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PRESENTATION

Operator

Good morning and welcome to the Carriage Services second-quarter 2012 earnings conference call.

All participants will be in listen-only mode. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like conference over to Matt Steinberg of FTI Consulting. Please go ahead, sir.

Matt Steinberg - *FTI Consulting Inc. - IR Representative*

Thank you and good morning everyone. I would like to welcome you to the Carriage Services conference call. We are here to discuss the Company's 2012 second-quarter results which were released after the close of the market yesterday. Additionally, Carriage Services has posted supplemental financial tables and information on its website at www.CarriageServices.com. If you would like to be on the e-mail distribution list for future Carriage Services releases, or if you would like to receive a copy of the press release, please call my offices at FTI Consulting at 212-850-5600, or visit the Carriage Services website.

This conference is being recorded live over the Internet on Carriage's website. And a subsequent archive will be made available. Additionally, in a few hours, a telephonic replay of this call will be made available and active through August 17. The replay information for the call can be found in the news release distributed yesterday.

With us from management or Mel Payne, Chairman and Chief Executive Officer, and Bill Heiligbrodt, Vice Chairman. Today's call will begin with formal remarks from management, followed by a question-and-answer period.

Please note that, in this morning's call, management may 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 risks associated with the statements, which are more fully described in the Company's annual report 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 of today. Carriage Services expressly disclaims any duty to provide updates 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 to the most directly comparable GAAP measures for historical periods are included in the press release and the Company's filings with the Securities and Exchange Commission.

With these formalities out of the way, I'd like to turn the call over to Mel Payne, Chairman and Chief Executive Officer. Please go ahead.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Thank you Matt. I won't say anything to get this call off, but I will say something a little later and I'll turn it over to Bill.

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

Okay. Today, I'm going to take a little bit different approach and not spend as much time on our trend reports on line item by line item. We did that very adequately I think in the first quarter, and that will carry over. Should you have any questions, we will have ample time for you to ask them. If they come up later, I'll be happy to take any questions you have on anything as it relates to our current reports, which we view as being quite complete and quite informative for you to be able to analyze our Company.

So today, what I'd like to do is to address really three things. First is acquisitions; second is financial performance of both GAAP and non-GAAP EPS; and the third thing is our rolling four-quarter forecast.

First, looking at acquisitions, during the second quarter, we closed one new business consisting of two funeral homes and one cemetery in Lawton Oklahoma. This business serves approximately 400 families in that market. On a trailing 12-month basis, Carriage has acquired 12 funeral homes and one cemetery.

Okay. Looking at our funeral acquisition revenue of $5.948 million for the quarter, that is an increase of $2.775 million, also for the second quarter, or a percentage increase of 88% over the second quarter of 2011. Likewise, our funeral acquisition field EBITDA of $1.791 million was up $1.086 million, or 155%. Looking at the six-month period, we see the same type trend acquisition funeral revenue of $12.352 million, up 98% or $6.103 million, followed by acquisition EBITDA year-to-date for the first six months of this year up -- being up against -- against $4.282 million or a substantial increase of $2.766 million or 182%.

The second quarter felt the full benefit of the acquisitions completed in the first quarter, and the performance numbers show the effect these acquisitions have on Carriage. Our pipeline remains good, we are continuing to look at some very nice businesses, and we think the outlook for continued acquisition growth is strong.

Now let's take a look at financial performance of both GAAP and non-GAAP income. Financial performance at the GAAP and non-GAAP level were both affected by unusual items not recurring year-to-year. GAAP other income for the second quarter of 2011 included a gain on the repurchase of junior convertible securities of $357,000, approximately $0.01 a share. That was not comparable to 2012. Adjusting for the $0.01, 2011, the second-quarter GAAP earnings per share would have been up 15% to $0.15 a share, again, up 15% to $0.15 a share.

Year-to-date, the GAAP EPS $0.01 a share adjustment rose GAAP EPS for six-month period by $0.07 a share, 23%, to $0.38 a share, again 23% to $0.38 a share. I might mention also, while we are talking about this, we really have no future plans to repurchase junior convertible subordinated debt again. This is the way we as management of Carriage view our GAAP performance.

