STONEMOR PARTNERS LP
Form 10-K
March 15, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED December 31, 2011**

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .**

Commission File Number: 000-50910

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware	**80-0103159**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
311 Veterans Highway, Suite B Levittown, Pennsylvania	**19056**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (215) 826-2800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Units	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the common units held by non-affiliates of the registrant was approximately $517.2 million as of June 30, 2011 based on $27.66 per unit, the closing price of the common units as reported on the NASDAQ Global Select Market on that date.1

The number of the registrant s outstanding common units at March 1, 2012 was 19,368,987.

Documents incorporated by reference: None

The aggregate market value of the common units set forth above equals the number of the registrant s common units outstanding, reduced by the number of common units held by executive officers, directors and persons owning 10% or more of the registrant s common units, multiplied by the last reported sale price for the registrant s common units on June 30, 2011, the last day of the registrant s most recently completed second fiscal quarter. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from this figure is an affiliate of the registrant or that any person whose holdings are included in this figure is not an affiliate of the registrant and any such admission is hereby disclaimed. The information provided herein is included solely for record keeping purposes of the Securities and Exchange Commission.

FORM 10-K OF STONEMOR PARTNERS, L.P.

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PART I

Item 1. Business

Overview

We were formed as a Delaware limited partnership in April 2004 to own and operate the assets and businesses previously owned and operated by Cornerstone Family Services, Inc., (Cornerstone), which was converted into CFSI LLC, a limited liability company, prior to our initial public offering of common units representing limited partner interests on September 20, 2004. Cornerstone had been founded in 1999 by members of our management team and a private equity investment firm, which we refer to as McCown De Leeuw, in order to acquire a group of 123 cemetery properties and 4 funeral homes. On November 30, 2010, McCown De Leeuw transferred certain of its interests to MDC IV Trust U/T/A November 30, 2010, MDC IV Associates Trust U/T/A November 30, 2010 and Delta Trust U/T/A November 30, 2010, which we collectively refer to as the MDC IV Liquidating Trusts, and McCown De Leeuw was subsequently terminated.

We are currently the second largest owner and operator of cemeteries in the United States. As of December 31, 2011, we operated 274 cemeteries in 26 states and Puerto Rico. We own 253 of these cemeteries, and we manage or operate the remaining 21 under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. As of December 31, 2011, we also owned and operated 69 funeral homes in 18 states and Puerto Rico. Thirty-nine of these funeral homes are located on the grounds of the cemeteries that we own.

The cemetery products and services that we sell include the following:

Interment Rights	Merchandise	Services
burial lots	burial vaults	installation of burial vaults
lawn crypts	caskets	installation of caskets
mausoleum crypts	grave markers and grave marker bases	installation of other cemetery merchandise
cremation niches	memorials	other service items
perpetual care rights		

We sell these products and services both at the time of death, which we refer to as at-need, and prior to the time of death, which we refer to as pre-need. Our sales of real property, including burial lots (with and without installed vaults), lawn and mausoleum crypts and cremation niches, generate qualifying income sufficient for us to be treated as a partnership for federal income tax purposes. In 2011, we performed 45,236 burials and sold 30,047 interment rights (net of cancellations). Based on our sales of interment spaces in 2011, our cemeteries have an aggregated weighted average remaining sales life of 260 years.

Our cemetery properties are located in Alabama, California, Colorado, Delaware, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Mississippi, Missouri, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Virginia, Washington and West Virginia. One cemetery in Hawaii that we acquired in December 2007 is still awaiting regulatory approval and has not yet been conveyed to us. Our cemetery operations accounted for approximately 86.7%, 87.1% and 87.1% of our revenues in 2011, 2010 and 2009, respectively.

Our primary funeral home products are caskets and related items. Our funeral home services include consultation, the removal and preparation of remains, and the use of funeral home facilities for visitation and prayer services.

Our funeral homes are located in Alabama, Arkansas, California, Florida, Illinois, Indiana, Kansas, Maryland, Mississippi, Missouri, Ohio, Oregon, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Virginia, Washington and West Virginia. Our funeral home revenues accounted for approximately 13.3%, 12.9% and 12.9% of our revenues in 2011, 2010 and 2009, respectively. Our funeral home operations are conducted through various wholly-owned subsidiaries that are treated as corporations for U.S. federal income tax purposes.

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Operations

Segment Reporting and Related Information

We have five distinct reportable segments which are classified as Cemetery Operations Southeast, Cemetery Operations Northeast, Cemetery Operations West, Funeral Homes, and Corporate.

We have chosen this level of organization and disaggregation of reportable segments due to the fact that a) each reportable segment has unique characteristics that set it apart from other segments; b) we have organized our management personnel at these operational levels; and c) it is the level at which our chief decision makers and other senior management evaluate performance.

Our Cemetery Operations segments sell interment rights, caskets, burial vaults, cremation niches, markers and other cemetery related merchandise. The nature of our customers differs in each of our regionally based Cemetery Operations segments. Cremation rates in the West region are substantially higher than they are in the Southeast region. Rates in the Northeast region tend to be somewhere between the two. Statistics indicate that customers who select cremation services have certain attributes that differ from customers who select other methods of interment. The disaggregation of cemetery operations into the three distinct regional segments is primarily due to these differences in customer attributes along with the previously mentioned management structure and senior management analysis methodologies.

Our Funeral Homes segment offers a range of funeral-related services such as family consultation, the removal of and preparation of remains and the use of funeral home facilities for visitation and prayer services. These services are distinctly different than the cemetery merchandise and services sold and provided by the Cemetery Operations segments.

Our Corporate segment includes various home office selling and administrative expenses that are not allocable to the other operating segments.

Cemetery Operations

Our cemetery operations include sales of cemetery interment rights, merchandise and services and the performance of cemetery maintenance and other services. An interment right entitles a customer to a burial space in one of our cemeteries and the perpetual care of that burial space. Burial spaces, or lots, are parcels of property that hold interred human remains. Our cemeteries require a burial vault be placed in each burial lot. A burial vault is a rectangular container, usually made of concrete but also made of steel or plastic, which sits in the burial lot and in which the casket is placed. The top of the burial vault is buried approximately 18 to 24 inches below the surface of the ground, and the casket is placed inside the vault. Burial vaults prevent ground settling that otherwise occurs when a casket placed directly in the ground begins to decay creating uneven ground surface. Ground settling typically results in higher maintenance costs and increased potential liability for slip-and-fall accidents on the property. Lawn crypts are a series of closely spaced burial lots with preinstalled vaults and other improvements, such as landscaping, sprinkler systems and drainage. A mausoleum crypt is an above-ground structure that may be designed for a particular customer, which we refer to as a private mausoleum; or it may be a larger building that serves multiple customers, which we refer to as a community mausoleum. Cremation niches are spaces in which the ashes remaining after cremation are stored. Cremation niches are often part of community mausoleums, although we sell a variety of cremation niches to accommodate our customers preferences.

Grave markers, monuments and memorials are above-ground products that serve as memorials by showing who is remembered, the dates of birth and death and other pertinent information. These markers, monuments and memorials include simple plates, such as those used in a community mausoleum or cremation niche, flush-to-the-ground granite or bronze markers, headstones or large stone obelisks.

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One of the principal services we provide at our cemeteries is an opening and closing, which is the digging and refilling of burial spaces to install the vault and place the casket into the vault. With pre-need sales, there are usually two openings and closings. During the initial opening and closing, we install the burial vault in the burial space. We usually perform this service shortly after the customer signs a pre-need contract. Advance installation allows us to withdraw the related funds from our merchandise trusts, making the amount in excess of our cost to purchase and install the vault available to us for other uses, and eliminates future merchandise trusting requirements for the burial vault and its installation. During the final opening and closing, we remove the dirt above the vault, open the lid of the vault, place the casket into the vault, close the vault lid and replace the ground cover. With at-need sales, we typically perform the initial opening and closing at the time we perform the final opening and closing. Our other services include the installation of other cemetery merchandise and the perpetual care related to interment rights.

As of December 31, 2011, we provided services to 21 cemeteries under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. These nonprofit cemeteries are organized as such either because state law requires cemetery properties to be owned by nonprofit entities, such as in New Jersey, or because they were originally established as nonprofit entities. We have voting rights, along with member owners of burial spaces, in the five New Jersey nonprofit cemeteries as a result of owning all of their outstanding certificates of indebtedness or interest. To obtain the benefit of professional management services, the remaining 16 nonprofit cemeteries have entered into agreements with us. The agreements under which we operate these 21 nonprofit cemeteries generally have terms ranging from 3 to 40 years (but some are subject to early termination rights and obligations) and provide us with management or operating fees that approximate what we would earn if we owned those cemeteries and held them in for-profit entities.

In 2011, of the 21 cemeteries we operated under management or operating agreements, the 3 cemeteries that we began operating under a long-term operating agreement in the third quarter of 2010 and the 3 cemeteries we began operating under long-term operating agreements in 2009 did not qualify as acquisitions for accounting purposes. As a result, we did not consolidate all of the existing assets and liabilities related to these cemeteries. We have consolidated the existing assets and liabilities of each of these cemeteries merchandise and perpetual care trusts as variable interest entities since we control and receive the benefits and absorb any losses from operating these trusts. Under these long-term operating agreements, which are subject to certain termination provisions, we are the exclusive operator of these cemeteries. We earn revenues related to sales of merchandise, services, and interment rights and incur expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, we will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. We have also recognized the existing merchandise liabilities assumed as part of these agreements.

Funeral Home Operations

As of December 31, 2011, we owned, operated and/ or managed 69 funeral homes, 39 of which are located on the grounds of cemetery properties that we own. Our funeral homes offer a range of services to meet a family s funeral needs, including family consultation, the removal and preparation of remains, provision of caskets and related funeral merchandise, the use of funeral home facilities for visitation, worship and funeral services and transportation services. Funeral home operations primarily generate revenues from at-need sales, for which there is a smaller potential customer base than pre-need sales, and have low barriers to entry by competitors. By focusing primarily on cemeteries and deriving significant revenues from pre-need sales, we minimize our exposure to these types of challenges.

We purchase caskets from Thacker Caskets, Inc. under a supply agreement that expires on December 31, 2015. This agreement entitles us to specified discounts on the price of caskets but gives Thacker Caskets, Inc. the right of first refusal on all of our casket purchases. We do not have minimum purchase requirements under this supply agreement.

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Cremation Products and Services

We operate crematories at some of our cemeteries or funeral homes, but our primary cremation operations are sales of receptacles for cremated remains, such as urns, and the inurnment of cremated remains in niches or scattering gardens. While cremation products and services usually cost less than traditional burial products and services, they yield higher margins on a percentage basis and take up less space than burials. We sell cremation products and services on both a pre-need and at-need basis.

Seasonality

The death care business is relatively stable and predictable. Although we experience seasonal increases in deaths due to extreme weather conditions and winter flu, these increases have not historically had any significant impact on our results of operations. In addition, we perform fewer initial openings and closings in the winter when the ground is frozen.

Sales Contracts

Pre-need products and services are typically sold on an installment basis. At-need products and services are generally required to be paid for in full in cash by the customer at the time of sale. See Management s Discussion and Analysis of Financial Condition and Results of Operations Operations Cemetery Operations Pre-need Sales and At-need Sales for a description of our pre-need and at-need products and services.

Trusts

Sales of cemetery products and services are subject to a variety of state regulations. In accordance with these regulations, we are required to establish and fund two types of trusts, merchandise trusts and perpetual care trusts, to ensure that we can meet our future obligations. Our funding obligations are generally equal to a percentage of sales proceeds of the products and services we sell. For a detailed discussion of these trusts, see Management s Discussion and Analysis of Financial Condition and Results of Operations Trusting.

Sales Personnel, Training and Marketing

As of December 31, 2011, we employed approximately 853 full-time commissioned salespeople and 122 full-time sales support and telemarketing employees. We have seven regional sales managers covering our cemeteries, who report to our Senior Vice President of Sales. Individual salespersons are typically located at the cemeteries they serve and report directly to the cemetery sales manager. We have made a strong commitment to the ongoing education and training of our sales force and to salesperson retention in order to ensure that our customers receive the highest quality customer service and to ensure compliance with all applicable requirements. Our training program includes classroom training at our headquarters, field training, continuously updated training materials that utilize media, such as the Internet, for interactive training and participation in industry seminars. We place special emphasis on training property sales managers, who are key elements to a successful pre-need sales program.

We reward our salespeople with incentives for generating new customers. Sales force performance is evaluated by sales budgets, sales mix and closing ratios, which are equal to the number of contracts written, divided by the number of presentations that are made. Substantially all of our sales force is compensated based solely on performance. Commissions are augmented with various bonus and incentive packages to ensure a high quality, motivated sales force. We pay commissions to our sales personnel on pre-need contracts based upon a percentage of the value of the underlying contracts. Such commissions vary depending upon the type of merchandise and services sold. We also pay commissions on at-need contracts that are generally equal to a fixed percentage of the contract amount. In addition, cemetery managers receive an override commission that is equal to a percentage of the gross sales price of the contracts entered into by the salespeople assigned to the cemeteries they manage.

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We generate sales leads through focused telemarketing, direct mail, television advertising, funeral follow-up and sales force cold calling, with the assistance of database mining and other marketing resources. We have created a marketing department to allow us to use more sophisticated marketing techniques to more effectively focus our telemarketing and direct sales efforts. Sales leads are referred to the sales force to schedule an appointment, most often at the customer s home. We believe these activities comply in all material respects with legal requirements.

Acquisitions and Long-Term Operating Agreements

Refer to Note 14 of our consolidated financial statements in Item 8 of this Form 10-K for a more detailed discussion of our acquisitions and long-term operating agreements. A summary of our acquisition activities is as follows:

2011

We completed six acquisitions during the year ended December 31, 2011 to acquire 17 cemeteries and 12 funeral homes. The acquired properties were located in Mississippi, Missouri, North Carolina, Puerto Rico, Tennessee and Virginia. The aggregate purchase price for these acquisitions was $16.2 million. On December 30, 2011, we sold one funeral home in West Virginia for $0.1 million, resulting in a gain of $0.1 million.

2010

We completed four acquisitions during the year ended December 31, 2010 and entered into one long-term operating agreement to acquire and operate 22 cemeteries and 6 funeral homes in the aggregate. The acquired properties were located in Indiana, Kansas, Michigan, Ohio and Pennsylvania. The total consideration paid for these acquisitions was $48.7 million.

2009

In 2009, we entered into, through certain of our subsidiaries, three long-term operating agreements (subject to certain early termination rights and obligations) wherein we have become the exclusive operator of the underlying cemetery land. Total consideration paid for the rights acquired under these agreements was approximately $7.0 million.

These agreements did not qualify as acquisitions for accounting purposes. We have consolidated the existing merchandise trusts and perpetual care trusts, which had a fair value of approximately $1.7 million and $6.3 million, respectively, as variable interest entities as we will control and benefit from the operations of the trusts. The results of operations of these cemeteries are included in our results of operations from the date we began operating the properties.

Competition

Our cemeteries and funeral homes generally serve customers that live within a 10- to 15-mile radius of a property s location. Within this localized area, we face competition from other cemeteries and funeral homes located in the area. Most of these cemeteries and funeral homes are independently owned and operated, and most of these owners and operators are smaller than we are and have fewer resources than we do. We generally face limited competition from the three publicly held death care companies that have U.S. operations Service Corporation International, Stewart Enterprises, Inc. and Carriage Services, Inc. as they do not directly operate cemeteries in the same local geographic areas where we operate.

Within a localized area of competition, we compete primarily for at-need sales because many of the independently owned, local competitors either do not have pre-need sales programs or have pre-need programs

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that are not as developed as ours. Most of these competitors do not have as many of the resources that are available to us to launch and grow a substantial pre-need sales program. The number of customers that cemeteries and funeral homes are able to attract is largely a function of reputation and heritage, although competitive pricing, professional service and attractive, well maintained and conveniently located facilities are also important factors. The sale of cemetery and funeral home products and services on a pre-need basis has increasingly been used by many companies as an important marketing tool. Due to the importance of reputation and heritage, increases in customer base are usually gained over a long period of time.

Competitors within a localized area have an advantage over us if a potential customer s family members are already buried in the competitor s cemetery. If any of the three publicly held death care companies operated, or in the future were to operate, cemeteries within close proximity of our cemeteries, they may have a competitive advantage over us because they have greater financial resources available to them because of their size and access to the capital markets.

We believe that we currently face limited competition for cemetery acquisitions. The three publicly held death care companies identified above have historically been the industry s primary consolidators but have largely curtailed cemetery acquisition activity since 1999. Furthermore, these companies continue to generate a majority of their revenues from funeral home operations. Based on the relative levels of cemetery operations and funeral home operations of the three publicly traded death care companies, which are disclosed in their SEC filings, we believe that we are the only public death care company that focuses a significant portion of their efforts on cemetery operations.

Regulation

General

Our operations are subject to regulation, supervision and licensing under federal, state and local laws which impacts the goods and services that we may sell and the manner in which we may furnish goods and services.

Cooling-Off Legislation

Each of the states where our current cemetery properties are located has cooling-off legislation with respect to pre-need sales of cemetery and funeral home products and services. This legislation requires us to refund proceeds from pre-need sales contracts if canceled by the customer for any reason within three to thirty days, or in certain states until death, from the date of the contract, depending on the state (and some states permit cancellation and require refund beyond that time). The Federal Trade Commission, or FTC, also requires a cooling-off period of three business days for door to door sales, during which time a contract may be cancelled entitling a customer to refund of the funds paid.

Trusting

Sales of cemetery interment rights and pre-need sales of cemetery and funeral home merchandise and services are generally subject to trusting requirements imposed by state laws in most of the states where we operate. See Management s Discussion and Analysis of Financial Condition and Results of Operations Trusting.

Truth in Lending Act and Regulation Z

Our pre-need installment contracts are subject to the federal Truth-in-Lending Act, or TILA, and the regulations thereunder, which are referred to as Regulation Z. TILA and Regulation Z promote the informed use of consumer credit by requiring us to disclose, among other things, the annual percentage rate, finance charges and amount financed when extending credit to consumers.

