.

And so the whole purpose of the support teams is to -- is to maximize the success of really talented managing partners and employee teams, and we don't allocate any overhead to them. And I've had so many people come in here saying oh, you're incentivizing them on their performance, but you're eating all this overhead, including accruals on their incentive comp. But we don't view it that way, we view it the opposite of that.

We are helping them be successful, and they are only judged by what they directly control -- revenue and cash expenses locally. We have a small administrative fee for everything else, but it's a tiny number when you allocate it across the company. So they don't get surprised by us doing things to them, they get surprised by what we do for them. And when you have a company full of talent where that is in fact the truth, they will amazingly do amazing things because they don't have to worry about all the support stuff that typical owners have to worry about.

So really if a new business joins us, they find it shocking that they actually get better -- and these are good businesses -- than they were while they were independent. So my goal is I get a personal note or a phone call six months to a year after we buy a business saying no, I never would have believed in my wildest dreams that I would say this. Not only do I have no regrets, we're better locally and we're growing market share. I'm going awesome. Keep it up.

(Scott Macke): Well, thank you for that. I always appreciate the color. I was hoping to squeeze in a few follow-up questions just to -- and again, appreciate the transparency on the trust disclosures. I just wanted to make sure I understood a few things -- and again, not trying to nit-pick quarterly results, but trying to kind of get at, as you suggested, you know, the differences between GAAP and non-GAAP income as it pertains that the trust income and, you know, how that changes or is sustained going forward.

The first is so with -- you expect the financial income to be down year-over-year in 2016, but I think you also mentioned that the -- the pre-need trust income per contract is expected continue to increase. I was hoping you would just kind of help reconcile those two items?

Melvin C. Payne : Yes. The -- one of the -- one of the -- to the (special care trust), we are able to take some capital gains as income in the current period, which shows up in our cemetery trust earnings in the financial revenue section. We don't expect to have any of those capital gains this year, and that'll be the biggest difference in the -- in the numbers from '15 to '16.

(Scott Macke): OK. OK, that makes sense. And then, as I look at the -- the trust balances and if I look at them year over year, then I think the trust balances are down about 25 to 30 million, plus or minus, which is down 13 percent. The trust return, I think was down three, three and change.

Melvin C. Payne: Three percent, yes.

(Scott Macke): Which would suggest something close -- a little close to six to seven million, if I'm doing the math. I was also hoping just to reconcile those two items as well.

Melvin C. Payne: Right. So the -- the nature of our -- the nature of our trust assets is we're -- we (make it a cash flow) out of the trust funds because we are -- the contracts that are coming due have a higher average. We don't sell a lot of new funeral trust contract in particular. And then a lot of the earned income through our perpetual care trust is flowing out on a current basis to Carriage -- offsets the chair maintenance expenses of the cemeteries.

So you have a bit of a disconnect between return on invested assets, which is the negative three percent, and then the change in trust balances, which is a larger number.

(Scott Macke): Ok. And then, I -- I think that you made the comment in your remarks then about negative withdrawable trust income. Does that mean that you contribute money back into the trust? Did I...

Melvin C. Payne: No. We don't -- we don't anticipate having to contribute money back into those trusts. We haven't -- you know, it's tracking the change in available balance. We actually haven't taken any cash out of those accounts in a while, just trying to be prudent and conservative, so we have a bit of a cushion in there. So we don't foresee us, in any scenario having to put money back into those trusts.

(Scott Macke): Got it. And then, I guess this just kind of leads into what you just alluded to. You mentioned the 100 -- I think $100 million plus $111 million of income in capital gains since the start of 2009, and the fund being an over -- an overfunded status. You know, I was hoping you'd -- you'd just give us -- give me a little help. I would assume that the overfunded status isn't still $110 million-plus, that -- that the $100 million or so financial income over the last five years.

I'm curious if you could kind of help us understand where that overfunded status is and what that means for -- for financial income going forward? And I certainly understand if this is something that's better taken off-line.

Melvin C. Payne : Yes. How about - how about you and I have a further discussion off-line with that one?

(Scott Macke): OK. Thanks. Because again, really appreciate the transparency on that. It really helps. And again, congratulations on the -- on the strong results.

Melvin C. Payne: A follow-up point related to funeral trust, as well as insurance. (Under) 20% of our total revenue, as Ben said, is -- is from insurance and trust. That's markedly lower than other larger consolidators in the history of consolidation.

There's a reason for that. We, as a matter of business strategy and policy do not believe an aggressive pre-need funeral program leads to growing market share, volumes, revenue and margins over long periods of time. I have seen a lot of that about businesses that have done a lot of that. I have yet to see an example where that is a fact.

So when we started over, we quit doing that when we started the standards operating model and it's been steady at about 20 percent pre-need -- pre-needed contracts when -- when we handle a death. I don't anticipate that changing.

We don't aggressively sell pre-need in markets where we don't get aggressively competed against. And the reason is I see no business reason to pre-sell your pricing power in a market where you say you want to be the best and are in fact, becoming the best at offering high-value personal services. From a (bit of) strategy, even a financial point of view, that makes no sense, and I think our same-store results over time proves the point.

(Scott Macke): Thank you for that. And -- and I guess that's one last question. If we promise not to front-run you here, can you tell us where these opportunities in the markets are with sectors that have been oversold and mispriced? And that's a little tongue-in-cheek, but -- but I am kind of curious...

(LAUGHTER)

Melvin C. Payne : I like that.

(Scott Macke): ... if there are certain sectors that we should keep an eye on. I guess I gather from your comments that -- that the opportunities are in the -- in the financial sector, but I'm just curious if you can give us kind of a rough idea of what sectors to pay attention to and -- and maybe just an idea around how big of a bet or a stake you might be willing to make in some of these opportunities?

Melvin C. Payne : Well, we're being cautious, of course. The mining in minerals area is beat up really bad. We know the Free Port business pretty well. I know the guys sold him the oil and gas business to compete with the market here locally. So you know, we -- I think we bought some of their (senior debt) pretty recently, at about half-price. We like what they're doing and they've got some good copper assets.

And we've been looking at the pipeline companies, the better ones, the bigger ones, been around for a long time and will be here a long time. Not if they're -- there have been -- there's been too much of a grab it type breeding of these MLPs and financial engineering of this affiliate (not affiliate).

But if you get down to the pipeline level, and you know, you know, what you're doing and you know their customers and their contracts, you're looking at some companies where the -- you know, the baby has been thrown out with the bathwater. But we're -- we're still doing a lot of analysis on what we think that will look like come three to five years in that space. (There will be) a lot of casualties, but there are going to be some big winners, too.

And so -- what -- that's two of the areas we're looking at, Scott, that have been really beat up. But we're cautious and doing our work.

(Scott Macke): Well -- well thank you for that and thanks for taking all those questions and as always, really appreciate your time.

Melvin C. Payne : Absolutely. Appreciate your time, thanks.

Operator: Thank you. And I'm showing no further questions at this time. I would like to sent the conference back over to Mel Payne for any closing comments.

Melvin C. Payne: I don't have any closing comments. I'm out of the comments. I think there were a lot of wonderful comments today and some great questions. We appreciate it. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.

END