Now, let's look at non-GAAP EPS, okay? Two comparable numbers need explanation. First is taxes. We see accrual rate was increased to 40.4% year-to-date. To accomplish this, the second-quarter tax rate had to be 42.8% to average the increase over the six-month period. That's the first noncomparable issue to discuss.

The second one is the withdrawable trust income was $2.172 million higher for the quarter in 2011, and for the six months $2.810 million higher than 2011. The withdrawal -- withdrawable trust income adjusted adjustments reduces non-GAAP EPS to $0.15 per share for the quarter in 2011 and the adjustment or the catch-up for taxes in the second quarter of 2012 moves non-GAAP earnings per share to $0.17 this year, leaving an increase of $0.02, or 13%, for 2012 second quarter over second quarter 2011.

Now, looking at the year-to-date adjustment for withdrawable trust income in 2011, moves EPS down to $0.36 per share for 2011. The tax rate is correct in 2012 for year-to-date, was averaged out in the second quarter, leaving EPS unadjusted at $0.44. The year-to-date increase on this basis for non-GAAP EPS is 22%. I hope this information proves helpful so that you can better understand our numbers. And again, we will be more than happy to take personal questions from you in this regard.

Now, finally, the third thing that I mentioned and I want to talk about today is our rolling four-quarter forecast. The rolling -- the new rolling four-quarter forecast ranges show the following. We show non -- we show GAAP earnings per share in a range of $0.70 to $0.73, non-GAAP earnings per share, $0.83 to $0.85, and we raised free cash flow to $22 million to $24 million. All of those are slight increases. These -- I want to make one thing very certain here on these changes. They all slight in small to a certain extent, and these do not in any way reflect any changes for balance sheet adjustments or refinancing.

Okay, we are ready to turn it back over to Mel and we will be ready for questions.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Thanks Bill. As we covered in some detail on the first page of our press release, our leadership teams across the Company are moving rapidly to harness the inherent earnings power of our portfolio of operating businesses and trust funds which, when coupled with intermediate-term bank financing that is proposed and we are pursuing with Bank of America and a syndicate, that exploits the current historically low-rate environment. This financing, if and when closed, will provide the financing flexibility to grow opportunistically at very low cost while preserving all of our financing options if and when we are faced with a larger volume or quality and therefore compelling acquisition candidates.

Carriage has reached what I refer to internally as a sweet spot inflection point where large increases in earnings are possible without taking huge risk. To put that statement in a numerical perspective, after years of saying internally that our earnings power should be above $0.50 per share GAAP, we now believe that we have the leadership and the operating and growth models in place to achieve above $1 per share in GAAP earnings by the year 2014. That's not a promise and that's not a forecast. That's a core belief of our leadership team.

We have themed this year as Carriage Services 2012 a new beginning with a vision of taking Carriage on a journey from a good company this year to a great company by the end of 2016. Every one of us who are on the Carriage team are committed to making that journey not only fun, but rewarding for all of those who contribute to it. We hope you will join us on that journey.

With that, I'd like to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Nick Halen, Sidoti & Co.

Nick Halen - *Sidoti & Co. - Analyst*

Good morning guys. I apologize. I actually had to get on the call a little late, so I may have missed it. But I was just wondering. I know it's obviously very new but I was wondering if you could talk a little bit about the proprietary cemetery system you guys rolled out in February, and I guess what you've seen so far and really how it's affected your operations I guess through the first half of the year.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

The first half of the year has been weak on the cemetery side, but it hasn't been because of the systems. As part of our new beginning, we rolled out a new operating model, standards operating model in the funeral home side at the end of November. And that had instant traction. We saw it in December and we've seen it through the first half. We suspended the old cemetery standards until we had a better idea of what they actually should be, so we recruited some what I call top professionals in the industry starting in April/May. We wanted to see out of the gate what we were doing right, what we were doing wrong, what the trends were in our cemetery business. So we did a lot of experimenting in the first three to four months trying different things in different places.

We actually saw some of the fruit growing in some places and determined that we needed to change the way we were organized in our cemetery portfolio. So I recruited a National Director of Sales here in Houston, and a National Director of Product Development and Management. That will be centrally directed but supporting field operations.