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Other Consumer Credit-Related Laws and Regulations

As a provider of consumer credit and a business that generally deals with consumers, we are subject to various other state and federal laws covering matters such as credit discrimination, the use of credit reports, identity theft, the handling of consumer information, consumer privacy, marketing and advertising, debt collection, extensions of credit to service members, and prohibitions on unfair or deceptive trade practices.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank

Dodd-Frank, signed into law by President Obama on July 21, 2010, created a new federal Bureau of Consumer Financial Protection, or the Bureau. In addition to transferring to the Bureau rule-writing authority for nearly all federal consumer finance-related laws and giving the Bureau rule-writing authority in other areas, Dodd-Frank empowers the Bureau to conduct examinations and bring enforcement actions against certain consumer credit providers and other entities offering consumer financial products or services. While not presently subject to examination by the Bureau, we potentially could be in the future in connection with our pre-need installment contracts. The Bureau also has authority to conduct investigations and bring enforcement actions against providers of consumer financial services, including providers over which it may not currently have examination authority. The Bureau may seek penalties and other relief on behalf of consumers that are substantially in excess of the remedies available under such laws prior to Dodd-Frank. On July 21, 2011, the Bureau officially assumed rule-writing and enforcement authority for most federal consumer finance laws, as well as authority to write rules to prohibit unfair, deceptive or abusive practices related to consumer financial products and services.

Telemarketing Laws

We are subject to the requirements of two federal statutes governing telemarketing practices, the Telephone Consumer Protection Act, or TCPA, and the Telemarketing and Consumer Fraud and Abuse Prevention Act, or TCFAPA. These statutes impose significant penalties on those who fail to comply with their mandates. The Federal Communications Commission, or FCC, is the federal agency with authority to enforce the TCPA, and the FTC, has jurisdiction under the TCFAPA. The FTC and FCC jointly administer a national do not call registry, which consumers can join in order to prevent unwanted telemarketing calls. Primarily as a result of implementation of the do not call legislation and regulations, the percentage of our pre-need sales generated from telemarketing leads has decreased substantially in the past ten years. We are also subject to similar telemarketing consumer protection laws in all states in which we currently operate. These states statutes similarly permit consumers to prevent unwanted telephone solicitations. In addition, in cases where telephone solicitations are permitted, there are various restrictions and requirements under state and federal law in connection with such calls.

Occupational Safety and Health Act and Environmental Law Requirements

We are subject to the requirements of the Occupational Safety and Health Act, or OSHA, and comparable state statutes. OSHA s regulatory requirement known as the Hazard Communication Standard, the Emergency Planning and Community Right-to-Know Act (EPCRA) and similar state statutes require us to report information about hazardous materials used or maintained for our operations to state, federal and local authorities. We may also be subject to Tier 1 or Tier 2 Emergency and Hazardous Chemical Inventory reporting requirements under EPCRA depending on the amount of hazardous materials maintained on-site at a particular facility. We are also subject to the federal Americans with Disabilities Act and similar laws which, among other things, may require that we modify our facilities to comply with minimum accessibility requirements for disabled persons.

Federal Trade Commission

Our funeral home operations are comprehensively regulated by the FTC under Section 5 of the Federal Trade Commission Act and a trade regulation rule for the funeral industry promulgated thereunder, referred to as

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the Funeral Rule. The Funeral Rule requires funeral service providers to disclose the prices for their goods and services as soon as the subject of price arises in a discussion with a potential customer (this entails presenting various itemized price lists if the consultation is in person, and readily answering all price-related questions posed over the telephone), and to offer their goods and services on an unbundled basis. The Funeral Rule also prohibits misrepresentations in connection with our sale of goods and services, and requires that the consumer receive an itemized statement of the goods and services purchased. Through these regulations, the FTC sought to give consumers the ability to compare prices among funeral service providers and to avoid buying packages containing goods or services that they did not want. The unbundling of goods from services has also opened the way for third-party, discount casket sellers to enter the market, although they currently do not possess substantial market share.

In addition, our pre-need installment contracts for sales of cemetery and funeral home merchandise and services are subject to the FTC s Holder Rule, which requires disclosure in the installment contract that any holder of the contract is subject to all claims and defenses that the consumer could assert against the seller of the goods or services, subject to certain limitations. These contracts are also subject to the FTC s Credit Practices Rule, which prohibits certain loan terms and practices.

Future Enactments and Regulation

Federal and state legislatures and regulatory agencies frequently propose new laws, rules and regulations and new interpretations of existing laws, rules and regulations which, if enacted or adopted, could have a material adverse effect on our operations and on the death care industry in general. A significant portion of our operations is located in California, Pennsylvania, New Jersey, Virginia, Maryland, North Carolina and West Virginia and any material adverse change in the regulatory requirements of those states applicable to our operations could have a material adverse effect on our results of operations. We cannot predict the outcome of any proposed legislation or regulations or the effect that any such legislation or regulations, if enacted or adopted, might have on us.

Environmental Regulations and Liabilities

Our operations are subject to federal, state and local environmental regulations in three principal areas: (1) crematories for emissions to air that may trigger requirements under the Clean Air Act, (2) funeral homes for the management of hazardous materials and medical wastes and (3) cemeteries and funeral homes for the management of solid waste, underground and above-ground storage tanks and discharges to wastewater treatment systems and/ or septic systems.

Clean Air Act

The Federal Clean Air Act and similar state laws, which regulate emissions into the air, can affect crematory operations through permitting and emissions control requirements. Our cremation operations may be subject to Clean Air Act regulations under federal and state law and may be subject to enforcement actions if these operations do not conform to the requirements of these laws.

Emergency Planning and Community Right-to-Know Act

As noted above, federal, state and local regulations apply to the storage and use of hazardous materials at our facilities. Depending on the types and quantities of materials we manage at any particular facility, we may be required to maintain and submit Material Safety Data Sheets and inventories of these materials located at our facilities to the regulatory authorities in compliance with EPCRA or similar state statutes.

Comprehensive Environmental Response, Compensation, and Liability Act

The Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, and similar state laws affect our cemetery and funeral home operations by, among other things, imposing investigation and remediation obligations for threatened or actual releases of hazardous substances that may endanger public health or welfare or the environment. Under CERCLA and similar state laws, strict, joint and several liability may be imposed upon generators, site owners and operators, and others regardless of fault or the legality of the original disposal activity. Our operations include the use of some materials that may meet the definition of hazardous substances under CERCLA or state laws and thus may give rise to liability if released to the environment through a spill or release. Should we acquire new properties with pre-existing conditions triggering CERCLA or similar state liability, we may become liable for responding to those conditions under CERCLA or similar state laws. We may become involved in proceedings, litigation or investigations at one or more sites where releases of hazardous substances have occurred, and we cannot assure you that the associated costs and potential liabilities would not be material.

Underground and Aboveground Storage Tank Laws and Solid Waste Laws

Federal, state and local laws regulate the installation, removal, operations and closure of underground storage tanks, or USTs and above-ground storage tanks, or ASTs, which are located at some of our facilities as well as the management and disposal of solid waste. Most of the USTs and ASTs contain petroleum for heating our buildings or are used for vehicle maintenance, or general operations. Depending upon the age and integrity of the USTs and ASTs, they may require upgrades, removal and/or closure, and remediation may be required if there has been a potential discharge or release of petroleum into the environment. All of the aforementioned activities may require us to incur capital costs and expenses to ensure continued compliance with environmental requirements. Should we acquire properties with existing USTs and ASTs that are not in compliance with environmental requirements, we may become liable for responding to releases to the environment or for costs associated with upgrades, removal and/or closure costs, and we cannot assure you that the costs or liabilities will not be material in that event. Solid wastes have been disposed of at some of our cemeteries, both lawfully and unlawfully. Prior to acquiring a cemetery, an environmental site assessment is usually conducted to determine, among other conditions, if a solid waste disposal area or landfill exists on the parcel which requires removal, cleaning or management. Depending upon the existence of any such solid waste disposal areas, we may be required by the applicable regulatory authority to remove the waste materials or to conduct remediation and we cannot assure you that the costs or liabilities will not be material in that event.

Employees

As of December 31, 2011, our general partner and its affiliates employed approximately 2,894 full-time and approximately 64 part-time employees. A total of 7 employees at one of our cemeteries located in New Jersey are represented by a union and are subject to collective bargaining agreements, one which expires in September 2015 and another that will expire in June 2012. Twenty-four employees at 11 of our cemeteries located in Pennsylvania are represented by 3 different unions and are subject to collective bargaining agreements that expire in June 2013, November 2014 and June 2015. Three employees at 1 of our cemeteries located in Illinois are represented by a union and are subject to a collective bargaining agreement that is currently being renegotiated. Ten employees at 1 of our locations in California are represented by a union and are subject to a collective bargaining agreement that expires in June 2013. Seven employees at 1 cemetery in Ohio are represented by a union and are subject to a collective bargaining agreement that expires in December 2013. Twenty-five employees at 3 of our cemeteries in Michigan are subject to a collective bargaining agreement that expires in December 2013. We believe that our relationship with our employees is good.

Available Information

We maintain an internet website with the address of http://www.stonemor.com. The information on this website is not, and should not be considered part, of this Annual Report on Form 10-K and is not incorporated by reference into this document. This website address is only intended to be an inactive textual reference. Copies of our reports filed with, or furnished to, the SEC on Forms 10-K, 10-Q, and 8-K and any amendments to such reports are available for viewing and copying at such internet website, free of charge, as soon as reasonably practicable after filing such material with, or furnishing it to, the SEC.

Financial Information

Information for each of our segments is presented in Part II Item 8 Financial Statements and Supplementary Data in this report.

Item 1A Risk Factors

Risk Factors Related to Our Business

Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the risks set forth below. The risks described below should not be considered comprehensive and all-inclusive. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations, financial condition and results of operations. If any events occur that give rise to the following risks, our business, financial condition or results of operations could be materially and adversely impacted. These risk factors should be read in conjunction with other information set forth in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes. Many such factors are beyond our ability to control or predict. Investors are cautioned not to put undue reliance on forward-looking statements.

We may not have sufficient cash from operations to continue paying distributions at their current level, or at all, after we have paid our expenses, including the expenses of our general partner, funded merchandise and perpetual care trusts and established necessary cash reserves.

The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from operations, which fluctuates from quarter to quarter based on, among other things:

- the volume of our sales;
- the prices at which we sell our products and services; and
- the level of our operating and general and administrative costs.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, such as working capital borrowings, capital expenditures and funding requirements for trusts and our ability to withdraw amounts from trusts.

If we do not generate sufficient cash to continue paying distributions at their current level, the market price of our common units may decline materially. We expect that we will need working capital borrowings of approximately $20.0 million during the twelve-month period ending December 31, 2012 in order to have sufficient operating surplus to pay distributions at their current level on all of our common units for that period, although the actual amount of working capital borrowings could be materially more or less. These working capital borrowings enable us to finance the build-up in our accounts receivables, and to construct mausoleums and purchase products for our pre-need sales in advance of the time of need which, in turn, allows us to generate available cash for operating surplus over time by accessing the funds held in trust for the products purchased.

Our substantial level of indebtedness could materially adversely affect our ability to generate sufficient cash for distribution to our unitholders, to fulfill our debt obligations and to operate our business.

We have a substantial amount of debt, which requires significant interest and principal payments. As of December 31, 2011, we had approximately $195.3 million of total debt outstanding, and after giving effect to the amendment to our credit facilities on January 19, 2012, we would have approximately $86.2 million of available borrowing capacity under our revised credit facility. Leverage makes us more vulnerable to economic downturns. Because we are obligated to dedicate a portion of our cash flow to service our debt obligations, our cash flow available for operations and for distribution to our unitholders will be reduced. The amount of indebtedness we

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have could limit our flexibility in planning for, or reacting to, changes in the markets in which we compete, limit our ability to obtain additional financing, if necessary, for working capital expenditures, acquisitions or other purposes, and require us to dedicate more cash flow to service our debt than we desire. Our ability to satisfy our indebtedness as required by the terms of our debt will be dependent on, among other things, the successful execution of our long-term strategic plan. Subject to limitations in our debt obligations, we may incur additional debt in the future, for acquisitions or otherwise, and servicing this debt could further limit our cash flow available for operations and distribution to unitholders.

Restrictions in our existing and future debt agreements could limit our ability to make distributions to you or capitalize on acquisition and other business opportunities.

The operating and financial restrictions and covenants in our senior notes and senior secured debt obligations and any future financing agreements could restrict our ability to finance future operations or capital needs or to expand or pursue our business activities. For example, our senior notes and senior secured debt obligations contain covenants that restrict or limit our ability to:

- enter into a new line of business;
- enter into any agreement of merger or acquisition;
- sell, transfer, assign or convey assets;
- grant certain liens;
- incur or guarantee additional indebtedness;
- make certain loans, advances and investments;
- declare and pay dividends and distributions;
- enter into transactions with affiliates; and
- make voluntary payments or modifications of indebtedness.

In addition, our secured debt obligations contain covenants requiring us to maintain certain financial ratios and tests. These restrictions may also limit our ability to obtain future financings. Our ability to comply with the covenants and restrictions contained in our senior notes and senior secured debt obligations may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions continue to deteriorate, our ability to comply with these covenants may be impaired. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Long-Term Debt If we violate any of the restrictions, covenants, ratios or tests in our debt obligations, the lenders will be able to accelerate the maturity of all borrowings thereunder and demand repayment of amounts outstanding, and our lenders commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our obligations or any new indebtedness could have similar or greater restrictions.

In addition, our debt obligations limit our ability to make distributions to our unitholders. Our senior notes and senior secured debt obligations prohibit us from making such distributions if we are in default, including with regard to our senior secured debt obligations as a result of our failure to maintain specified financial ratios. We cannot assure you that we will maintain these specified ratios and satisfy these tests for distributing available cash from operating surplus.

If we violate any of the restrictions, covenants, ratios or tests in our senior secured debt obligations or senior notes indenture, the applicable lenders will be able to accelerate the maturity of all borrowings thereunder and demand repayment of amounts outstanding, and our lenders commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our senior debt obligations or any new indebtedness could have similar or greater restrictions.

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A material weakness was identified in our internal controls over financial reporting as of December 31, 2010.

Due to a material weakness in our internal control over financial reporting, management concluded that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2010, based on the criteria in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. We identified the following material weakness in our assessment of the effectiveness of internal control over financial reporting:

We did not design and implement adequate controls related to the implementation of a new accounting standard for a material class of transactions, specifically in this instance, applying consolidation guidance to determine whether and how to consolidate another entity as it relates to our cemetery operating agreements. This material weakness resulted in the restatement of previously issued financial statements for the quarters ended June 30, 2009, September 30, 2009 and September 30, 2010 and the year ended December 31, 2009 for adjustments that were necessary to present the financial statements for such periods in accordance with generally accepted accounting principles.

To remediate the material weakness, we have implemented a series of controls designed to help ensure that all new accounting pronouncements are sufficiently researched and that our conclusions relative to the effect of such pronouncements on us are communicated to management, the Audit Committee and our auditors. We also employed a new Director of Financial Reporting and added a senior accountant to this function to give us additional resources to address and implement new accounting pronouncements. Management believes that the procedures described above and our changes in personnel have remediated the material weakness.

There were no identified material weaknesses in our internal control over financial reporting as of December 31, 2011. However, if we were to have additional material weaknesses and if we fail to maintain adequate disclosure controls and procedures, current unitholders and potential investors could lose confidence in our financial reporting, which would harm our business prospects and the trading price of our common units.

Any reductions in the principal or the earnings of the investments held in merchandise and perpetual care trusts could adversely affect our revenues and cash flow.

A substantial portion of our revenue is generated from investment returns that we realize from merchandise and perpetual care trusts. Due to the unstable economic conditions over the last four years, we have at times experienced declines in the fair value of the assets held in these trusts. Future cash flows could be negatively impacted if we are forced to liquidate assets that are in impaired positions.

We invest primarily for current income. We rely on the interest and dividends paid by the assets in our trusts to provide both revenue and cash flow. Interest income from fixed-income securities is particularly susceptible to changes in interest rates and declines in credit worthiness while dividends from equity securities are susceptible to the issuer s ability to make such payments.

Any decline in the interest rate environment or the credit worthiness of our debt issuers or any suspension or reduction of dividends could have a material adverse effect on our financial condition and results of operations.

In addition, any significant or sustained unrealized investment losses could result in merchandise trusts having insufficient funds to cover our cost of delivering products and services. In this scenario, we would be required to use our operating cash to deliver those products and perform those services, which could decrease our cash available for distribution.

Pre-need sales typically generate low or negative cash flow in the periods immediately following sales which could adversely affect our ability to make distributions to our unitholders.

When we sell cemetery merchandise and services on a pre-need basis, we pay commissions on the sale to our salespeople and are required by state law to deposit a portion of the sales proceeds into a merchandise trust. In addition, most of our customers finance their pre-need purchases under installment contracts payable over a number of years. Depending on the trusting requirements of the states in which we operate, the applicable sales commission rates and the amount of the down payment, our cash flow from sales to customers through installment contracts is typically negative until we have paid the sale commission due on the sale or until we purchase the products or perform the services and are permitted to withdraw funds we have deposited in the merchandise trust. To the extent we increase pre-need sales, state trusting requirements are increased or we delay the purchase of the products or performance of the services we sell on a pre-need basis, our cash flow immediately following pre-need sales may be further reduced, and our ability to make distributions to our unitholders could be adversely affected.

The cemetery and funeral home industry continues to be competitive.

We face competition in all of our markets. Most of our competitors are independent operations. Our ability to compete successfully depends on our management s forward vision, timely responses to changes in the business environment, our cemeteries and funeral homes ability to maintain a good reputation and high professional standards as well as offer products and services at competitive prices. We have historically experienced price competition from independent cemetery and funeral home operators. If we are unable to successfully compete, our financial condition, results of operations and cash flows could be materially adversely affected.

Because fixed costs are inherent in our business, a decrease in our revenues can have a disproportionate effect on our cash flow and profits.

Our business requires us to incur many of the costs of operating and maintaining facilities, land and equipment regardless of the level of sales in any given period. For example, we must pay salaries, utilities, property taxes and maintenance costs on our cemetery properties and funeral homes regardless of the number of interments or funeral services we perform. If we cannot decrease these costs significantly or rapidly when we experience declines in sales, declines in sales can cause our margins, profits and cash flow to decline at a greater rate than the decline in our revenues.

Our failure to attract and retain qualified sales personnel and management could have an adverse effect on our business and financial condition.

Our ability to attract and retain a qualified sales force and other personnel is an important factor in achieving future success. Buying cemetery and funeral home products and services, especially at-need products and services, is very emotional for most customers, so our sales force must be particularly sensitive to our customers needs. We cannot assure you that we will be successful in our efforts to attract and retain a skilled sales force. If we are unable to maintain a qualified and productive sales force, our revenues may decline, and our cash available for distribution may decrease.