We have developed new cemetery standards. This group has had an incredible amount of contribution to that. That will be rolled out in meetings here in Houston in the first two weeks of September to be effective by year-end. In the meantime, we are moving very rapidly to recruit top-notch cemetery operators in our regions and in our parks, as well as sales leaders, to make sure that, by January 1, we are operating on new, sustainable standards that will take this portfolio to a much higher level. The system has been continually upgraded, debugged, and it is working. But the system is not what caused the performance in the first half of the year. The system is fine. It's going to be a great system, and we've got a lot of compliments about it. We've also had some things that were -- that could be improved in terms of functionality and ease-of-use, and we are quickly making those.

Nick Halen - *Sidoti & Co. - Analyst*

Okay. Now, in terms of headcount additions, what can we expect I guess by January 1, as you said? Is it -- do you plan on adding or is it pretty leverageable what you guys already have in place?

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

I don't think in terms of headcount. I think in terms of eight player leadership and in terms of eight player people.

Nick Halen - *Sidoti & Co. - Analyst*

Okay.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

So that's determined by -- we don't make those ivory tower decisions here. If we need people, they add them in the field. They make sure they are good ones, and if we don't have good ones, we get rid of those and get some better ones.

Nick Halen - *Sidoti & Co. - Analyst*

Okay. And then just one more for me. I know you've mentioned -- you've been mentioning a very strong M&A pipeline for some time now, and I would imagine I guess some of your competitors may also feel the same as well. Can you talk about valuations right now, what you're seeing and I guess what your expectations are going forward?

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

This is Bill Heiligbrodt. I don't know what you mean by valuations. Each property is different from the other one, so it's pretty hard to discuss valuations. Again, as you remember in our discussions, all of our potential acquisitions are valued on a discounted cash flow basis, based on the individual properties. We look for high performers, and there's a lot of funeral homes in the United States left to be acquired. So I don't know what I need to say beyond that. I'll be happy to be specific if you wish me to.

Nick Halen - *Sidoti & Co. - Analyst*

Okay. I'm just wondering in general. I guess the pipeline that you guys are looking at, how anxious are these operators to actually sell the funeral homes that they own? Are they being more patient these days, or is it (multiple speakers)?

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

Anybody -- it's like any other business. If somebody is for sale, they sell. If they don't want to sell, they don't sell. But there are a lot of funeral homes that are trading hands today. I gave, in my presentation, in the last trailing 12-month basis, we've acquired 12 funeral homes and one cemetery. So each of those properties are different. They range from Long Island to Lawton, Oklahoma by way of Georgia. So they are all across the United States in very different places and in very different markets.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

This is Mel. I mean Bill's updated the strategic acquisition model. You can't trick it. You cannot trick it. And it's going to pick out the winners from the ones that are mediocre. The losers don't even get to first base through this model. In the better quality, higher-quality businesses, I haven't seen a single owner suffering from anxiety. I do see them needing to have succession planning solutions, because of age or heirs or things like that. But these are people who are quality people, reputable people in their businesses and communities. And they go slow when they are talking about a generational legacy and reputation. We think that's a good thing. If they are anxious, we probably won't buy them. It would have to be a fit for us, and we are very picky about people and business fit.

Nick Halen - *Sidoti & Co. - Analyst*

Got you. Thanks guys.

Operator

Clint Fendley, Davenport.

Clint Fendley - *Davenport & Co. - Analyst*

Thank you. Good morning guys. I wondered, on the potential new credit facility, do you have an expectation for when this could be finalized?

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

We are early in the process. We have our wishes, but it's determined -- we still have a long way to go and there's absolutely no final situation completed at this time. So, if you would ask the question what would be my druthers, I would say that probably I'd like to close it in August. And you know me. I like to do things as quick as we can do it. But we are still in the early stages here, and as the press release stated, we have a commitment to put the transaction together by Bank of America and a commitment from them for a piece of what we want to do.

So I do think it will be very good for the Company. It gives us a great deal of flexibility. The culmination would reverse difficult requirements in certain of our debt instruments that are somewhat old and aren't current with the current Company. And obviously, we are trying to be more efficient and pick up earnings per share in everything we do, as you well know. So that's about really all I can say at this time.

Clint Fendley - *Davenport & Co. - Analyst*

Would you expect that, once it's completed, that it would potentially change the pace at which you're planning to do some of your M&A activities?

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

No.

Clint Fendley - *Davenport & Co. - Analyst*

No?