Our success also depends upon the services and capabilities of our management team. Management establishes the tone at the top by which an environment of ethical values, operating style and management philosophy is fostered. The inability of our senior management team to maintain a proper tone at the top or the loss of services of one or more members of senior management as well as the inability to attract qualified managers or other personnel could have a material adverse effect on our business, financial condition, and results of operations. We may not be able to locate or employ on acceptable terms qualified replacements for senior management or key employees if their services were no longer available. We do not maintain key employee insurance on any of our executive officers.

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We may not be able to identify, complete, fund or successfully integrate additional cemetery acquisitions which could have an adverse affect on our results of operations.

A primary component of our business strategy is to grow through acquisitions of cemeteries and, to a lesser extent, funeral homes. We cannot assure you that we will be able to identify and acquire cemeteries on terms favorable to us or at all. We may face competition from other death care companies in making acquisitions. Historically, we have funded a significant portion of our acquisitions through borrowings. Our ability to make acquisitions in the future may be limited by our inability to secure adequate financing, restrictions under our existing or future debt agreements, competition from third parties or a lack of suitable properties. As of December 31, 2011, after giving effect to the amendment to our credit facilities on January 19, 2012, we would have had approximately $86.2 million of available borrowing capacity under our revised credit facility.

In addition, if we complete acquisitions, we may encounter various associated risks, including the possible inability to integrate an acquired business into our operations, diversion of management s attention and unanticipated problems or liabilities, some or all of which could have a material adverse effect on our operations and financial performance. Also, when we acquire cemeteries that do not have an existing pre-need sales program or a significant amount of pre-need products and services that have been sold but not yet purchased or performed, the operation of the cemetery and implementation of a pre-need sales program after acquisition may require significant amounts of working capital. This may make it more difficult for us to make acquisitions.

If the trend toward cremation in the United States continues, our revenues may decline which could have an adverse effect on our business and financial condition.

We and other death care companies that focus on traditional methods of interment face competition from the increasing number of cremations in the United States. Industry studies indicate that the percentage of cremations has steadily increased and that cremations represented approximately 38% of the United States deathcare market in 2009. This percentage of cremations is expected to continue to increase. Because the products and services associated with a cremation, such as niches and urns, produce lower revenues than the products and services associated with a traditional interment, a continuing trend toward cremations may reduce our revenues.

Declines in the number of deaths in our markets can cause a decrease in revenues.

Declines in the number of deaths could cause at-need sales of cemetery and funeral home merchandise and services to decline and could cause a decline in the number of pre-need sales, both of which could decrease revenues. Changes in the number of deaths can vary among local markets and from quarter to quarter, and variations in the number of deaths in our markets or from quarter to quarter are not predictable. However, generally, the number of deaths fluctuates with the seasons with more deaths occurring during the winter months primarily resulting from pneumonia and influenza. These variations can cause revenues to fluctuate.

We rely significantly on information technology and any failure, inadequacy, interruption or security lapse of that technology, including any cybersecurity incidents, could harm our ability to operate our business effectively.

Our ability to manage and maintain our internal reports effectively and integration of new business acquisitions depends significantly on our enterprise resource planning system and other information systems. Some of our information technology systems may experience interruptions, delays or cessations of service or produce errors in connection with ongoing systems implementation work. Cybersecurity attacks in particular are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in systems, misappropriation of our confidential or otherwise protected information and corruption of data. The failure of these systems to operate effectively or to integrate with other systems, or a breach in security or other unauthorized access of these systems, may also result in reduced efficiency of our operations and could require significant capital investments to remediate any such failure, problem or breach, all of which could adversely affect our business, financial condition and results of operations.

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The financial condition of third-party insurance companies that fund our pre-need funeral contracts may impact our financial condition, results of operations, or cash flows.

Where permitted, customers may arrange their pre-need funeral contract by purchasing a life insurance or annuity policy from third-party insurance companies. The customer/policy holder assigns the policy benefits to our funeral home to pay for the pre-need funeral contract at the time of need. If the financial condition of the third-party insurance companies were to deteriorate materially because of market conditions or otherwise, there could be an adverse effect on our ability to collect all or part of the proceeds of the life insurance policy, including the annual increase in the death benefit. Failure to collect such proceeds could have a material adverse effect on our financial condition, results of operations, or cash flows.

Regulatory and Legal Risks

Our operations are subject to regulation, supervision and licensing under numerous federal, state and local laws, ordinances and regulations, including extensive regulations concerning trusts/escrows, pre-need sales, cemetery ownership, funeral home ownership, marketing practices, crematories, environmental matters and various other aspects of our business.

If state laws or interpretations of existing state laws change or if new laws are enacted, we may be required to increase trust/escrow deposits or to alter the timing of withdrawals from trusts/escrows, which may have a negative impact on our revenues and cash flow.

We are required by most state laws to deposit specified percentages of the proceeds from our pre-need and at-need sales of interment rights into perpetual care trusts and generally proceeds from our pre-need sales of cemetery and funeral home products and services into merchandise trusts/escrows. These laws also determine when we are allowed to withdraw funds from those trusts/escrows. If those laws or the interpretations of those laws change or if new laws are enacted, we may be required to deposit more of the sales proceeds we receive from our sales into the trusts/escrows or to defer withdrawals from the trusts/escrows, thereby decreasing our cash flow until we are permitted to withdraw the deposited amounts. This could also reduce our cash available for distribution.

If state laws or their interpretations change, or new laws are enacted relating to the ownership of cemeteries and funeral homes, our business, financial condition and results of operations could be adversely affected.

Some states require cemeteries to be organized in the nonprofit form but permit those nonprofit entities to contract with for-profit companies for management services. If state laws change or new laws are enacted that prohibit us from managing cemeteries in those states, then our business, financial condition and results of operations could be adversely affected. Some state laws restrict ownership of funeral homes to licensed funeral directors. If state laws change or new laws are enacted that prohibit us from managing funeral homes in those instances, then our business, financial condition and results of operations could be adversely affected.

We are subject to legal restrictions on our marketing practices that could reduce the volume of our sales which could have an adverse effect on our business, operations and financial condition.

The enactment or amendment of legislation or regulations relating to marketing activities may make it more difficult for us to sell our products and services. For example, the federal do not call legislation has adversely affected our ability to market our products and services using telephone solicitation by limiting who we may call and increasing our costs of compliance. As a result, we rely heavily on direct mail marketing and telephone follow-up with existing contacts. Additional laws or regulations limiting our ability to market through direct mail, over the telephone, through internet and e-mail advertising or door-to-door may make it difficult to identify potential customers, which could increase our costs of marketing. Both increases in marketing costs and restrictions on our ability to market effectively could reduce our revenues and could have an adverse effect on our business, operations and financial condition, as well as our ability to make cash distributions to you.

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We are subject to environmental and health and safety laws and regulations that may adversely affect our operating results.

Our cemetery and funeral home operations are subject to numerous federal, state and local environmental and health and safety laws and regulations. We may become subject to liability for the removal of hazardous substances and solid waste under CERCLA and other federal and state laws. Under CERCLA and similar state laws, strict, joint and several liability may be imposed on various parties, regardless of fault or the legality of the original disposal activity. Our funeral home, cemetery and crematory operations include the use of some materials that may meet the definition of hazardous substances under CERCLA or state laws and thus may give rise to liability if released to the environment through a spill or release. We cannot assure you that we will not face liability under CERCLA or state laws for any environmental conditions at our facilities, and we cannot assure you that these liabilities will not be material. Our cemetery and funeral home operations are subject to regulation of underground and above ground storage tanks and laws managing the disposal of solid waste. If new requirements under local, state or federal laws were to be adopted, and were more stringent than existing requirements, new permits or capital expenditures may be required.

Our funeral home operations are generally subject to federal and state laws and regulations regarding the disposal of medical waste, and are also subject to regulation by federal, state or local authorities under the EPCRA. We are required by EPCRA to maintain, and report, to the regulatory authorities, if applicable thresholds are met, a list of any hazardous chemicals and extremely hazardous substances, which are stored or used at our facilities.

Our crematory operations may be subject to regulation under the federal Clean Air Act and any analogous state laws. If new regulations applicable to our crematory operations were to be adopted, they could require permits or capital expenditures that could increase our costs of operation and compliance.

Risk Factors Related to an Investment in Us

Our general partner and its affiliates have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to your detriment.

CFSI LLC owns all of the Class A units of our general partner. Conflicts of interest may arise between CFSI LLC and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over the interests of the unitholders. These conflicts include, among others, the following situations:

- The board of directors of our general partner is elected by the owners of our general partner. Although our general partner has a fiduciary duty to manage us in good faith, the directors of our general partner also have a fiduciary duty to manage our general partner in a manner beneficial to the owners of our general partner. By purchasing common units, unitholders will be deemed to have consented to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable law.

- Our partnership agreement limits the liability of our general partner, reduces its fiduciary duties and restricts the remedies available to unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty.

- Our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional limited partner interests and reserves, each of which can affect the amount of cash that is distributed to unitholders.

- Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf.

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Our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates.

In some instances, our general partner may cause us to borrow funds or sell assets outside of the ordinary course of business in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make distributions in respect of incentive distribution rights.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors, which could reduce the price at which the common units will trade.

Unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management s decisions regarding our business. Unitholders did not select our general partner or elect the board of directors of our general partner and will have no right to select our general partner or elect its board of directors in the future. We are not required to have a majority of independent directors on our board. The board of directors of our general partner, including the independent directors, is chosen entirely by the owners of our general partner and not our unitholders. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.

Unitholders voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than the general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot be voted on any matter. In addition, the partnership agreement contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders ability to influence the manner or direction of management.

Our general partner can transfer its ownership interest in us without unitholder consent under certain circumstances, and the control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in the partnership agreement on the ability of the owners of our general partner to transfer their ownership interest in the general partner to a third party. The new owner of our general partner would then be in a position to replace the board of directors and officers of the general partner with its own choices and thereby influence the decisions taken by the board of directors and officers.

We may issue additional common units without your approval, which would dilute your existing ownership interests.

We may issue an unlimited number of limited partner interests of any type without the approval of the unitholders. You will not have the right to approve our issuance at any time of equity securities ranking junior to the common units.

The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

your proportionate ownership interest in us will decrease;

the amount of cash available for distribution on each unit may decrease;

the relative voting strength of each previously outstanding unit may be diminished;

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- the market price of the common units may decline; and

- the ratio of taxable income to distributions may increase.

Cost reimbursements due our general partner may be substantial and will reduce the cash available for distribution to you.

Prior to making any distribution on the common units, we will reimburse our general partner and its affiliates, including CFSI LLC and the officers and directors of our general partner, for all expenses they incur on our behalf. The reimbursement of expenses could adversely affect our ability to pay cash distributions to you. Our general partner determines the amount of these expenses. In addition, our general partner and its affiliates may provide us with other services for which we will be charged fees as determined by our general partner.

In establishing cash reserves, our general partner may reduce the amount of available cash for distribution to you.

Subject to the limitations on restricted payments contained in the indenture governing the 10.25% Senior Notes due 2017 and other indebtedness, the master partnership distributes all of our available cash each quarter to its limited partners and general partner. Available cash is defined in the master partnership s partnership agreement, and it generally means, for each fiscal quarter, all cash and cash equivalents on hand on the date of determination for that quarter less the amount of cash reserves established at the discretion of the general partner to:

- provide for the proper conduct of our business;

- comply with applicable law, the terms of any of our debt instruments or other agreements; or

- provide funds for distributions to its unitholders and general partner for any one or more of the next four calendar quarters.

These reserves will affect the amount of cash available for distribution to you.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If, at any time, our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the remaining common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon the sale of your common units.

You may be required to repay distributions that you have received from us.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Assignees who become substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership. However, assignees are not liable for obligations unknown to the assignee at the time the assignee became a limited partner if the liabilities could not be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

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Tax Risks to Common Unitholders

Audit adjustments to the taxable income of our corporate subsidiaries for prior taxable years may reduce the net operating loss carryforwards of such subsidiaries and thereby increase their tax liabilities for future taxable periods.

Our business was conducted by an affiliated group of corporations during periods prior to the completion of our initial public offering and, since the initial public offering, continues to be conducted in part by corporate subsidiaries. The amount of cash distributions we receive from our corporate subsidiaries over the next several years will depend in part upon the amount of net operating losses available to those subsidiaries to reduce the amount of income subject to federal income tax they would otherwise pay. These net operating losses will begin to expire in 2019. The amount of net operating losses available to reduce the income tax liability of our corporate subsidiaries in future taxable years could be reduced as a result of audit adjustments with respect to prior taxable years. Notwithstanding any limited indemnification rights we may have, any increase in the tax liabilities of our corporate subsidiaries because of a reduction in net operating losses will reduce our cash available for distribution.

Changes in the ownership of our units may result in annual limitations on our corporate subsidiaries ability to use their net operating loss carryforwards, which could increase their tax liabilities and decrease cash available for distribution in future taxable periods.

Our corporate subsidiaries ability to use their net operating loss carryforwards may be limited if changes in the ownership of our units causes our corporate subsidiaries to undergo an ownership change under applicable provisions of the Internal Revenue Code. In general, an ownership change will occur if the percentage of our units, based on the value of the units, owned by certain unitholders or groups of unitholders increases by more than fifty percentage points during a running three-year period. Recent changes in our ownership, along with additional changes that will result from this equity offering, may result in an ownership change. Even if no ownership change results from this equity offering, our corporate subsidiaries will be close to the threshold for an ownership change and may experience one in the future. A future ownership change may result from issuances of our units, sales or other dispositions of our units by certain significant unitholders, certain acquisitions of our units, and issuances, sales or other dispositions or acquisitions of interests in significant unitholders, and we will have little to no control over any such events. To the extent that an annual net operating loss limitation for any one year does restrict the ability of our corporate subsidiaries to use their net operating loss carryforwards, an increase in tax liabilities of our corporate subsidiaries could result, which would reduce the amount of cash available for distribution to you.

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of additional entity-level taxation by individual states. If the IRS treats us as a corporation for federal tax purposes or we become subject to additional entity-level taxation for state tax purposes, it would reduce the amount of cash available for distribution to you.

The anticipated after-tax economic benefit of an investment in our common units depends largely on our being treated as a partnership for federal income tax purposes. Despite the fact that we are a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. Although we do not believe based upon our current operations that we are so treated, if our view is incorrect or if there is a change in our business (or a change in current law) we could be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity.

If we were treated as a corporation for federal income tax purposes for any taxable year for which the statute of limitations remains open or for any future taxable year, we would pay federal income tax on our taxable income for such year(s) at the corporate tax rate, which is currently a maximum of 35% and would likely pay state income tax at varying rates. Distributions to you would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to you would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units. Moreover, treatment of us as a corporation could materially and adversely affect our ability to make payment on our debt.

Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. For example, members of Congress have recently considered substantive changes to the existing federal income tax laws that would affect the tax treatment of certain publicly traded partnerships. In addition, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. If any of these states were to impose a tax on us, the cash available for distribution to you would be reduced. We are unable to predict whether any of these changes, or other proposals, will ultimately be enacted. Any such changes could negatively impact the value of an investment in our units.

The partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts will be adjusted to reflect the impact of that law on us.

We have subsidiaries that will be treated as corporations for federal income tax purposes and subject to corporate-level income taxes.

Some of our operations are conducted through subsidiaries that are organized as C corporations. Accordingly, these corporate subsidiaries are subject to corporate-level tax, which reduces the cash available for distribution to our partnership and, in turn, to you. If the IRS were to successfully assert that these corporations have more tax liability than we anticipate or legislation was enacted that increased the corporate tax rate, the cash available for distribution could be further reduced.

If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted, and the cost of any IRS contest will reduce our cash available for distribution to you.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take. A court may not agree with some or all of the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, our costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.

Because you will be treated as a partner to whom we will allocate taxable income that could be different in amount than the cash we distribute, you may be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if you receive no cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the actual tax liability that results from that income.

Tax gain or loss on disposition of our common units could be more or less than expected.

If you sell your common units, you will recognize a gain or loss equal to the difference between your amount realized and your tax basis in those common units. Because distributions in excess of your allocable

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share of our total net taxable income decrease your tax basis in your common units, the amount, if any, of such prior excess distributions with respect to the units you sell will, in effect, become taxable income to you if you sell such units at a price greater than your tax basis in those units, even if the price you receive is less than your original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes a unitholder s share of our nonrecourse liabilities, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

Tax-exempt entities and non- U.S. persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, such as employee benefit plans individual retirement accounts (known as IRAs) and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including IRA s and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal tax returns and pay tax on their share of our taxable income. If you are a tax-exempt entity or a non-U.S. person, you should consult your tax advisor before investing in our common units.

We treat each purchaser of common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Due to a number of factors, including our inability to match transferors and transferees of common units, we take depreciation and amortization positions that may not conform to all aspects of the existing Treasury Regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from the sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns.

We have adopted certain valuation methodologies that may result in a shift of income, gain, loss and deduction between the general partner and the unitholders. The IRS may challenge this treatment, which could adversely affect the value of the common units.

When we issue additional units or engage in certain other transactions, we will determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. If the IRS challenges our methodology it may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general partner, which may be unfavorable to such unitholders. Moreover, under our valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain from our unitholders sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders tax returns without the benefit of additional deductions.

The sale or exchange of 50% or more of our capital and profits interests during any twelve month period will result in the termination of our partnership for federal income tax purposes.

We will be considered to have terminated our partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. For purposes of determining whether the 50% threshold has been met, multiple sales of the same interest will be counted only once. Our termination would, among other things, result in the closing of our taxable year for all unitholders which would result in our filing two tax returns for one fiscal year and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a calendar year, the closing of our taxable year may result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes, but instead, we would be treated as a new partnership for tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred. The IRS has recently announced a relief procedure whereby if a publicly traded partnership that has technically terminated requests and the IRS grants special relief, among other things, the partnership will be required to provide only a single Schedule K-1 to unitholders for the tax years in which the termination occurs.

You will likely be subject to state and local taxes and filing requirements in jurisdictions where you do not live as a result of an investment in units.

In addition to federal income taxes, you will likely be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property, even if you do not live in any of those jurisdictions. You will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. We own assets or conduct business in a majority of states and in Puerto Rico. Most of these various jurisdictions currently impose, or may in the future impose, an income tax on individuals, corporations and other entities. As we make acquisitions or expand our business, we may own assets or do business in additional states that impose a personal income tax. It is your responsibility to file all United States federal, state and local tax returns.

A unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of those units. If so, the unitholder would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and may recognize gain or loss from the disposition.

If you loan your units to a short seller to cover a short sale of units, you may be considered as having disposed of the loaned units, and you may no longer be treated for tax purposes as a partner with respect to those units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those units could be fully taxable as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. Nonetheless, we allocate certain deductions for depreciation of capital additions based upon the date the underlying property is put in service. The use of this proration method may not be permitted under existing Treasury Regulations. Recently, however, the U.S. Treasury Department issued proposed Treasury Regulations that provide a safe harbor pursuant to which publicly traded partnerships may use a similar monthly simplifying convention to allocate tax items among transferor and transferee unitholders. Nonetheless, the proposed regulations do not specifically authorize the use of the proration method we have adopted. If the IRS were to challenge our proration method, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders. Vinson & Elkins L.L.P. has not rendered an opinion with respect to whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations.

The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. For example, members of Congress have recently considered substantive changes to the existing federal income tax laws that would have affected certain publicly traded partnerships. Any modification to the federal income tax laws and interpretations thereof may or may not be applied retroactively. Although the recently considered legislation would not have appeared to affect our federal income tax treatment as a partnership, we are unable to predict whether any of these changes, or other proposals, will be reconsidered or will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Cemeteries and Funeral Homes

The following table summarizes the distribution of our cemetery and funeral properties by state as of December 31, 2011 as well as the weighted average estimated remaining sales life in years for our cemeteries based upon number of interment spaces sold during 2011:

	Cemeteries	Funeral Homes	Total Net Acres	Weighted Average Estimated Net Sales Life in Years	Number of Interment Spaces Sold in 2011
Alabama	9	6	305	219	1,179
Arkansas		2			
California	7	8	270	63	1,207
Colorado	2		12	784	18
Delaware	1		12	424	11
Florida		1			
Georgia	7		135	155	797
Hawaii	1		6	201	
Illinois	7	2	243	200	797
Indiana	11	5	1,013	325	1,569
Iowa	1		89	213	151
Kansas	3	2	84	140	340
Kentucky	2		59	88	336
Maryland	10	1	716	152	1,600
Michigan	16		1,534	374	2,952
Mississippi	2	1	44	1,428	13
Missouri	6	5	277	606	293
New Jersey	6		341	39	1,905
North Carolina	16		415	131	2,739
Ohio	14	2	953	184	3,481
Oregon	7	7	181	301	609
Pennsylvania	52	8	2,547	699	2,121
Puerto Rico	7	5	209	505	236
Rhode Island	2		70	1,443	18
South Carolina	8	3	395	211	889
Tennessee	11	5	657	360	1,131
Virginia	30	2	869	188	2,473
Washington	3	2	33	53	162
West Virginia	33	2	1,404	399	1,894
Total	274	69	12,873	260	28,921

We calculated estimated remaining sales life for each of our cemeteries by dividing the number of unsold interment spaces by the number of interment spaces sold at that cemetery in the most recent year. For purposes of estimating remaining sales life, we defined unsold interment spaces as unsold burial lots and unsold spaces in existing mausoleum crypts as of December 31, 2011. We defined interment spaces sold in 2011 as:

the number of burial lots sold, net of cancellations;

the number of spaces sold in existing mausoleum crypts, net of cancellations; and the number of spaces sold in mausoleum crypts that we have not yet built, net of cancellations.

We count the sale of a double-depth burial lot as the sale of one interment space even though a double-depth burial lot includes two interment rights. We count an unsold double-depth burial lot as one unsold interment

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space. Because our sales of cremation niches were immaterial, we did not include cremation niches in the calculation of estimated remaining sales life. When calculating estimated remaining sales life, we did not take into account any future cemetery expansion. In addition, sales of an unusually high or low number of interment spaces in a particular year affect our calculation of estimated remaining sales life. Future sales may differ from previous years sales, and actual remaining sales life may differ from our estimates. We calculated the weighted average estimated remaining sales life by aggregating unsold interment spaces and interment spaces sold on a state-by-state or company-wide basis. Based on the number of interment spaces sold in 2011, we estimate that our cemeteries have an aggregate weighted average remaining sales life of 260 years.

The following table shows the cemetery properties that we owned or operated as of December 31, 2011, grouped by estimated remaining sales life:

	0 - 25 years	**26 - 49 years**	**50 - 100 years**	**101 - 150 years**	**151 - 200 years**	**Over 200 years**
Alabama			3	2		4
California	2	1	3			1
Colorado						2
Delaware						1
Georgia		1	1	2		3
Hawaii						1
Illinois			2		2	3
Indiana		1				10
Iowa						1
Kansas			2			1
Kentucky		1			1	
Maryland	1	1	2	1	1	4
Michigan	1		1	1	3	10
Mississippi					1	1
Missouri			1			5
New Jersey	2	2	1			1
North Carolina			6	3	3	4
Ohio	1	2	1	2	1	7
Oregon			1	2		4
Pennsylvania	5		1	1	3	42
Puerto Rico	1	1	1		1	3
Rhode Island						2
South Carolina		1	1	2		4
Tennessee				1		10
Virginia	1	2	6	4	4	13
Washington	1		2			
West Virginia	4	2	2	1	3	21
Total	19	15	37	22	23	158

We believe that we have either satisfactory title to or valid rights to use all of our cemetery properties. The 21 cemetery properties that we manage or operate under long-term operating agreements have nonprofit owners. We believe that these cemeteries have either satisfactory title to or valid rights to use these cemetery properties and that we have valid rights to use these properties under the long-term agreements. Although title to the cemetery properties is subject to encumbrances such as liens for taxes, encumbrances securing payment obligations, easements, restrictions and immaterial encumbrances, we do not believe that any of these burdens should materially detract from the value of these properties or from our interest in these properties, nor should these burdens materially interfere with the use of our cemetery properties in the operation of our business as

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described above. Many of our cemetery properties are located in zoned regions, and we believe that cemetery use is permitted for those cemeteries either (1) as expressly permitted under applicable zoning ordinances; (2) through a special exception to applicable zoning designations; or (3) as an existing non-conforming use.

Other

In January of 2008, we relocated our home office to a 37,000 square foot leased space in Levittown, Pennsylvania. The lease has a term expiring in 2020, and we consider the space to be adequate for our present and anticipated future requirements. We are also tenants under various leases covering office spaces other than our corporate headquarters.

In addition, we own a 13,500-square-foot plant in Butler County, Pennsylvania, where we manufacture burial vaults used in our cemetery operations, and we own a 4,800-square-foot building in Marion, Virginia, which is no longer being used in our business.

Item 3. Legal Proceedings

We, and certain of our subsidiaries, are parties to legal proceedings that have arisen in the ordinary course of business. We do not expect these matters to have a material effect on our results of operations, financial condition or cash flows. We carry insurance with coverage and coverage limits that we believe to be customary in the funeral home and cemetery industries. Although there can be no assurance that such insurance will be sufficient to protect us against all contingencies, we believe that our insurance protection is reasonable in view of the nature and scope of our operations.

Item 4. Mine Safety Disclosures

None.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common units were listed on the NASDAQ Global Select Market (Nasdaq) until December 23, 2011 when our units began listing on the New York Stock Exchange (NYSE). Our units are listed under the symbol STON . As of March 1, 2012, there were 19,368,987 common units outstanding, representing a 98.0% limited partner interest in us. As of February 22, 2012, there were 31,026 beneficial holders and 58 unitholders of record. The following table sets forth the high and low sale prices of our common units for the periods indicated, based on the daily composite listing of common unit transactions for the Nasdaq and NYSE, as applicable.

	Price range		Declared
Quarter ended	High	Low	Distributions (1)
March 31, 2010	$ 21.44	$ 18.01	$ 0.5550
June 30, 2010	$ 21.20	$ 18.22	$ 0.5550
September 30, 2010	$ 26.95	$ 19.75	$ 0.5650
December 31, 2010	$ 30.62	$ 24.90	$ 0.5750
March 31, 2011	$ 33.51	$ 24.58	$ 0.5850
June 30, 2011	$ 28.30	$ 23.10	$ 0.5850
September 30, 2011	$ 29.50	$ 25.59	$ 0.5850
December 31, 2011	$ 29.32	$ 20.55	$ 0.5850

(1) Distributions were declared and paid within 45 days of the close of each quarter.

Cash Distribution Policy

Quarterly Distributions of Available Cash

General

Within 45 days after the end of each quarter, we will distribute all of our available cash to unitholders of record on the applicable record date.

Available cash for any quarter consists of cash on hand at the end of that quarter, plus cash on hand from working capital borrowings made after the end of the quarter but before the date of determination of available cash for the quarter, less cash reserves. Cash and other investments held in merchandise trusts and perpetual care trusts are not treated as available cash until they are distributed to us.

Conversion of Subordinated Units

During the quarter ended September 30, 2009, we met the final early conversion test of our subordinated units and accordingly, all remaining subordinated units converted into common units on November 13, 2009.

Any reference to, or any explanation related to subordinated units and their respective distribution rights are no longer applicable. All prior units considered to be subordinated units are now common units with equal distribution priority rights of all other common units.

General Partner Interest and Incentive Distribution Rights

Our general partner is entitled to 2% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its

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2% general partner interest. The general partner s 2% interest in these distributions may be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2% general partner interest.

Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 50%, of the cash we distribute from operating surplus in excess of $0.5125 per unit. The maximum distribution of 50% includes distributions paid to the general partner on its 2% general partner interest but does not include any distributions that the general partner may receive on units that it owns.

Unregistered Sale of Securities

In connection with and as partial consideration for our second quarter 2010 acquisition, we issued 293,947 unregistered common units representing limited partnership interests in us valued at approximately $5.8 million pursuant to the terms of the settlement agreement. Further, the general partner of the Company entered into a Non-Competition Agreement dated as of June 21, 2010 with Ronald P. Robertson, pursuant to which Mr. Robertson agreed not to compete with the general partner and the companies under its management and control. Pursuant to the Non-Competition Agreement, we issued 9,853 common units on the closing date of the transaction and we are obligated to issue additional Units which were initially valued at a fair value of $0.5 million based on a unit price of $20.30 just prior to the date of acquisition. As a result, we issued 9,853 units in June of 2011, and we are also obligated to issue an additional 9,853 units and 4,924 units in June of 2012 and June of 2013, respectively. A total of 9,853 and 303,800 common units were issued in 2011 and 2010, respectively, as a result of this transaction.

Operating Surplus and Capital Surplus

General

All cash distributed to unitholders is characterized as either operating surplus or capital surplus. We distribute available cash from operating surplus differently than available cash from capital surplus. We treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus.

Operating Surplus

Operating surplus consists of:

- our cash balance on September 20, 2004; plus
- $5.0 million (as described below); plus
- cash receipts from our operations, including cash withdrawn from merchandise and perpetual care trusts; plus
- working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for that quarter; less
- operating expenditures, including cash deposited in merchandise and perpetual care trusts, maintenance capital expenditures and the repayment of working capital borrowings; less
- the amount of cash reserves for future operating expenditures and maintenance capital expenditures.

As reflected above, operating surplus includes $5.0 million in addition to our cash balance on September 20, 2004, cash receipts from our operations and cash from working capital borrowings. This amount does not reflect

actual cash on hand that is available for distribution to our unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating surplus up to $5.0 million of cash we receive in the future from non-operating sources, such as asset sales outside the ordinary course of business, sales of our equity and debt securities, and long-term borrowings, that would otherwise be distributed as capital surplus.

As described above, operating surplus is reduced by the amount of our maintenance capital expenditures but not our expansion capital expenditures. For our purposes, maintenance capital expenditures are those capital expenditures required to maintain, over the long term, the operating capacity of our capital assets, and expansion capital expenditures are those capital expenditures that increase, over the long term, the operating capacity of our capital assets.

Examples of maintenance capital expenditures include costs to build roads and install sprinkler systems on our cemetery properties and purchases of equipment for those purposes and, in most instances, costs to develop new areas of our cemeteries. Examples of expansion capital expenditures include costs to identify and complete acquisitions of new cemeteries and funeral homes and to construct new funeral homes. Costs to construct mausoleum crypts and lawn crypts may be considered to be a combination of maintenance capital expenditures and expansion capital expenditures. Our general partner, with the concurrence of its conflicts committee, may allocate capital expenditures between maintenance capital expenditures and expansion capital expenditures and may determine the period over which maintenance capital expenditures will be subtracted from operating surplus.

As described above, operating surplus is reduced by the amount of our operating expenditures. Our partnership agreement specifically excludes certain items from the definition of operating expenditures, such as cash expenditures made for acquisitions or capital improvements, including, without limitation, all cash expenditures, whether or not expensed or capitalized for tax or accounting purposes, incurred during the first four years following an acquisition in order to bring the operating capacity of the acquisition to the level expected to be achieved in the projections forming the basis on which our general partner approved the acquisition. Examples of such cash expenditures include certain maintenance capital expenditures and cash expenditures that we believe are necessary to develop the pre-need sales programs of businesses or assets we acquire. Where cash expenditures are made in part for acquisitions or capital improvements and in part for other purposes, our general partner, with the concurrence of our conflicts committee, will determine the allocation between the amounts paid for each and the period over which cash expenditures made for other purposes will be subtracted from operating surplus.

Capital Surplus

Capital surplus consists of:

- Borrowings other than working capital borrowings;
- sales of our equity and debt securities; and
- sales or other dispositions of assets for cash (other than sales or other dispositions of excess cemetery property up to an aggregate amount in any four-quarter period calculated pursuant to our Partnership Agreement; sales or other dispositions of inventory, accounts receivable and other current assets in the ordinary course of business; and sales or other dispositions of assets as a part of normal retirements or replacements).

The exception for sales of excess cemetery property in any four-quarter period beginning with the quarter ending September 30, 2008 generally is calculated by multiplying $1.0 million by a fraction, the numerator of which is the number of cemeteries and funeral homes owned and operated by us on the last day of the quarter in which the sale occurs and the denominator of which is 139. Prior to the third quarter of 2008, the exception for sales of excess cemetery property was $1.0 million, which was subject to increase by our general partner, with the concurrence of its conflicts committee, if the size of our operations increased as a result of acquisitions or other expansions.

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Distributions of Available Cash from Operating Surplus

The following table illustrates the priority of distributions of available cash from operating surplus between the unitholders and our general partner as a result of the conversion of all subordinated units during the subordination period, which ended in the fourth quarter of 2009. The amounts set forth in the table in the column titled Marginal Percentage Interest in Distributions are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column titled Total Quarterly Distribution Target Amount per Common Unit, until the available cash from operating surplus that we distribute reaches the next target distribution level, if any. The percentage interests shown for our general partner include its 2% general partner interest and assume the general partner has contributed any additional capital required to maintain its 2% general partner interest and has not transferred the incentive distribution rights.

	Total Quarterly Distribution	Marginal Percentage Interest in Distributions	
	Target Amount per Common Unit	Common Unitholders	General Partner
First Target Distribution	up to $0.5125	98%	2%
Second Target Distribution	Above $0.5125 to $0.5875	85%	15%
Third Target Distribution	Above $0.5875 to $0.7125	75%	25%
Thereafter	Above $0.7125	50%	50%

Distributions of Available Cash from Capital Surplus

We do not currently expect to make any distributions of available cash from capital surplus. However, to the extent that we make any distributions of available cash from capital surplus, they will be made in the following manner:

first, 98% to common unitholders, pro rata, and 2% to our general partner, until we have distributed for each common unit an amount of available cash from capital surplus equal to the initial public offering price;

second, 98% to the common unitholders, pro rata, and 2% to our general partner, until we have distributed for each common unit an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

The partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from the initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the unrecovered initial unit price. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price.

Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for the general partner to receive incentive distributions. Any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied, however, to the payment of the minimum quarterly distribution or any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters.

If we distribute capital surplus on a unit in an amount equal to the initial unit price and have paid all arrearages on the common units, the minimum quarterly distribution and the target distribution levels will be reduced to zero. Once the minimum quarterly distribution and target distribution levels are reduced to zero, all subsequent distributions will be from operating surplus, with 50% being paid to the holders of units and 50% to our general partner.

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Adjustment of Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

- the minimum quarterly distribution;
- the target distribution levels;
- the unrecovered initial unit price.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level. We will not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce the minimum quarterly distribution and the target distribution levels for each quarter by multiplying each distribution level by a fraction, the numerator of which is available cash for that quarter and the denominator of which is the sum of available cash for that quarter plus our general partner s estimate of our aggregate liability for the income taxes payable by reason of that legislation or interpretation. To the extent that the actual tax liability differs from the estimated tax liability for any quarter, the difference will be accounted for in subsequent quarters.

Distributions of Cash Upon Liquidation

If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and our general partner, in accordance with their respective capital account balances, as adjusted to reflect any taxable gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of taxable gain upon liquidation are intended, to the extent possible, to allow the holders of common units to receive proceeds equal to their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters prior to any allocation of gain to the common units. There may not be sufficient taxable gain upon our liquidation to enable the holders of common units to fully recover all of these amounts. Any additional taxable gain will be allocated in a manner intended to allow our general partner to receive proceeds in respect of its incentive distribution rights.

If there are losses upon liquidation, they will first be allocated to the general partner and then to the common units and the general partner interest until the capital accounts of the common units have been reduced to zero. Any remaining loss will be allocated to the general partner interest.

Equity Compensation Plan Information

See the equity compensation plan table set forth in Part III, Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

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Item 6. Selected Financial Data

The following tables present selected financial and operating data of the Company for the periods and as of the dates indicated derived from our audited consolidated financial statements. The following tables should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited historical consolidated financial statements and accompanying notes thereto set forth in this Annual Report on Form 10-K. Further, data for the 2010 year has been recast to retrospectively reflect adjustments made to our initial assessment of the net values of assets and liabilities acquired in acquisitions.