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

No, I think it just does it in a more efficient way, and in a more flexible way, giving us an opportunity without limitations on the size of transactions that we can do on an absolute basis. We would in essence have a partner who we could talk to and a very, very well-structured credit that would allow us to move forward in a more efficient manner with our acquisition program.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

This is Mel. Bill is being modest. I think this will close. If it does close, I think it will close in the third quarter or shortly thereafter. And as you know, we are very close to what's going on in the credit markets, long-term, intermediate, and short, through our trust fund investment portfolio. We monitor that on a daily basis, and we are in a lot of high-yield securities.

So, we see the spreads come and go. We see what's going on all over the world, Europe and the US. And while we may have our problems domestically, it's the safest place in a dangerous world at the moment. And a lot of excess reserves sitting around, last I heard $1.5 trillion at the Federal Reserve from banks earning 0.25%. So when you see an environment like that for the foreseeable future, you try to come up with a plan that will put that environment to the benefit of our Company. And I think Bill and his team have done a magnificent job designing a strategy that preserves all the options for either equity or long-term fixed-rate financing, while doing something that could be quite powerful for a year or two in terms of the pickup in EPS, and free cash flow.

Clint Fendley - *Davenport & Co. - Analyst*

I'm wondering also, changing gears a minute, any commentary on your same-store volumes for the second quarter?

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

We don't use that as an excuse not to perform. I hear that that's an industry thing, but our models don't give many people excuses. And we think we can grow our company. We don't think that will continue, by the way. We see better trends already in July than we did through seven months, starting in December. So, I don't know if the July thing is indicative of some uptick in death rates, but believe me, we were waiting for a month where it got better, so I don't -- we don't spend a lot of time worrying about that around here. We are concerned about operating, whatever the environment, at a sustained high performance and then adding great businesses into our portfolio that have demographics and volume characteristics historically and into the future that will offset any kind of secular trends in the cremation or death rate, and it's working.

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

Let me just add to that. This is Bill. I think we anticipated that the comparisons in the first six months of the year would be more difficult than the last six months of the year, let me put it that way. The other thing is we are still highly confident enough that we have in our rolling four quarter at least flat expectations on same-store volume. So I think that kind of speaks to our confidence level there.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

If you look back -- and this is how we looked at it -- we look at five years and we get monthly statements on each business that go back five years, operating data and financial data trends. We also have volume trends going back 10 years on every business, every month, so -- in every competitor in the defined market every month. So we see trends in market share and volumes over long periods of time. And I've learned, after 21 years, that it's an unpredictable thing on a monthly basis. Sometimes the death rates are up in the West, while they're down severely in the Central and East, even in local areas. So our models do not, and we do not concern ourselves with things we cannot control. But we are learning better how to do more with what we can control. And we can control an awful lot, and that's why our model emphasizes entrepreneurial local leadership and market share. We have the most stable same-store volumes of any company that I know of in the industry, and we're very proud of that. I don't think that's going to change; it might even get better.

Clint Fendley - *Davenport & Co. - Analyst*

Does that mean they were flat for the second quarter then?

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Flat?

Clint Fendley - *Davenport & Co. - Analyst*

Yeah (multiple speakers)

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

No, they are not flat. That's in our -- they were down, down what, four point something?

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

No, no, no same-store volumes in the second quarter were down 1.7%

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

That's revenue, Bill.

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

Revenue. You want (multiple speakers) you want profit? EBITDA?

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

No, he wanted volume.

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

(technical difficulty) volumes were down 4.7% in the second quarter, same-store.

Clint Fendley - *Davenport & Co. - Analyst*

Okay, so kind of in line with what we've seen from the other --

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Absolutely.

Clint Fendley - *Davenport & Co. - Analyst*

-- the other industry. Okay, thank you guys. Appreciate the color here and have a good weekend.

Operator

(Operator Instructions). Alan Weber, Robotti and Company.

Alan Weber - *Robotti & Co. - Analyst*

Good morning. A quick question. When you show on the numbers acquisition funeral field EBITDA of approximately $4.3 million for the first six months --

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

Yes.

Alan Weber - *Robotti & Co. - Analyst*

Is it fair if we -- if one annualized that, obviously it's $8.6 million or so. What was the cost of those acquisitions for that particular amount of EBITDA?