Table 1: Operating and net income data

	Year ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except for unit data)				
Cemetery revenues					
Merchandise	$ 108,088	$ 94,898	$ 87,836	$ 90,968	$ 74,509
Services	46,995	40,951	36,947	36,894	28,547
Investment and other	42,901	35,897	33,055	31,623	31,476
Funeral home revenues					
Merchandise	12,810	10,435	9,701	9,249	4,655
Services	17,594	15,111	13,664	14,714	6,127
Total revenues	228,388	197,292	181,203	183,448	145,314
Cost of goods sold (exclusive of depreciation shown separately below):					
Perpetual care	5,727	5,094	4,727	4,326	3,553
Merchandise	20,388	18,435	17,067	18,556	16,118
Cemetery expense	57,145	48,784	41,246	41,651	30,767
Selling expense	45,291	38,245	34,123	34,806	29,245
General and administrative expense	29,544	24,591	22,498	21,372	15,684
Overhead (including unit-based compensation of $773 in 2011, $711 in 2010, $1,576 in 2009, $2,262 in 2008 and $4,741 in 2007) (1)	23,766	24,379	22,370	21,293	24,991
Depreciation and amortization	8,534	8,845	6,528	5,029	3,891
Funeral home expense					
Merchandise	4,473	4,001	3,716	3,684	1,575
Services	11,717	9,752	9,275	9,073	4,198
Other	7,364	6,184	6,015	6,308	2,649
Acquisition related costs	4,604	5,715	1,072		
Total costs and expenses	218,553	194,025	168,637	166,098	132,671
Operating profit	9,835	3,267	12,566	17,350	12,643
Gain on sale of funeral home	92		434		
Gain on acquisitions		7,152			
Early extinguishment of debt	4,010				
Increase (decrease) in fair value of interest rate swap		4,724	(2,681)		
Expenses related to refinancing (2)	453		2,242		157
Interest expense	19,198	21,973	14,410	12,714	9,075
Income (loss) before income taxes	(13,734)	(6,830)	(6,333)	4,636	3,411
Income tax expense (benefit)					
State	(701)	(245)	808	304	398
Federal	(3,318)	(5,138)	(2,753)	(224)	227
Total income tax expense (benefit)	(4,019)	(5,383)	(1,945)	80	625

Net income (loss)	$	(9,715)	$	(1,447)	$	(4,388)	$	4,556	$	2,786
Net income (loss) per limited partner unit										
Basic	$	(0.50)	$	(0.10)	$	(0.36)	$	0.38	$	0.30
Diluted	$	(0.50)	$	(0.10)	$	(0.36)	$	0.38	$	0.30

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(1) Includes a write-off of $571,000 in 2007 incurred in connection with a potential acquisition of a group of cemeteries in Michigan that we determined were unlikely to take place. Also includes bonuses of $1.8 million and $3.2 million in 2010 and 2007, respectively.

(2) Represents write-downs in previously capitalized debt issuance costs.

Table 2: Balance Sheet Data

	Year ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
Cemetery property	$ 298,938	$ 283,460	$ 228,048	$ 228,499	$ 187,552
Total assets (1)	1,249,125	1,145,592	855,301	738,240	816,862
Deferred cemetery revenues, net (2)	441,878	386,465	259,323	193,017	220,942
Total debt	195,322	220,394	183,199	160,934	146,164
Total partners capital	$ 180,279	$ 128,191	$ 111,937	$ 119,389	$ 136,746

(1) Includes the fair value of assets held in the merchandise and perpetual care trusts. Refer to Note 1 of our Consolidated Financial Statements for a detailed discussion of the consolidation rules for these assets.

(2) Represents revenues to be recognized from the sale of merchandise and services. Refer to Note 1 of our Consolidated Financial Statements for a detailed discussion on the revenue recognition rules.

Table 3: Cash Flow and Other Financial Data

	Year ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except unit data)				
Net cash provided by (used in):					
Operating activities	$ 5,466	$ 3,106	$ 14,729	$ 21,144	$ 18,973
Investing activities	(29,186)	(49,551)	(12,180)	(17,046)	(86,777)
Financing activities	28,243	40,501	3,862	(10,830)	71,690
Change in assets and liabilities that provided (used) cash:					
Merchandise trust	(23,889)	(13,517)	(6,133)	(453)	(5,223)
Merchandise liability	(5,669)	(2,401)	(4,332)	(5,366)	(7,171)
Capital expenditures:					
Maintenance capital expenditures	6,040	7,878	2,524	4,809	3,051
Expansion capital expenditures, including acquisitions	23,268	41,327	4,770	12,237	83,726
Distributions declared per common unit	$ 2.340	$ 2.250	$ 2.220	$ 2.160	$ 2.045

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Table 4: Operating Data

	Year ended December 31,				
	2011	2010	2009	2008	2007
Interments performed	45,236	41,556	37,782	38,863	29,380
Cemetery revenues per interment performed	$ 4,377	$ 4,141	$ 4,196	$ 4,104	$ 4,579
Interment rights sold (1)					
Lots	26,403	24,353	22,637	22,552	17,509
Mausoleum crypts (including pre-construction)	2,518	2,584	2,316	1,881	2,314
Niches	1,126	1,071	889	864	602
Net interment rights sold (1)	30,047	28,008	25,842	25,297	20,425
Number of contracts written	101,281	92,661	83,043	80,144	63,026
Aggregate contract amount, in thousands (excluding interest)	$ 244,921	$ 221,895	$ 197,787	$ 187,093	$ 138,588
Average amount per contract (excluding interest)	$ 2,418	$ 2,395	$ 2,382	$ 2,334	$ 2,199
Number of pre-need contracts written	49,747	45,193	39,043	35,599	29,546
Aggregate pre-need contract amount, in thousands (excluding interest)	$ 157,410	$ 143,022	$ 124,997	$ 115,024	$ 89,486
Average amount per pre-need contract (excluding interest)	$ 3,164	$ 3,165	$ 3,202	$ 3,231	$ 3,029
Number of at-need contracts written	51,534	47,468	44,000	44,545	33,480
Aggregate at-need contract amount, in thousands (excluding interest)	$ 87,511	$ 78,873	$ 72,790	$ 72,068	$ 49,102
Average amount per at-need contract (excluding interest)	$ 1,698	$ 1,662	$ 1,654	$ 1,618	$ 1,467

(1) Net of cancellations. Sales of double-depth burial lots are counted as two sales.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and notes thereto included in Part II Item 8 of this Annual Report on Form 10-K. Those notes also give more detailed information regarding the basis of presentation for the following information.

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K, including, but not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management, assumptions regarding our future performance and plans, and any financial guidance provided, as well as certain information in other filings with the SEC and elsewhere are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words believe, may, will, estimate, continue, anticipate, intend, project, expect, predict and similar expressions identify these forward-looking statements. These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated, including, but not limited to, the following: uncertainties associated with future revenue and revenue growth; the effect of the current economic downturn; the impact of our significant leverage on our operating plans; our ability to service our debt and pay distributions; the decline in the fair value of certain equity and debt securities held in our trusts; our ability to attract, train and retain an adequate number of sales people; uncertainties associated with the volume and timing of pre-need sales of cemetery services and products; increased use of cremation; changes in the death rate; changes in the political or regulatory environments, including potential changes in tax accounting and trusting policies; our ability to successfully implement a strategic plan relating to producing operating improvements, strong cash flows and further deleveraging; our ability to successfully compete in the cemetery and funeral home industry; uncertainties associated with the integration or anticipated benefits of our recent acquisitions or any future acquisitions; our ability to complete and fund additional acquisitions; our ability to maintain effective disclosure controls and procedures and internal control over financial reporting; the effects of cyber security attacks due to our significant reliance on information technology; uncertainties relating to the financial condition of third-party insurance companies that fund our pre-need funeral contracts; and various other uncertainties associated with the death care industry and our operations in particular.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth under Risk Factors in Part I, Item 1A . We assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

Organization

We were organized on April 2, 2004 to own and operate the cemetery and funeral home business conducted by Cornerstone and its subsidiaries. On September 20, 2004, in connection with our initial public offering of common units representing limited partner interests, Cornerstone contributed to us substantially all of its assets, liabilities and businesses, and then converted into CFSI LLC, a limited liability company. This transfer represented a reorganization of entities under common control and was recorded at historical cost. In exchange for these assets, liabilities and businesses, CFSI LLC received 564,782 common units and 4,239,782 subordinated units representing limited partner interests in us.

Cornerstone had been founded in 1999 by members of our management team and a private equity investment firm, which we refer to as McCown De Leeuw, in order to acquire a group of 123 cemetery properties and 4 funeral homes. Since that time, Cornerstone, succeeded by us, has acquired additional cemeteries and funeral homes, entered into long term cemetery operating agreements, built funeral homes, and sold cemeteries and funeral homes, resulting in the operation of 274 cemeteries and 69 funeral homes as of December 31, 2011.

Capitalization

On September 20, 2004, we completed our initial public offering. Since that time, we have completed additional follow-on public offerings in December 2007, November 2009, September 2010 and February 2011. In addition, in November 2009, certain of our subsidiaries made a private offering to eligible purchasers of $150.0 million aggregate principal amount of senior notes due 2017.

On February 9, 2011, we completed a follow-on public offering of 3,756,155 common units, including an option to purchase up to 731,155 common units to cover over-allotments which was exercised in full by the underwriters, at a price of $29.25 per unit, representing a 19.4% interest in us. Total gross proceeds from these transactions were approximately $109.9 million, before offering costs and underwriting discounts. Net proceeds of the offering, including the related capital contribution of our General Partner, after deducting underwriting discounts and offering expenses, were approximately $105.5 million. The proceeds were used to pay off $33.5 million of debt under our credit facilities and $35.0 million of debt outstanding on our Series B and Series C Senior Secured Notes. As part of this transaction, selling unitholders also sold 1,849,366 common units. We did not receive any of the proceeds generated by the sale of any units held by the selling unitholders.

Overview

Cemetery Operations

We are currently the second largest owner and operator of cemeteries in the United States. As of December 31, 2011, we operated 274 cemeteries in 26 states and Puerto Rico. We own 253 of these cemeteries, and we operate the remaining 21 under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. As a result of the agreements, other control arrangements and applicable accounting rules, we have treated 15 of these cemeteries as acquisitions for accounting purposes. There were three cemeteries to which we entered into a long-term operating agreement in the third quarter of 2010, and three cemeteries to which we entered into long-term operating agreements in 2009 that did not qualify as acquisitions for accounting purposes. The results of operations of these 6 cemeteries are included in our results of operations from the date we began operating the properties.

We sell cemetery products and services both at the time of death, which we refer to as at-need, and prior to the time of death, which we refer to as pre-need. During the year ended December 31, 2011, we performed 45,236 burials and sold 30,047 interment rights (net of cancellations) compared to 41,556 and 28,008 in 2010 and 37,782 and 25,842 in 2009, respectively. Cemetery revenues accounted for approximately 86.7%, 87.1% and 87.1% during the years ended December 31, 2011, 2010 and 2009, respectively.

Our results of operations for our Cemetery Operations are determined primarily by the volume of sales of products and services and the timing of product delivery and performance of services. We derive our cemetery revenues primarily from:

- at-need sales of cemetery interment rights, merchandise and services, which we recognize as revenue when we have delivered the related merchandise or performed the service;

- pre-need sales of cemetery interment rights, which we generally recognize as revenues when we have collected 10% of the sales price from the customer;

- pre-need sales of cemetery merchandise, which we recognize as revenues when we satisfy the criteria specified below for delivery of the merchandise to the customer;

- pre-need sales of cemetery services which we recognize as revenues when we perform the services for the customer;

- investment income from assets held in our merchandise trust, which we recognize as revenues when we deliver the underlying merchandise or perform the underlying services and recognize the associated sales revenue as discussed above;

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- investment income from perpetual care trusts, excluding realized gains and losses on the sale of trust assets, which we recognize as revenues as the income is earned in the trust; and

- other items, such as interest income on pre-need installment contracts and sales of land.

The criteria for recognizing revenue related to the sale of cemetery merchandise is that such merchandise is delivered to our customer, which generally means that:

- the merchandise is complete and ready for installation; or

- the merchandise is either installed or stored at an off-site location, at no additional cost to us, and specifically identified with a particular customer; and

- the risks and rewards of ownership have passed to the customer.

We generally satisfy these delivery criteria by purchasing the merchandise and either installing it on our cemetery property or storing it, at the customer s request, in third-party warehouses, at no additional cost to us, until the time of need. With respect to burial vaults, we install the vaults rather than storing them to satisfy the delivery criteria. When merchandise is stored for a customer, we may issue a certificate of ownership to the customer to evidence the transfer to the customer of the risks and rewards of ownership.

Pre-need Sales

As previously noted, we do not recognize revenue on pre-need sales of merchandise and services until we have delivered the merchandise or performed the services. Accordingly, deferred revenues from pre-need sales and related merchandise trust earnings are reflected as a liability on our balance sheet in deferred cemetery revenues, net.

Total deferred cemetery revenues, net, also includes deferred revenues from pre-need sales that were entered into by entities we acquired prior to the time we acquired them. This includes both those entities that we acquired at the time of the formation of Cornerstone and other subsequent acquisitions. Our profit margin on pre-need sales entered into by entities we subsequently acquired is generally less than our profit margin on other pre-need sales because, in accordance with industry practice at the time these acquired pre-need sales were made, none of the selling expenses were recognized at the time of sale. As a result, we are required to recognize all of the expenses (including deferred selling expenses) associated with these acquired pre-need sales when we recognize the revenues from that sale.

Pre-need products and services are typically sold on an installment basis. Subject to state law, these contracts are normally subject to cooling-off periods, generally between three and thirty days, during which the customer may elect to cancel the contract and receive a full refund of amounts paid. Also, subject to applicable state law, we are generally permitted to retain the amounts already paid on contracts, including any amounts that were required to be deposited into trust, on contracts cancelled after the cooling-off period. Historical post cooling-off period cancellations total approximately 10% of our pre-need sales (based on contract dollar amounts). If the products and services purchased under a pre-need contract are needed for interment before payment has been made in full, generally the balance due must be immediately paid in full.

Contracts related to pre-need installment sales are usually for a period not to exceed 60 months, with payments of principal and interest required. Pre-need sales contracts normally contain provisions for both principal and interest. For those contracts that do not bear a market rate of interest, we impute such interest based upon the prime rate plus 150 basis points, which resulted in a rate of 4.75% during 2011, 2010 and 2009.

We normally offer prepayment incentives to customers whose pre-need contracts are longer than 36 months and bear interest. If those customers pay their contracts in full in less than 12 months, we rebate the interest that we have collected from them. Even though this rebate policy reduces the amount of interest income we receive on our accounts receivable, the net effect is an increase in our immediate cash flow.

In certain cases, pre-need contracts will be cancelled before they are fully paid. In these circumstances, we are generally permitted to retain amounts already paid to us, including any amounts that were required to be

deposited into trust. In certain other cases, the products and services purchased under a pre-need contract are needed for interment before payment has been made in full. In these cases, we are generally entitled to be immediately paid in full for any amounts still outstanding.

At-need Sales

Revenue on at-need merchandise sales is deferred until the time that such merchandise is delivered. The lag between the contract origination and delivery is normally minimal. At-need sales of products and services are generally required to be paid for in full at the time of sale. At that time, we will deposit amounts, as legally required, into our perpetual care trusts. We are not required to deposit any amounts from our at-need sales into merchandise trusts.

Expenses

We analyze and categorize our operating expenses as follows:

1. Cost of goods sold and selling expenses

Cost of goods sold reflects the actual cost of purchasing products and performing services. Sales of cemetery lots and interment rights, whether at-need or pre-need, typically have a lower cost of goods sold than other merchandise that we sell.

Selling expenses consist of salesperson and sales management payroll costs, including selling commissions, bonuses and employee benefits. We self-insure medical expenses of our employees up to certain individual and aggregate limits over which we have stop-loss insurance coverage. Our self-insurance policy may result in variability in our future operating expenses. Selling expenses also includes other costs of obtaining product and service sales, such as advertising, marketing, postage and telephone.

Direct costs associated with pre-need sales of cemetery merchandise and services, such as sales commissions and cost of goods sold, are reflected in the balance sheet in deferred selling and obtaining costs and deferred cemetery revenues, net, respectively and are expensed as the merchandise is delivered or the services are performed. Indirect costs, such as marketing and advertising costs, are expensed in the period in which they are incurred.

2. Cemetery Expenses

Cemetery expenses represent the cost to maintain and repair our cemetery properties and consist primarily of labor and equipment, utilities, real estate taxes and other maintenance items. Repairs necessary to maintain our cemeteries are expensed as they are incurred. Other maintenance costs required over the long term to maintain the operating capacity of our cemeteries, such as to build roads and install sprinkler systems, are capitalized.

3. General and administrative expenses

General and administrative expenses, which do not include corporate overhead, primarily includes personnel costs, insurance and other costs necessary to maintain our cemetery offices.

4. Depreciation and amortization

We depreciate our property and equipment on a straight-line basis over their estimated useful lives.

5. Acquisition related costs

Acquisition related costs, which include legal fees and other third party costs incurred in acquisition related activities, are expensed as incurred.

Funeral Home Operations

As of December 31, 2011, we owned and operated 69 funeral homes. These properties are located in eighteen states and Puerto Rico. Thirty-nine of our funeral homes are located on the grounds of cemeteries that we own.

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We derive revenues at our funeral homes from the sale of funeral home merchandise, including caskets and related funeral merchandise, and services, including removal and preparation of remains, the use of our facilities for visitation, worship and performance of funeral services and transportation services. We sell these services and merchandise almost exclusively at the time of need utilizing salaried licensed funeral directors. Funeral home revenues accounted for approximately 13.3%, 12.9% and 12.9% during the years ended December 31, 2011, 2010 and 2009, respectively.

Pursuant to state law, a portion of proceeds received from pre-need funeral service contracts is put into trust while amounts used to defray the initial administrative costs are not. All investment earnings generated by the assets in the trust (including realized gains and losses) are deferred until the associated merchandise is delivered or the services are performed. The balance of the amounts in these trusts is included within the merchandise trusts above.

We generally include revenues from pre-need casket sales in the results of our cemetery operations. However, some states require that caskets be sold by funeral homes, and revenues from casket sales in those states are included in our funeral home results.

Our funeral home operating expenses consist primarily of compensation to our funeral directors, day to day costs of managing the business and the cost of caskets.

Corporate

We incur fixed costs for corporate overhead primarily for centralized functions, such as payroll, accounting, collections and professional fees. We also incur expenses relating to reporting requirements under U.S. federal securities laws and certain other additional expenses of being a public company.

Revenues by State

The following table shows the percentage of revenues attributable to each of the states in which we operate for the periods presented:

	Year ended December 31,		
	2011	**2010**	**2009**
Alabama	3.6%	4.6%	4.6%
California	8.8%	9.7%	10.2%
Georgia	1.2%	1.6%	1.6%
Illinois	2.3%	2.7%	2.4%
Indiana	8.0%	5.2%	2.4%
Kansas	1.4%	1.1%	1.6%
Maryland	6.0%	6.6%	7.3%
Michigan	8.9%	5.0%	1.3%
Missouri	1.6%	1.3%	1.5%
New Jersey	6.8%	7.8%	8.0%
North Carolina	5.8%	6.2%	6.3%
Ohio	8.7%	9.3%	8.2%
Oregon	2.9%	3.2%	4.2%
Pennsylvania	14.7%	15.3%	17.0%
South Carolina	2.1%	2.2%	2.5%
Tennessee	2.4%	2.4%	2.4%
Virginia	6.5%	7.1%	8.1%
West Virginia	5.3%	5.9%	7.3%
All others	3.0%	2.8%	3.1%
Total	100.0%	100.0%	100.0%

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Principal Products and Services

The following table shows the percentage of revenues attributable to our principal products, services and other items during the periods presented:

	Year ended December 31,		
	2011	2010	2009
Pre-need sales:			
Burial lots	8.9%	9.6%	9.8%
Mausoleum crypts	4.7%	5.2%	4.7%
Markers	4.2%	4.6%	5.6%
Grave marker bases	1.1%	1.2%	1.4%
Burial vaults	5.0%	5.6%	5.0%
Lawn crypts	1.4%	1.5%	1.0%
Caskets	2.9%	1.0%	1.5%
Initial openings and closings (1)	6.5%	6.3%	5.9%
Other (2)	4.8%	5.3%	5.3%
Total pre-need sales	39.5%	40.3%	40.2%
Interest from pre-need sales	2.6%	2.9%	3.2%
Investment income from trusts:			
Perpetual care trusts	6.6%	7.3%	7.0%
Merchandise trusts	3.7%	2.1%	3.8%
Total investment income from trusts	10.3%	9.4%	10.8%
At-need sales:			
Openings and closings (3)	12.4%	13.0%	12.5%
Markers	7.7%	7.7%	7.6%
Burial lots	3.6%	3.8%	3.9%
Mausoleum crypts	1.2%	1.3%	1.6%
Grave marker bases	1.7%	1.6%	1.5%
Foundations and inscriptions (4)	1.0%	1.0%	1.0%
Burial vaults	1.6%	1.7%	1.8%
Other (5)	3.7%	2.5%	1.8%
Total at-need sales	32.9%	32.6%	31.7%
Funeral home revenues	13.3%	12.9%	12.9%
Other revenues (6)	1.4%	1.9%	1.2%
Total revenues	100.0%	100.0%	100.0%

(1) Installation of the burial vault into the ground.
(2) Includes revenues from niches, mausoleum lights, cremations, pet cemeteries, installation of burial vaults and markers sold to our customers by third parties and pre-need sales made in connection with the relocation of other cemetery interment rights. Also includes document processing fees on pre-need contracts and fees from sales of travel care protection, which covers shipping costs of a body if death occurs more than 100 miles from the place of residence.
(3) Installation of the burial vault into the ground and the placement of the casket into the vault.

(4) Installation of the marker on the ground and its inscription.

(5) Includes revenues from lawn crypts, decorative lights installed on mausoleum crypts, installations of burial vaults, markers sold to our customers by third parties, cremation fees and document-processing fees on at-need contracts.

(6) Includes sales of manufactured burial vaults to third parties, sales of cemetery and undeveloped land, commissions from sales of pre-need funeral and death benefit insurance policies provided through a third-party insurer and other miscellaneous revenues.

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Cash Flow

Pre-need sales often generate short-term cash flow deficits due to the timing of when we receive amounts from customers, pay related commissions and deposit amounts into the perpetual care and merchandise trusts.

We generally require customers to make a down payment on a pre-need contract of at least 5% of the total sales price. When we receive a payment from a customer on a pre-need contract, we first deposit the requisite portion into trust as required by state law. Then, we pay all or a portion of the commission due to the salesperson responsible for the sale up to a maximum of total cash received. In many cases, the sum of the commission paid and amount deposited into the trust exceeds the total cash received, causing a short-term cash flow deficit.

If the down payment received from the customer is not sufficient to cover the entire commission, the remaining commission is paid from subsequent installments, but only to the extent of 80% of the cash received from the customer in each installment. Again, in the near-term there is a possibility that the sum of the commission paid and amount deposited into the trust exceeds the total cash received, causing an additional short-term cash flow deficit. These short-term deficits are eventually recaptured as the total amount received exceeds the commissions paid and we meet the requirements for withdrawing amounts deposited into the merchandise trust.

The following example assumes a pre-need contract with a total sales price of $1,000, a 10% down payment, a 40% perpetual care and merchandise trusting requirement, a 15% sales commission and a one-year term without interest, our short-term cash flow would be as follows:

When we receive the $100 down payment from the customer, we would deposit 40% of the payment, or $40 in trust and pay 100% of the commission due to the salesperson, or $150, but only to the extent that we received cash from the customer, or $100. Our total cash obligations would be $140 even though we only received $100 from the customer. We would use $40 of our operating cash to pay the sales commission and, at this time, would be cash flow negative on the contract.

In month one, when we receive the first $75 installment from the customer, we would deposit 40%, or $30, into trust and pay 100% of the balance of the commission due to the sales person, or $50. Our total cash obligations would be $80 even though we only received $75 from the customer. We would use $5 of our operating cash to pay sales commission and would still be cash flow negative on the contract.

In month two, when we receive the next $75 installment from the customer, we would deposit 40%, or $30, into trust, but we would have no further commission due on the sale. The remaining $45 received from the customer would go back into our operating cash, and we would break even on the contract on a cash-flow basis.

In month three, when we receive the next $75 installment from the customer, we would deposit 40%, or $30, into trust and the remaining $45 would go back into our operating cash. In this month, we would become cash flow positive on the contract.

We can accelerate our operating cash flow by purchasing and delivering many of our products in advance of the time of customer need, either by installing them in the customer s burial space (in the case of burial vaults) or storing them for the customer, and by performing certain services prior to the time of need. For example, within the allowances of state law, we purchase burial vaults, grave markers and caskets, and perform initial openings and closings to install the burial vault in the ground before the time of need. When we satisfy the criteria for delivery of pre-need products or perform pre-need services, we are permitted to withdraw the related principal and any income and capital gains that we have not already withdrawn from the merchandise trust, and we recognize the amounts withdrawn, including amounts previously withdrawn, as revenues. Advance purchasing helps us avoid the negative cash flow impact of depositing significant portions of our sales proceeds in trusts while earning rates on those trusts that are currently less than interest rates we pay on our debt. To the extent that we can purchase and deliver products and perform services in advance of the time of need, we can accelerate,

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within the limitations of GAAP, the timing of our revenue recognition for these products and services. As a result, decisions made by our management to purchase and deliver products or perform services in advance, for cash flow or other reasons, affect the timing of revenue recognition from the underlying sales.

We are somewhat limited, however, in our ability to purchase some products in advance of the time of need because of their availability. Given our large volume of pre-need sales, it is unlikely that our suppliers could provide, or we could manufacture, all of the products included in our pre-need backlog at any given time. For example, we generally need more vaults per year to fulfill our pre-need contract obligations, than we currently manufacture at our plant. We must purchase any excess from third party suppliers who must also meet the demands of other cemetery operators.

We currently purchase burial vaults from third-party providers to assist us in meeting the demands of our accelerated purchase and delivery program. We are also limited in our ability to perform certain services in advance of the time of need because of their nature or our resources. For example, we cannot perform the final opening and closing, which is the placing of the casket into the ground, or inscribe the date of death on the monument or marker until the time of need. Even if we chose to perform all of the services in our pre-need backlog that could be performed in advance of need, such as installing all of the burial vaults in our pre-need backlog, we would not currently have the labor, equipment or other resources to perform all of those services in a short period of time.

Trusting

We are required to deposit a portion of amounts received on sales of certain cemetery merchandise and services into a perpetual care and/ or merchandise trust. These amounts are invested by third-party investment managers who are selected by the Trust and Compliance Committee of the board of directors of our general partner. These investment managers are required to invest our trust funds in accordance with applicable state law and internal investment guidelines adopted by the Trust and Compliance Committee. Our investment managers are monitored by third-party investment advisors selected by the Trust and Compliance Committee who advise the committee on the determination of asset allocations, evaluate the investment managers and provide detailed monthly reports on the performance of each merchandise and perpetual care trust.

Perpetual Care Trust

Pursuant to state law, a portion of the proceeds from the sale of cemetery property is required to be paid into perpetual care trusts. While this amount varies, it is generally 10% to 20% of the sales price of the interment right. All principal must remain in this trust into perpetuity while interest and dividends may be released to us and used to defray cemetery maintenance costs, which are expensed as incurred. Earnings from the perpetual care trusts are recognized in current cemetery revenues. To maximize this income, we have established investment guidelines for the third-party investment managers that manage the trust so that substantially all of the funds are invested in intermediate-term investment-grade fixed-income securities, high-yield fixed-income securities, master limited partnerships and real estate investment trusts.

We fund these amounts pro-rata on an as received basis. As payments are received from the customer, we deposit a pro-rata amount of the payment into a perpetual care trust. For example, if we receive a payment of 20% of the sales price from the customer, we would deposit into the perpetual care trust 20% of the total amount required to be placed into trust for that sale.

We consolidate the assets of the trust in accordance with the provisions of ASC 810, as the trust is considered to be a variable interest entity for which we are the primary beneficiary. Assets are reflected at fair market value on the asset portion of our balance sheet as an asset entitled perpetual care trusts, restricted, at fair value, and an equal amount is reflected as a liability as perpetual care trust corpus.

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Merchandise Trust

We are generally required by state law to deposit a portion of the sales price of pre-need cemetery merchandise and services, or the estimated current cost of providing that merchandise and those services, into a merchandise trust to ensure that we will have sufficient funds in the future to purchase the merchandise or perform the services. The amount we are required to deposit into a merchandise trust varies from state to state but is generally 40% to 70% of the sales price of the merchandise or services.

We fund these amounts pro-rata on an as received basis. As payments are received from the customer, we deposit a pro-rata amount of the payment into a merchandise trust. For example, if we receive a payment of 20% of the sales price from the customer, we would deposit into the merchandise trust 20% of the total amount required to be placed into trust for the merchandise and services sold.

We consolidate the assets of the trust in accordance with the provisions of ASC 810, as the trust is considered to be a variable interest entity for which we are the primary beneficiary. Assets are reflected at fair market value on the asset portion of our balance sheet as an asset entitled merchandise trusts, restricted, at fair value .

Unlike assets in the perpetual care trusts, assets in the merchandise trusts will be released to us at the time we meet the requirements. These requirements vary from state to state depending upon applicable laws.

Earnings on funds held in merchandise trusts, including investment income and capital gains, are deferred and included in our balance sheet in deferred cemetery revenues, net, until such time that we recognize the revenue from the related sale.

We are permitted to withdraw the investment income, such as interest and dividends, as well as capital gains, from merchandise trusts at varying times depending on the applicable state law. In some states, we are permitted to make monthly withdrawals of investment income, but in other states we are permitted to withdraw income less frequently or only upon death. In all states, however, we are permitted to withdraw trust principal and earnings to purchase the merchandise or perform the services or, generally, when the customer cancels the contract. Some states impose additional restrictions on our ability to withdraw merchandise trust earnings if those trusts have realized losses. For example, if a Pennsylvania merchandise trust realizes a loss, the trust is required to recover the amount of the realized loss, either by earning income or generating capital gains, before we are allowed to withdraw earnings, except to purchase the related products or perform the related services. Other states, such as Virginia, permit continued withdrawals of merchandise trust earnings following a realized loss so long as the fair market value of the funds held in trust equals or exceeds the cost of the related products and services.

We invest the amounts deposited into merchandise trusts, within specified investment guidelines, primarily in intermediate-term, investment-grade fixed-income securities, high-yield fixed-income securities, real estate investment trusts and, to a lesser extent, equity securities and cash.

The income earned on funds held in perpetual care trusts and merchandise trusts can be materially affected by fluctuations in interest rates, dividend payments, and in the case of merchandise trusts, by the performance of the stock market. Investment income from trusts accounted for 10.3%, 9.3%, and 10.8% of our 2011, 2010 and 2009 total revenues, respectively. During 2011, 2010 and 2009 our average annual rates of return (not including changes in unrealized gains and losses) on funds held in merchandise trusts were 7.5%, 3.7% and 7.2%, respectively, while our average annual rates of return on funds held in perpetual care trusts were 6.2%, 7.1% and 8.3%, respectively. Past performance is not indicative of future performance.

Unrealized gains and losses in merchandise trusts are deferred and accordingly have no immediate impact on our revenues, earnings or cash flow unless the fair market value of the funds declines below the estimated costs to deliver the related products and services, in which case we would be required to record a current charge to earnings equal to the difference between the fair market value of the funds and the estimated costs.

We determine whether or not the assets in the merchandise and perpetual care trust have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions, concerns related to the specific issuer and our ability and intent to hold securities until they recover their value. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its market value.

For assets held in the perpetual care trusts, any reduction in the cost basis due to an other-than-temporary impairment is offset with an equal and opposite reduction in the perpetual care trust corpus and has no impact on earnings.

For assets held in the merchandise trust, any reduction in the cost basis due to an other-than-temporary impairment is recorded in deferred revenue.

The trust footnotes (Notes 5 and 6 of our consolidated financial statements included in Part II Item 8) disclose the adjusted cost basis of the assets in the trust and contain a more detailed discussion of other-than-temporarily impaired assets.

Current Market Conditions and Economic Developments

Beginning in the fourth quarter of 2008, we began discussing the significant instability in various financial markets and in general economic conditions. Amongst other things, we noted that there had been a decline in the fair value of equity and, to a lesser degree, fixed-maturity debt securities and that there was a contraction in the credit market as well as an overall downturn in economic activity. In general, markets started to improve in 2009 and continued that improvement in 2010. At December 31, 2009, the ratio of the fair value to the amortized cost of our merchandise trust assets was 88.5%. As the financial markets continued to improve in 2010, we continued to monitor our invested assets in our merchandise and perpetual care trusts and in the third quarter of 2010, we determined that some of these assets were impaired, and we took a charge of approximately $13.3 million and $14.8 million, respectively. As of December 31, 2010, markets had recovered to the point where the market value of the assets in our merchandise trust and perpetual care trust exceeded its amortized cost by 3.7% and 6.5%, respectively.

Markets generally continued to improve through the first half of 2011, however in the third quarter of 2011, the markets took a downturn over fears of a European debt crisis. As a result, in the third quarter of 2011, the cost values of our merchandise and perpetual care trusts exceeded their market values for the first time since our second quarterly period ended June 30, 2010. We have seen some improvement in the fourth quarter of 2011, and as of December 31, 2011, the market value of the assets in our perpetual care trust exceeded its amortized cost by 0.7%, and the ratio of the fair value to the amortized cost of our merchandise trust assets was 97.7%. We continued to monitor our invested assets in our merchandise and perpetual care trusts and during 2011, we determined that some of these assets were impaired, and we took a charge of approximately $0.5 million and $0.1 million, respectively.

Further, we were able to raise capital via a follow-on public offering of our common units, representing a limited partnership interest in us, in February of 2011 and September of 2010. In addition, as of December 31, 2011, the majority of our long-term debt consisted of $150.0 million in Senior Notes which are due in 2017 and $33.0 million and $10.8 million of borrowings on our Revolving Credit Facility and Acquisition Credit Facility, respectively. We also had availability on our revolving and acquisition credit facilities of $22.0 million and $54.2 million, respectively, at December 31, 2011. As noted below in recent developments, we have amended our credit facility and increased the total availability of the credit facility by $10.0 million.

The value of pre-need and at-need contracts written has not deteriorated and values for the year ended December 31, 2011 generally outpace values from 2010.

We will continue to monitor evolving economic conditions and plan accordingly.

Recent Developments

On January 19, 2012, we entered into the Third Amended and Restated Credit Agreement which amended our existing Credit Agreement. The amendments primarily relate to the following:

- converting and consolidating the Acquisition Credit Facility of $65.0 million and the Revolving Credit Facility of $55.0 million into a single revolving credit facility (the Credit Facility);
- eliminating the borrowing formula under the Credit Facility;
- increasing the Credit Facility to $130.0 million;
- extending the maturity date to January 19, 2017;
- effectively reducing the interest rate on the Credit Facility; and
- amending certain financial covenants.

See Liquidity and Capital Resources within this Item 7 for more information.

Change in Market Value of Trust Assets

We have a substantial portfolio of invested assets in both our merchandise trust and the perpetual care trust. Both trusts have a mix of cash and cash equivalents, fixed maturity debt securities and equity securities. A critical issue for us had been the decline in the fair value of equity and, to a lesser degree, fixed maturity debt securities held in our trusts. This decline took place primarily during the last six months of 2008. Since that time, the financial markets have been slowly recovering, and continued to improve through the first half of 2011. However in the third quarter of 2011, the markets took a smaller downturn over fears of a European debt crisis, and have recovered to a certain degree in the fourth quarter of 2011. During 2011 and 2010, we determined that some of the assets in our trusts had been impaired and we took an impairment charge of approximately $0.5 million and $13.3 million, respectively, related to assets in our merchandise trust and a charge of approximately $0.1 million and $14.8 million, respectively, related to our assets in our perpetual care trust. This charge is deferred until such time that we deliver the merchandise or perform the services for which the trust assets are set aside. The impairment charge reduced the cost basis of the assets to their fair value. As of December 31, 2011, the aggregate post write-down fair value of the assets in our perpetual care trust exceeded its amortized cost by 0.7%, and the ratio of the aggregate post write-down fair value to the amortized cost of our merchandise trust assets was 97.7%.

Funds in our trusts are managed by third-party investment managers who are in turn monitored by a third-party investment advisor selected by our Trust and Compliance Committee. The third-party investment advisor is providing the committee with frequent updates on the performance of the investments. We will continue to monitor performance closely. See Item 7A. Quantitative and Qualitative Disclosure About Market Risk for more information.

The perpetual care trust and merchandise trust serve vastly different purposes and the risks and implications of changes in trust asset values are dissimilar.

Perpetual Care Trust

Pursuant to state law, a portion of the proceeds from the sale of cemetery property must be deposited into a perpetual care trust.