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

It's like I said to an earlier question. We show -- unfortunately, we can't show on the public statements three months and six months the five-year trend report, which I have here in front of me. And we don't report like a typical retail store, where we own a business for a year and then it goes in same-store. The reason we don't do that is we have learned that this is a very long-term trend volumetric business. And so what we do is we look at five years of data, and until we have owned a business five years, it doesn't go into same-store. So the businesses that are in the acquisition group are businesses that we started buying in '08, continued '09, '10, '11 and year-to-date '12. We would have to go back and look at what we paid for all those businesses, and I don't have that number off the top of my head.

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

I'd be kind be willing if you want maybe after the call is probably a longer discussion than what we can do here, but as you remember in our discussions, again, we work off of a discounted cash flow model. That creates different ranges of multiples relative to revenue and to EBITDA. I do think when you look at this in the part of the conversations and the report that I gave, we do see a leveraging effect and percentage increase greater at the EBITDA level than at the revenue level, which is a characteristic of the funeral business. I think all of our acquisitions that have been purchased, the last 12 acquisitions that have been purchased are all performing as a group above our initial calculations. So I think that part of our business is very strong, and we are continuing to pursue that on as an aggressive basis as we can and yet, being aggressive, that probably means looking forward six to eight businesses a year unless something really changes in terms of our ability to find deals that would really fit Carriage Services.

Alan Weber - *Robotti & Co. - Analyst*

Okay. I just asked the question because that way, at some point, it really does -- because acquisitions are becoming a bigger part of the Company, it's just actually a way to check to see what the return -- what the real return on investment really ends up being.

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

Return on investment on the acquisitions that we are doing now on an after-tax basis, cash on cash, none of them have been less than 10%. And we are doing better than that in terms of how they are being reflected in your numbers as a shareholder.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

The real important point here is that we had a major reorganization last November. And Bill joined the Company in September, and updated what we refer to as the strategic acquisition model. And you would have to look at what he and his team have done. It's unbelievably sophisticated. So, anything we bought before that has a different level of vetting criteria where different, the people who did it were different, and so anything we bought since September, you'd really have to split the portfolio into the pre-September/post-September group. That's not to say that the businesses we bought before that are not working out. That's not saying that. I'm saying the ones that we bought since then are working out better than expected for sure.

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

You remember in our conversation, and we've talked to people a lot about this, the first thing that we did in establishing a new acquisition program was to prequalify these businesses on the operating model that our operating people use to manage the Company. So, all these businesses that we've acquired in this period of time have all been prequalified and we were actually operated on what we call our operating standards before we acquired them. So the rest of the portfolio is not bad, but those businesses who were not required -- were not acquired being prequalified on those standards. And that's a major difference. And we are actually, from an internal standpoint, probably turning down more acquisitions than we are doing. And we are passing on a lot of them just because of our economic evaluations and what we call our strategic acquisition model descriptions of certain markets are. So it's a very conservative movement.

Alan Weber - *Robotti & Co. - Analyst*

Okay, great. Thank you.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

We look forward -- Bill looks forward to showing you, pulling out one or two and showing it to you. You will be impressed, I promise.

Operator

Nicholas Jansen, Raymond James.

Nicholas Jansen - *Raymond James & Assoc. - Analyst*

A quick question on the refinancing. I know it's early in the process, but is there kind of a target out there in terms of potential cash flow savings from this transaction?

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Of course. It's big. It's big.

Nicholas Jansen - *Raymond James & Assoc. - Analyst*

Okay. So, I guess we'll expect more details once everything is finalized?

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Yes you will.

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

Hopefully, within the next 10 days to two weeks, we should be a lot farther down the road. I don't want to give any indication that we've got this thing completed, because we don't. We are in early stages. I know Mel is aggressive, and I love that, but we've still got a lot of work to do. And -- but it is a little bit different, and fairly soon we should be able to talk to you individually, if you will call in, to kind of give you an indication of what we are trying to accomplish and what is involved, I think, if you wish.

Nicholas Jansen - *Raymond James & Assoc. - Analyst*

Certainly. Then maybe back to the Cemetery Operations --

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Before we leave that, I'm known around here as the glass half-full guy. But on that one, I would say I'm about 80% full.

Nicholas Jansen - *Raymond James & Assoc. - Analyst*

Going back to the cemetery new standards operations, I know you've -- if you look at cemetery revenue and EBITDA performance over the last three years, it certainly hasn't -- it hasn't grown and maybe even subtracted a little bit. So maybe what do you think is the real underlying opportunity within the Cemetery Operations as you have the mix today in terms of what level of potential growth should we see in '13 and '14 as some of these initiatives begin to take hold like to have in the funeral side? Thanks.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

I wish I could give you a percentage growth. I will tell you that we are attracting some real talent into this Company. After I took over operations last November, I knew it would take some time and a little bit of experimentation, so we were patient. We tried this, we tried that through the first quarter, then it became obvious what we needed in the Company and we went looking and found the talent. We are sitting here in this room today, and I am more excited about what they are finding in terms of low-hanging fruit, and then intermediate and longer-term ideas, product, sales. And so we are now recruiting some talent and putting in place some standards.

We are having everybody come here in the second week of September. I think they will start the year, and you will think our cemetery portfolio was acquired and was not the old portfolio. That's the goal. Whether that will show up in the first quarter of 2012, '13, or it'd take a little longer, I don't know yet, but I will tell you it will happen. And over the next two or three years, I think the cemetery portfolio has huge upside. I don't know how much. I know it's going to be big. And we are putting in place the leadership to make that happen.

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

This is Bill again. I'll give you the numbers that we have been using, which are not aggressive. And I personally, as a member of -- or a person that's been sitting in on our cemetery involvement meetings, we have on average built in in our four-quarters rolling projection 2.5% revenue growth, which I am absolutely -- I'll be the 80% glass this time and say positively that I really think we are going to be much beyond that. But that's what's in those numbers that you're looking at in the four-quarter projection.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Mel again. Look, it's not my job anymore to do forecast and things like that and work with you guys. Bill is doing that and he is doing a wonderful job. My job is to think big and lead big, and lead fast and furious and find people who actually can pass me up because they are really good at what they do and they are excited about the vision we have for the Company. And we are attracting some talent, which I never even knew existed. I didn't even know this existed before, and it's coming. It's showing up. It's staying. It's having an impact. More qualitative at this point than you can quantify, that's Bill's job, but I will tell you, you're going to see a difference. It's going to be good.

Nicholas Jansen - *Raymond James & Assoc. - Analyst*

Very helpful. Thanks guys.

Operator

Duncan Brown, Wells Fargo.

Duncan Brown - *Wells Fargo Securities LLC - Analyst*

Hey guys. Thanks for taking the call -- or the question. I just want to clarify one thing. Did you say in your rolling four-quarter guidance that you have an expectation of flat or better funeral volumes?

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

Not volumes, revenue.

Duncan Brown - *Wells Fargo Securities LLC - Analyst*

Revenue. Okay, thank you for that clarification. And then the last --

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

I've been in this business 40 years. I don't even personally look at contracts. There's totally different changes by funeral home relative to the kind of business that you are doing. You can -- you made changes on whether you're going to do certain types of cremation, certain types of other services, and the mere change in that can change contracts. So to me, the number you have to look at is revenue. And you just can't do it any other way, I don't think. But I know that we release the information in that regard, so --

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

As a volumetric guy, and knowing this business is driven by volumes, we do -- the model is designed around stable to growing volumes over time. And -- but you can't control death rate. No doubt the first six months, starting in December, the last seven months have been some of the weakest death rates -- weakest since I've been in this industry 21 years. But having said that, if you look at the six months results, same-store funeral field EBITDA is actually up and the margin is up 220 basis points over the last -- the first six months of last year. To me, that's an incredible performance in a very weak death rate environment where, let's see, the first six months (inaudible) divided right there on your press release -- our volumes were down 5.5% for the six months. But the profit was up and the margin was up 220 basis points. That is due to having great operators, and they are operating their businesses at sustainable margins regardless of the death rate, which means if the death rate improves, it gets good fast. We do see an improvement and we expect the second quarter to be much better than the first half year-over-year.