The perpetual care trust principal does not belong to us and must remain in the trust into perpetuity. We consolidate the trust into our financial statements in accordance with ASC 810-10-15-(13 through 22) because the trust is considered a variable interest entity for which we are the primary beneficiary.

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The fair value of trust assets is recorded as an asset on our balance sheet and is entirely offset by a liability. This liability is recorded as Perpetual care trust corpus . Changes in fair value of trust assets are recognized by adjusting both the trust asset and the offsetting liability. Impairment of the value of trust assets, whether temporary or other-than-temporary, will not impact periodic earnings or comprehensive income nor will it impact our financial position or liquidity at any point in time.

Our primary risk related to the assets in the perpetual care trust relate to the interest and dividends paid and released to us and used to defray cemetery maintenance costs. Any material reduction in this income stream could have a material effect on our financial condition, results of operations and liquidity. Interest income earned on perpetual care trust assets was approximately $ 15.8 million, $14.9 million and $12.6 million during the years ended December 31, 2011, 2010 and 2009, respectively.

Merchandise Trust

Pursuant to state law, a portion of the proceeds from the sale of pre-need cemetery and funeral home merchandise and services must be deposited into a merchandise trust.

Unlike the perpetual care trust, the principal in the merchandise trust will ultimately revert to us. This will occur once we have met the various requirements for its release which is generally the delivery of merchandise or performance of underlying services. Accordingly, changes in the fair value of trust assets, both temporary and other-than-temporary, may ultimately impact our periodic earnings, comprehensive income and financial position or liquidity at any point in time.

Managing the cash flow associated with the release of trust assets and investment income is a critical component of our overall corporate strategy. Our investment strategy reflects the fact that the release of trust assets and the resultant cash flow is critical to our ability to meet our profitability goals and liquidity needs. Accordingly, we set such strategy to balance the potential for return with the need to maintain asset value.

A decline in the market value of the assets in the merchandise trust could ultimately impair our profitability and resulting financial position and liquidity should we be forced to liquidate such assets at an amount significantly below our original expectation, which is ultimately asset cost.

We mitigate this risk by ensuring that a sufficient portion of trust assets is invested in cash and cash equivalents that do not have significant risk to principal. We can then manage trust assets so that released amounts are liquidated from this pool as opposed to any pool of assets that are currently valued below cost.

At December 31, 2011, the merchandise trust had approximately $38.3 million in cash and cash equivalents. This amount functions to mitigate the risk of liquidating impaired assets. In evaluating the sufficiency of this amount as to its effectiveness in mitigating the risk of liquidating impaired assets, we have considered the net inflows and outflows of cash into the trust in recent prior periods. These net inflows and outflows are a function of both sales originations and the corresponding trust deposits and meeting the criteria for releasing funds. Total net cash inflows into the merchandise trust for the year ended December 31, 2011 were approximately $22.4 million, which includes an inflow of $15.4 million related to acquisitions made in 2011. See Liquidity and Capital Resources within this Item 7 for more information.

Absent a substantial downturn in pre-need sales, we believe that the cash and cash equivalent allocation of merchandise trust assets is sufficient to mitigate the risk of liquidating impaired assets in the near future.

Impact of Current Market Conditions on Our Ability to Meet Our Debt Covenants

Current market conditions have not negatively impacted our ability to meet our significant debt covenants. These covenants specifically relate to a certain measure of profitability (the Profitability Measure) and certain coverage and leverage ratios as defined in the Credit Agreement described below.

The Profitability Measure is primarily related to the current period value of contracts written, investment income from the merchandise and perpetual care trust, and current expenses incurred. The revenue recognition rules that we must follow for GAAP purposes is not considered.

The leverage ratio relates to the ratio of consolidated debt to the Profitability Measure. Our leverage ratio is 3.09 at December 31, 2011 as opposed to a maximum allowed ratio of 3.65. The coverage ratio related to the excess of the Profitability Measure less distributions made to partners over fixed charges. On January 19, 2012, we amended our credit agreement and replaced the coverage ratio with a consolidated debt service coverage ratio, the calculation of which does not include distributions made by the Partnership. Our consolidated debt service coverage ratio was 3.28 at December 31, 2011 as opposed to a minimum allowed ratio of 2.50.

Net Income, Operating Cash Flows and Partner Distributions

The table below details net income, operating cash flows and partner distributions made in 2011, 2010 and 2009, respectively:

	Year ended December 31,		
	2011	2010	2009
		(in thousands)	
Net income (loss)	$ (9,715)	$ (1,447)	$ (4,388)
Operating cash flows	5,466	3,106	14,729
Partner distributions	44,605	32,443	27,253

Cash flows from operations for the years ended December 31, 2011, 2010 and 2009 were $5.5 million, $3.1 million and $14.7 million, respectively, which exceeded our net loss of $9.7 million, $1.4 million and $4.4 million, respectively, during the same periods. The differences between our operating cash flows and net loss are in large part attributable to the fact that various cash inflows for payments of amounts due under pre-need sales contracts were not and are not as of yet recognized as revenues as we had not and have not met the delivery criteria for revenue recognition. Although there is no assurance, we expect that the trend of operating cash flows exceeding our net income or net loss will continue into the foreseeable future.

Segment Reporting and Related Information

The Company is organized into five distinct reportable segments which are classified as Cemetery Operations Southeast, Cemetery Operations Northeast, Cemetery Operations West, Funeral Homes, and Corporate.

We chose this level of organization and disaggregation of reportable segments due to the fact that a) each reportable segment has unique characteristics that set it apart from each other; b) we have organized our management personnel at these operational levels; and c) this is the level at which our chief decision makers and other senior management evaluate performance.

The Cemetery Operations segments sell interment rights, caskets, burial vaults, cremation niches, markers and other cemetery related merchandise. The nature of our customers differs in each of our regionally based cemetery operating segments. Cremation rates in the West region are substantially higher than they are in the Southeast region. Rates in the Northeast region tend to be somewhere between the two. Statistics indicate that customers who select cremation services have certain attributes that differ from customers who select other methods of interment. The disaggregation of cemetery operations into the three distinct regional segments is primarily due to these differences in customer attributes along with the previously mentioned management structure and senior management analysis methodologies.

Our Funeral Homes segment offers a range of funeral-related services such as family consultation, the removal of and preparation of remains and the use of funeral home facilities for visitation. These services are distinctly different than the cemetery merchandise and services sold and provided by the Cemetery Operations segments.

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Our Corporate segment includes various home office selling and administrative expenses that are not allocable to the other operating segments.

Consolidation

Our historical operations are part of a consolidated group for financial reporting purposes that include the cemeteries we operate under long-term operating agreements. We currently operate 21 cemeteries, 15 of which have been fully consolidated, under these long-term operating agreements. Intercompany balances and transactions have been eliminated in consolidation.

Income Taxes

Our historical financial statements include the effects of applicable U.S. federal and state income taxes in order to comply with GAAP. We are a limited partnership that has elected to be treated as a partnership for U.S. federal income tax purposes and therefore not be subject to U.S. federal or applicable state income taxes. In order to be treated as a partnership for federal income tax purposes, at least 90% of our gross income must be qualifying income, which includes income from the sale of real property, including burial lots (with and without installed vaults), lawn and mausoleum crypts and cremation niches. Most of our activities that do not generate qualifying income, such as the sale of other cemetery products, the provision of perpetual care services, the operation of our managed cemeteries and all funeral home operations, will be owned by and conducted through corporate subsidiaries, which will be subject to tax on their net taxable income. Dividends we receive from corporate subsidiaries will be qualifying income.

Seasonality

The death care business is relatively stable and predictable. Although we experience seasonal increases in deaths due to extreme weather conditions and winter flu, these increases have not historically had any significant impact on our results of operations. In addition, we perform fewer initial openings and closings in the winter when the ground is frozen.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our historical consolidated financial statements. We prepared these financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements required us to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We based our estimates, judgments and assumptions on historical experience and known facts and other assumptions that we believed to be reasonable under the circumstances. In future periods, we expect to make similar estimates, judgments and assumptions on the same basis as we have historically. Our actual results in future periods may differ from these estimates under different assumptions and conditions. We believe that the following accounting policies or estimates had or will have the greatest potential impact on our consolidated financial statements for the periods discussed and for future periods.

Revenue Recognition

We sell our merchandise and services on both a pre-need and at-need basis. All at-need sales are recognized as revenues and recorded in earnings at the time that merchandise is delivered and services are performed.

Revenues from pre-need sales of cemetery interment rights in constructed burial property are deferred until at least 10% of the sales price has been collected, at which time they are fully earned.

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Revenues from pre-need sales of cemetery interment rights in unconstructed burial property, such as mausoleum crypts and lawn crypts are recognized using the percentage-of-completion method of accounting,
with no revenue being recognized until at least 10% of the sales price has been received. The percentage-of- completion method of accounting requires us to make certain estimates as of our reporting dates. These estimates are made based upon information available at the reporting date and are updated on a specific identification method at the end of each reporting period. Periodic earnings are calculated based upon the total sales price, estimated costs to complete and the percentage completed during a given reporting period.

Revenues from pre-need sales of cemetery merchandise and services are deferred until the merchandise is delivered or the services are performed, at which time they are fully earned.

Investment earnings, including realized gains and losses, generated by assets in our merchandise trusts are deferred until the associated merchandise is delivered or the services are performed.

In order to appropriately match revenue and expenses, we defer certain pre-need cemetery and prearranged funeral direct obtaining costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business until such time that the associated revenue is recognized.

Deferred Cemetery Revenues, Net

Revenues from the sale of services and merchandise, as well as any investment income from the merchandise trust is deferred until such time that the services are performed or the merchandise is delivered.

In addition to amounts deferred on new contracts, investment income and unrealized gains on our merchandise trust, deferred cemetery revenues, net includes deferred revenues from pre-need sales that were entered into by entities prior to the acquisition of those entities by us, including entities that were acquired by Cornerstone Family Services, Inc. upon its formation in 1999. We provide for a reasonable profit margin for these deferred revenues (deferred margin) to account for the future costs of delivering products and providing services on pre-need contracts that we acquired through acquisitions. Deferred margin amounts are deferred until the merchandise is delivered or services are performed.

Accounts Receivable Allowance for Cancellations

At the time of a pre-need sale, we record an account receivable in an amount equal to the total contract value less any cash deposit paid net of an estimated allowance for cancellations.

The allowance for cancellations is established based upon our estimate of expected cancellations and historical experiences and is currently approximately 10% of total contract values. Future cancellation rates may differ from this current estimate. We will continue to evaluate cancellation rates and will make changes to the estimate should the need arise. Actual cancellations did not vary significantly from the estimates of expected cancellations at December 31, 2011 or 2010.

Merchandise Trust Assets

Assets held in our merchandise trusts are carried at fair value. Any change in unrealized gains and losses are reflected in the carrying value of the assets and is recognized as deferred revenue. Any and all investment income streams, including interest, dividends or gains and losses from the sale of trust assets are offset against deferred revenue until such time that we deliver the underlying merchandise. Investment income generated from our merchandise trust is included in Cemetery revenues investment and other.

We evaluate whether or not the assets in the merchandise trust have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions, concerns related to the specific issuer and our ability and intent to hold the security until it regains its value. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its market value. Any reduction in the cost basis of assets held in our merchandise trust due to an other-than-temporary impairment is offset against deferred revenue. Refer to Note 5 of our financial statements included in this Annual Report on Form 10-K for a more detailed discussion of other-than-temporarily impaired assets.

Perpetual Care Trust Assets

Pursuant to state law, a portion of the proceeds from the sale of cemetery property is required to be paid into perpetual care trusts. All principal must remain in this trust into perpetuity while interest and dividends may be released and used to defray cemetery maintenance costs, which are expensed as incurred.

Assets in our perpetual care trusts are carried at fair value. Any change in unrealized gains and losses are reflected in the carrying value of the assets and is offset against perpetual care trust corpus.

We evaluate whether or not the assets in our perpetual care trust have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions, concerns related to the specific issuer and our ability and intent to hold the security until it recovers its value. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its market value.

Any reduction in the cost basis of assets held in our perpetual care trusts due to an other-than-temporary impairment is offset against perpetual care trust corpus. There is no impact on earnings. Refer to Notes 5 and 6 of our financial statements included in this Annual Report on Form 10-K for a more detailed discussion of other-than-temporarily impaired assets.

Other-Than-Temporary Impairment of Trust Assets

We determine whether or not the impairment of a fixed maturity debt security is other-than-temporary by evaluating each of the following:

- Whether it is our intent to sell the security. If there is intent to sell, the impairment is considered to be other-than-temporary.

- If there is no intent to sell, we evaluate if it is not more likely than not that we will be required to sell the debt security before its anticipated recovery. If we determine that it is more likely than not that it will be required to sell an impaired investment before its anticipated recovery, the impairment is considered to be other-than-temporary.

We have further evaluated whether or not all assets in the merchandise trust have other-than-temporary impairments based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer.

If an impairment is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair value.

For assets held in the perpetual care trusts, any reduction in the cost basis due to an other-than-temporary impairment is offset with an equal and opposite reduction in the perpetual care trust corpus and has no impact on earnings.

For assets held in the merchandise trusts, any reduction in the cost basis due to an other-than-temporary impairment is recorded in deferred revenue.

The trust footnotes (Notes 5 and 6) disclose the adjusted cost basis of the assets in both the merchandise and perpetual care trust. This adjusted cost basis includes any adjustments to the original cost basis due to other-than-temporary impairments.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. We test goodwill for impairment using a two-step test. In the first step of the test, we compare the fair value of the reporting unit to its carrying amount, including goodwill. We determine the fair value of each reporting unit using the income approach. We do not record an impairment of goodwill in instances where the fair value of a reporting unit exceeds its carrying amount. If the aggregate fair value of a reporting unit is less than the related carrying amount, we would record an impairment loss in an amount equal to the excess of the carrying amount of goodwill over the implied fair value. The goodwill impairment test is performed annually or more frequently if events or circumstances indicate that impairment may exist.

Income Taxes

Our corporate subsidiaries are subject to both federal and state income taxes. We record deferred tax assets and liabilities to recognize temporary differences between the bases of assets and liabilities in our tax and GAAP balance sheets and for federal and state net operating loss carryforwards and alternative minimum tax credits.

We record a valuation allowance against our deferred tax assets if we deem that it is more likely than not that some portion or all of the recorded deferred tax assets will not be realizable in future periods.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results, recent cumulative losses and our forecast of future taxable income. In determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

As of December 31, 2011, our taxable corporate subsidiaries had a federal net operating loss carryover of approximately $152.8 million, which will begin to expire in 2019 and a state net operating loss carry-forward of approximately $184.1 million, a portion of which expires annually. Our ability to use such federal net operating losses may be limited by changes in the ownership of our units deemed to result in an ownership change under the applicable provisions of the Internal Revenue Code of 1986, as amended.

Recent Accounting Pronouncements

In the third quarter of 2011, the Financial Accounting Standards Board issued Update No. 2011-08, Intangibles Goodwill and Other (Topic 350) (ASU 2011-08). Prior to ASU 2011-08, the first step in the goodwill impairment test was to compare the fair value of a reporting unit to its carrying amount, including goodwill. ASU 2011-08 allows a Company to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after this assessment, it is determined that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, the goodwill test can be concluded and it is not necessary to calculate the fair value of the reporting unit. However, if the qualitative assessment does not lead to this conclusion, the full two step goodwill test, which has not been changed by ASU 2011-08, must be performed. We plan to adopt the provisions of ASU 2011-08 in 2012. This adoption is not expected to have a significant impact on our financial position, results of operations, or cash flows.

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Results of Operations Segments

Year Ended December 31, 2011 versus Year Ended December 31, 2010

Cemetery Segments

Our cemetery operations are disaggregated into three different geographically based segments. We have chosen this level of disaggregation due to the fact that a) each reportable segment has unique characteristics that set it apart from each other; b) we have organized our management personnel at these operational levels; and c) this is the level at which our chief decision makers and other senior management evaluate performance.

We account for and analyze the results of operations for each of these segments on a basis of accounting that is different from generally accepted accounting principles. We reconcile these non-GAAP accounting results of operations to GAAP based amounts at the consolidated level. This reconciliation is included in Note 15 to the consolidated financial statements included in this Annual Report on Form 10-K.

The method of accounting we utilize to analyze our overall results of operations, including segment results, provides for a production based view of our business. Under the production based view, we recognize revenues at their contract value at the point in time in which the contract is written, less a historic cancellation reserve. All related costs are expensed in the period the contract is recognized as revenue. In contrast, GAAP requires that we defer all revenues, and the direct costs associated with these revenues, until we meet certain delivery and performance requirements. The nature of our business is such that there is no meaningful relationship between the time that elapses from the date a contract is executed and the date the underlying merchandise is delivered or the service, delivery and performance requirements are met. Further, certain factors affecting this time period, such as weather and supplier issues, are out of our control. As a result, during a period of growth, operating profits as defined by GAAP will tend to lag behind operating profits on a production based view because of the required deferral of revenues. Our performance based view ignores these delays and presents results based upon the underlying value of contracts written. We believe this is the most reliable indicator of our performance for a given period as the value of contracts written less a historical cancellation reserve reflects the economic value added during a given period of time. Accordingly, the ensuing segment discussion is on a basis of accounting that differs from generally accepted accounting principles. See Note 1 to the consolidated financial statements included in this Annual Report on Form 10-K for a more detailed discussion of our accounting policies under GAAP.

Cemetery Operations Southeast

In 2010 and 2011, we made several acquisitions in our Cemetery Operations Southeast segment. Of these acquisitions, 2 occurred during the second quarter of 2010, 3 during the first quarter of 2011, 6 during the third quarter of 2011, and 5 during the fourth quarter of 2011. Therefore, the results of operations for these properties have very little impact, and in some cases no impact, on the year ended December 31, 2010, but are included in the results of operations for the year ended December 31, 2011. These additions are contributing to approximately half of the increase in revenues and costs and expenses for this segment.

The table below compares the results of operations for our Cemetery Operations Southeast for the year ended December 31, 2011 to the year ended December 31, 2010:

	Year ended December 31,			
	2011	2010	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 113,756	$ 104,576	$ 9,180	8.8%
Total costs and expenses	82,673	73,764	8,909	12.1%
Operating profit	$ 31,083	$ 30,812	$ 271	0.9%

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Revenues

Revenues for Cemetery Operations Southeast were $113.8 million for the year ended December 31, 2011, an increase of $9.2 million, or 8.8%, compared to $104.6 million during 2010.