Bill Heiligbrodt - *Carriage Services Inc. - Vice Chairman*

Let me add one thing to that, because this is always comes up. But I haven't checked back exactly every number in the last two weeks, but let me say that if you look back at these acquisitions that we talked about, there wasn't one of those acquisitions that was down in contracts or down in revenue. Okay? So there are funeral businesses that don't just go down with death rate because of the markets they are in and so forth. That's part of our overall acquisition plans to identify those businesses, if we can, to offset some of these trends. And as we can do this over a number of years, it will -- we hope that will make an affect and insulate us from some of these changes that you are talking about now.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

I could not echo up that strongly enough. One of the reasons we report same-store for five years without bringing the acquisition portfolio up is the point Bill made. We are buying businesses right now. That's why we are so selective in where we buy them. And we look at 10 years of history, volumetric history by competitor. And when you buy businesses that are dominant and the characteristics locally, demographically and otherwise, are not the same as what the national trends are, and you pay for that business and you operate it well, over time, the whole profile of your portfolio will change to a higher growth portfolio regardless of the death rate. That's the idea about our model on the growth side. And it's working.

Duncan Brown - *Wells Fargo Securities LLC - Analyst*

Got it, thanks for all that color. Just last one for me, in the press release, you talk about major modifications to management and compensation arrangements for your trust funds.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Yes.

Duncan Brown - *Wells Fargo Securities LLC - Analyst*

Do you mind giving us a little flavor of what's changing there and what the new strategy is?

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Yes. We -- we got involved in our trust funds back in October of '08. We still have an outside money manager, but we do a lot of -- we built our own team here internally. We do all our own work, whether it's credit work. We do a lot of credit work. We've built a particular expertise, I would say, on the credit analysis side, fixed income securities. I don't have the data in front of me, but we are probably $2 to $3 a share overfunded in our trust funds right now based on the strategies we employed during the crisis in '08 to rotate out of everything we had then and put it in something else that would go way, way up and also provide much more recurring income. So we started doing that in the fall of '08. We really reloaded, had another big bite at that Apple, some in 2010 but really starting August 8 of last year when the market fell 600 and something points and everybody ran for a rock.

We devised another strategy to rotate out of equities to mostly fixed income. That's continued through the first half of this year and into the end of July. So you see in the trust fund write-up that we now have what we call derisked the portfolio from a sudden event perspective, locked in a lot of recurring income. It's up to $12.7 million.

I think, before we got involved, before October of '08, we were less than $4 million of recurring income in our portfolio. And so we've had, I don't know, $50 million, $60 million in gains, of fixed income gains, while we built this portfolio and still have some large unrealized gains.

So, what we have done internally is build a team, and we had not been getting paid by our trust, and we started exploring that. And so we have done some structural changes where we have more of our trust money coming into our team rather than being directed somewhere else. And that's going to add more to our discretionary trust fund. And we've also begun reimbursement out of our trust for pre-need administration contracts, and we've also just been approved by the SEC, and the other companies already do this, to have an investment advisory subsidiary, so we will begin to charge a fee for the work our team here does for the trust. All of that -- and we have a partnership structure in place that we put in place last year, I think around August, so we can allocate a little bit here or there disproportionately among the discretionary trust the various funds based on the profile, whether it's cemetery, perpetual care, funeral and cemetery pre-need. And perpetual care gets a little bit more allocation of the recurring income, whereas the others get a little bit bigger allocation of gains, capital short and long-term gains. All of that incrementally for the next 12 months, all that will be effective I think some time at the end of August.

So there are three major pieces to that -- reimbursement, advisory fees, and some more funds coming into that which we will direct. That will add an incremental amount of revenue and earnings that will be material, quite material.

Duncan Brown - *Wells Fargo Securities LLC - Analyst*

That's helpful. Thanks for all the color.

Operator

This concludes our question-and-answer session. I would now like to turn the conference back over to management for any closing remarks.

Mel Payne - *Carriage Services Inc. - Chairman, CEO*

Yes. I'd like to close by saying we are halfway through the year we themed as Carriage Services 2012, a New Beginning. This was not going to be the year where we reach the maximum earning power of our enterprise, but as a consolidation company and an operating company. But I do think the earning power is quickly emerging, a lot of new leadership with a lot of new ideas. It's fun to be around them and I think, as we finish this year, that earning power will begin to show itself, especially if we get this new financing in place, and Carriage will be a great investment over the next five years. With that, I'd like to close the call, thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.