The increase was primarily related to an overall increase in the value of contracts written, with an increase of $3.6 million in the value of pre-need contracts and an increase of $1.7 million in the value of at-need contracts. We also had an increase of $3.5 million in income from our trusts.

Total costs and expenses

Total costs and expenses for Cemetery Operations Southeast were $82.7 million for the year ended December 31, 2011, an increase of $8.9 million, or 12.1%, compared to $73.8 million during 2010.

The increase, of which approximately half is driven by acquisitions, was primarily related to:

- A $1.2 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.
- A $3.0 million increase in selling expenses. This was primarily attributable to an increase of $1.4 million in salary and benefit expenses, $0.9 million in commission related expenses and $0.5 million in advertising, telephone and telemarketing costs.
- A $2.6 million increase in cemetery expenses. The increase was primarily due to increases of $1.1 million in labor costs, $0.9 million in repair and maintenance costs, $0.4 million in utility and fuel costs and $0.1 million in real estate taxes.
- A $2.0 million increase in general and administrative expenses. This was primarily due to an increase of $0.7 in insurance costs, $0.8 in labor costs, $0.1 million in professional fees and $0.4 million in other general office and miscellaneous costs.
- A $0.1 million increase in depreciation.

Cemetery Operations Northeast

The table below compares the results of operations for our Cemetery Operations Northeast for the year ended December 31, 2011 to the year ended December 31, 2010:

	Year ended December 31, 2011	2010	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 57,263	$ 56,744	$ 519	0.9%
Total costs and expenses	39,943	40,011	(68)	-0.2%
Operating profit	$ 17,320	$ 16,733	$ 587	3.5%

Revenues

Revenues for Cemetery Operations Northeast were $57.3 million for the year ended December 31, 2011, an increase of $0.5 million, or 0.9%, compared to $56.8 million during 2010.

On an overall basis, we had a decrease in the value of contracts written, with an increase of $0.6 million in the value of at-need contracts being offset by a decrease of $1.2 million in the value of pre-need contracts. This was offset by an increase of $2.1 million in income from our trusts. Further, in 2010 we had non-recurring other income of $0.8 million related to the sale of assets.

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Total costs and expenses

Total costs and expenses for Cemetery Operations Northeast were $39.9 million for the year ended December 31, 2011, a decrease of $0.1 million, or 0.2%, compared to $40.0 million during 2010.

The overall decrease was primarily related to:

A $1.3 million decrease in cost of goods sold. This was attributable to the corresponding decrease in the value of contracts written.

A $0.3 million increase in selling expenses. This was primarily attributable to an increase in advertising, telephone and telemarketing costs.

A $0.5 million increase in cemetery expenses. The increase was primarily due to increases of $0.4 million in labor costs and $0.1 million in utility and fuel costs.

A $0.3 million increase in general and administrative expenses primarily due to an increase in insurance and other general office and miscellaneous costs.

A $0.1 million increase in depreciation.

Cemetery Operations West

In 2010 and 2011, we made several acquisitions in our Cemetery Operations West segment. Of these acquisitions, 9 occurred at the end of the first quarter of 2010, 6 occurred at the end of the second quarter of 2010, 3 during the third quarter of 2010, 1 during the fourth quarter of 2010 and 3 during the second quarter of 2011. Therefore, the results of operations for these properties have less of an impact, and in some cases little or no impact, on the year ended December 31, 2010, but are included in the results of operations of the year ended December 31, 2011. These additions are contributing the majority of the increases to revenues and costs and expenses for this segment.

The table below compares the results of operations for our Cemetery Operations West for the year ended December 31, 2011 to the year ended December 31, 2010:

	Year ended December 31,			
	2011	2010	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 78,458	$ 60,524	$ 17,934	29.6%
Total costs and expenses	52,992	39,633	13,359	33.7%
Operating profit	$ 25,466	$ 20,891	$ 4,575	21.9%

Revenues

Revenues for Cemetery Operations West were $78.4 million for the year ended December 31, 2011, an increase of $17.9 million, or 29.6%, compared to $60.5 million during 2010.

The increase was primarily related to an increase of $7.3 million in the value of pre-need contracts written, an increase of $5.4 million in the value of at-need contracts written and an increase of $4.8 million in income from our trusts.

Total costs and expenses

Total costs and expenses for Cemetery Operations West were $53.0 million for the year ended December 31, 2011, an increase of $13.4 million, or 33.7%, compared to $39.6 million during 2010.

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The increase, which is driven by our recent acquisitions, was primarily related to:

A $1.4 million increase in the cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.

A $2.9 million increase in selling expenses. The increase was primarily due to increases of $1.4 million in commissions, $0.9 million in labor costs and $0.4 million in advertising, telephone and telemarketing costs.

A $5.2 million increase in cemetery expenses. This consisted of a $2.8 million increase in labor costs, a $1.0 million increase in repair and maintenance costs, a $0.6 million increase in utility and fuel related costs and a $0.7 million increase in real estate taxes.

A $2.7 million increase in general and administrative expenses. The increase was primarily due to increases of $1.2 million in labor costs, $0.9 million in insurance costs, $0.3 million in professional fees and $0.3 million in other general office and miscellaneous costs.

A $1.1 million increase in depreciation.

Funeral Homes Segment

In 2010 and 2011, we acquired several funeral homes. Of these acquisitions, 5 occurred during the second quarter of 2010, 1 occurred during the fourth quarter of 2010, 4 occurred during the second quarter of 2011, 4 occurred during the third quarter of 2011 and 4 occurred during the fourth quarter of 2011. Therefore, the results of operations for these properties have less of an impact, and in some cases little or no impact, on the year ended December 31, 2010, but are included in the results of operations of the year ended December 31, 2011. These additions are contributing the entire increase to revenues and almost all of the increases to costs and expenses for this segment.

The table below compares the results of operations for our Funeral Home segment for the year ended December 31, 2011 to the year ended December 31, 2010:

	Year ended December 31,			
	2011	2010	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 31,163	$ 25,546	$ 5,617	22.0%
Total costs and expenses	25,151	21,591	3,560	16.5%
Operating profit	$ 6,012	$ 3,955	$ 2,057	52.0%

Revenues

Revenues for the Funeral Home segment were $31.2 million for the year ended December 31, 2011, an increase of $5.6 million, or 22.0%, compared to $25.6 million during 2010.

The increase was primarily attributable to a $2.2 million increase in at-need revenues, a $2.5 million increase in pre-need revenues and a $0.9 million increase in other revenues.

Total costs and expenses

Total costs and expenses for the Funeral Home segment were $25.2 million for the year ended December 31, 2011, an increase of $3.6 million, or 16.5%, compared to $21.6 million during 2010.

The increase was primarily attributable to increases of $2.0 million in personnel expenses, $0.8 million in facility costs, and $0.5 million in merchandise costs, with the remainder attributable to various increases in other general expense categories.

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Corporate Segment

Amounts allocated to the Corporate segment include each of the following:

- Miscellaneous selling, cemetery and general administrative expenses that are not allocable to other operating segments.
- Various home office and other expenses. These expenses equal the total corporate expenses as shown on the face of the income statement.
- Certain depreciation and amortization expenses.
- Acquisition related costs.

The table below details expenses incurred by the Corporate segment for the year ended December 31, 2011 and December 31, 2010:

	Year ended December 31,			
	2011	2010	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Selling, cemetery and general and administrative expenses	$ 832	$ 619	$ 213	34.4%
Depreciation and amortization	2,127	3,804	(1,677)	-44.1%
Acquisition related costs	4,604	5,715	(1,111)	-19.4%
Corporate expenses				
Corporate personnel expenses	11,580	12,575	(995)	-7.9%
Other corporate expenses	12,186	11,804	382	3.2%
Total corporate overhead	23,766	24,379	(613)	-2.5%
Total corporate expenses	$ 31,329	$ 34,517	$ (3,188)	-9.2%

Selling, cemetery and general administrative expenses allocated to the Corporate segment were $0.8 million for the year ended December 31, 2011, an increase of $0.2 million, or 34.4%, compared to $0.6 million for the year ended December 31, 2010. The increase is primarily related to a $0.1 million increase for a new sales training program started in the current year and an increase of $0.1 million in personnel expenses.

Depreciation and amortization was $2.1 million during the year ended December 31, 2011, a decrease of $1.7 million, or 44.1%, as compared to $3.8 million during the period last year. The decrease was due to a decrease in amortized deferred financing fees.

Acquisition related costs were $4.6 million for the year ended December 31, 2011, a decrease of $1.1 million, or 19.4%, as compared to $5.7 million during 2010. Acquisition related costs include legal fees and other third party costs incurred in acquisition related activities. These costs will vary from period to period depending on the amount of acquisition activity that takes place. For the years ended December 31, 2011 and 2010, acquisition related costs include legal fees net of recoveries, of $1.2 million and $0.4 million, respectively, related to amounts paid to pursue the recovery of misappropriation claims related to our second quarter 2010 acquisition.

Total corporate overhead was $23.8 million for the year ended December 31, 2011, a decrease of $0.6 million, or 2.5% compared to $24.4 million during 2010. The overall decrease consists of a decrease of $1.0 million in personnel costs offset by an increase of $0.4 million in non-personnel expenses. The decrease in personnel related expenses was primarily attributable to a decrease of $1.8 million in bonus expenses, which were zero in 2011, offset by increased labor costs. The increase in other corporate expenses was attributable to an increases of $0.5 million in professional fees and $0.2 million in technology and management information costs, offset by a decrease of $0.4 million in general office costs and corporate expenses.

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Reconciliation of Segment Results of Operations to Consolidated Results of Operations

As discussed in the segment sections of this Management s Discussion and Analysis of Financial Condition and Results of Operations, cemetery revenues and their associated costs as reported at the segment level are not deferred until such time that we meet the delivery component for revenue recognition.

Periodic consolidated revenues reflect the amount of total merchandise and services which were delivered during the period. Accordingly, period over period changes to revenues can be impacted by:

- Changes in the value of contracts written and other revenues generated during a period that are delivered in their period of origin and are recognized as revenue and not deferred as of the end of their period of origination.

- Changes in merchandise and services that are delivered during a period that had been originated during a prior period.

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The table below analyzes results of operations and the changes therein for the year ended December 31, 2011 compared to the year ended December 31, 2010. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/or changes in the timing of when merchandise and services were delivered. During 2010 we acquired 22 cemeteries and 6 funeral homes. During 2011 we acquired another 17 cemeteries and 12 funeral homes. The results of operations for these properties have less of an impact, and in some cases little or no impact, on the year ended December 31, 2010, but are included in the results of operations for the year ended December 31, 2011. These additions are contributing the majority of the increases to revenues and costs and expenses in the table below.

	Year ended December 31, 2011 (in thousands)			Year ended December 31, 2010 (in thousands)				
	Segment Results (non-GAAP)	Non-segment Results	GAAP Results	Segment Results (non-GAAP)	Non-segment Results	GAAP Results	Change in GAAP results ($)	Change in GAAP results (%)
Revenues								
Pre-need cemetery revenues	$ 122,789	$ (31,735)	$ 91,054	$ 113,183	$ (34,089)	$ 79,094	$ 11,960	15.1%
At-need cemetery revenues	79,501	(5,141)	74,360	71,764	(6,743)	65,021	9,339	14.4%
Investment income from trusts	38,943	(15,399)	23,544	28,511	(10,136)	18,375	5,169	28.1%
Interest income	5,864		5,864	5,649		5,649	215	3.8%
Funeral home revenues	31,163	(759)	30,404	25,546		25,546	4,858	19.0%
Other cemetery revenues	2,380	782	3,162	2,747	860	3,607	(445)	-12.3%
Total revenues	280,640	(52,252)	228,388	247,400	(50,108)	197,292	31,096	15.8%
Costs and expenses								
Cost of goods sold	31,154	(5,039)	26,115	29,865	(6,336)	23,529	2,586	11.0%
Cemetery expense	57,145		57,145	48,784		48,784	8,361	17.1%
Selling expense	53,784	(8,493)	45,291	47,400	(9,155)	38,245	7,046	18.4%
General and administrative expense	29,547	(3)	29,544	24,591		24,591	4,953	20.1%
Corporate overhead	23,766		23,766	24,379		24,379	(613)	-2.5%
Depreciation and amortization	8,534		8,534	8,845		8,845	(311)	-3.5%
Funeral home expense	23,554		23,554	19,937		19,937	3,617	18.1%
Acquisition related costs	4,604		4,604	5,715		5,715	(1,111)	-19.4%
Total costs and expenses	232,088	(13,535)	218,553	209,516	(15,491)	194,025	24,528	12.6%
Operating profit	$ 48,552	$ (38,717)	$ 9,835	$ 37,884	$ (34,617)	$ 3,267	$ 6,568	201.0%

Revenues

Pre-need cemetery revenues were $91.1 million for the year ended December 31, 2011, an increase of $12.0 million, or 15.1%, as compared to $79.1 million during 2010. The increase was primarily caused by an increase of $9.6 million in the value of cemetery contracts written and a decrease of $2.4 million in deferred revenue.

At-need cemetery revenues were $74.3 million for the year ended December 31, 2011, an increase of $9.3 million, or 14.4%, as compared to $65.0 million during 2010. The increase was primarily caused by an increase of $7.7 million in the value of cemetery contracts written and a decrease of $1.6 million in deferred revenue.

The increase in the value of pre-need and at-need contracts was primarily driven by our Cemetery Operations West segment, and to a lesser extent by our Cemetery Operations Southeast segment. We had numerous acquisitions in these segments in 2010 and 2011 and the results of operations for these acquired cemeteries are included in the year ended December 31, 2011, but have less of an impact, and in some cases little or no impact, on the year ended December 31, 2010.

Investment income from trusts was $23.5 million for the year ended December 31, 2011, an increase of $5.2 million, or 28.1%, as compared to $18.3 million during 2010. On a segment basis, we had an increase of $10.4 million, which was offset by an adjustment of $5.2 million related to funds for which we have not met the requirements that would allow us to recognize them as revenue.

Interest income on accounts receivable was $5.9 million for the year ended December 31, 2011, an increase of $0.2 million, or 3.8%, as compared to $5.7 million during 2010.

Revenues for the Funeral Home segment were $30.4 million for the year ended December 31, 2011, an increase of $4.9 million, or 19.0%, compared to $25.5 million during 2010. The increase was primarily attributable to the acquisitions of funeral homes we made during 2010 and 2011.

Other cemetery revenues include miscellaneous items that are not grouped with our cemetery merchandise and services. Other cemetery revenues were $3.2 million for the year ended December 31, 2011, a decrease of $0.4 million, or 12.3%, as compared to $3.6 million during 2010. The decrease was primarily related to non-recurring other income of $0.8 million related to the sale of assets that occurred in 2010, offset by other miscellaneous increases of $0.4 million.

Costs and Expenses

Cost of goods sold were $26.1 million for the year ended December 31, 2011, an increase of $2.6 million, or 11.0%, as compared to $23.5 million in 2010. The ratio of cost of goods sold to pre-need and at-need cemetery revenues remained relatively consistent as it slightly decreased to 15.8% for the year ended December 31, 2011 as compared to 16.3% during 2010. The change in the ratio primarily relates to changes in product mix.

Cemetery expenses were $57.2 million during the year ended December 31, 2011, an increase of $8.4 million, or 17.1%, compared to $48.8 million during 2010. The major components of the overall expense increase were $4.3 million in labor costs, $1.1 million in utility and fuel cost, $1.9 million in repairs and maintenance expenditures and $0.8 in real estate taxes. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 28.2% during the year ended December 31, 2011 as compared to 26.4% during 2010.

Selling expenses were $45.3 million during the year ended December 31, 2011, an increase of $7.0 million, or 18.4%, as compared to $38.3 million in 2010. The major components of the overall expense increase include $2.3 million in commissions, $2.4 million in salaries and benefits, $1.2 million in advertising, telephone and telemarketing costs and $0.1 million related to a new sales training program started in the current year as well as a reduction in deferred selling expenses of $0.7 million. The ratio of selling expenses to cemetery revenues increased to 27.4% for the year ended December 31, 2011 as compared to 26.5% during 2010. This ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, the majority of our selling expenses are sales commissions and bonuses which are based on a percentage of the value of actual contracts written. As a result, we would expect this ratio to remain fairly consistent.

General and administrative expenses were $29.5 million during the year ended December 31, 2011, an increase of $4.9 million, or 20.1%, as compared to $24.6 million during 2010. The major components of the overall expense increase include $1.9 million in labor costs, $1.8 million in insurance costs, and $0.3 million in professional fees, with the remaining increase attributable to general office and miscellaneous costs. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our general and administrative costs relative to our overall cemetery operations. An increase in the ratio indicates that general and administrative percentage expense increases related to our cemetery properties exceeded percent increases in the value of contracts written, while a decrease in the ratio indicates that expense growth on a percentage basis did not exceed percentage increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decrease as many of the expenses in this category are fixed in nature. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues increased to 14.6% during the year ended December 31, 2011 as compared to 13.3% during 2010.

Total corporate overhead was $23.8 million during the year ended December 31, 2011, a decrease of $0.6 million, or 2.5%, compared to $24.4 million during 2010. The overall decrease consists of a decrease of $1.0 million in personnel costs offset by an increase of $0.4 million in non-personnel expenses. The decrease in personnel related expenses was primarily attributable to a decrease of $1.8 million in bonus expenses, which were zero in 2011, offset by increased labor costs. The increase in other corporate expenses was attributable to an increases of $0.5 million in professional fees and $0.2 million in technology and management information costs, offset by a decrease of $0.4 million in general office costs and corporate expenses.

Depreciation and amortization was $8.5 million during the year ended December 31, 2011, a decrease of $0.3 million, or 3.5%, as compared to $8.8 million during the period last year. The overall decrease was due to a decrease in amortized deferred financing fees, which is partially offset by increased depreciation and amortization from tangible and intangible assets acquired in our 2010 and 2011 acquisitions.

Funeral Home expenses were $23.5 million for the year ended December 31, 2011, an increase of $3.6 million, or 18.1%, compared to $19.9 million during 2010. The increase was primarily attributable to increases of $2.0 million in personnel expenses, $0.8 million in facility costs and $0.5 million in merchandise costs, with the remainder attributable to various increases in other general expense categories.

Acquisition related costs were $4.6 million for the year ended December 31, 2011, a decrease of $1.1 million, or 19.4%, as compared to $5.7 million during 2010. Acquisition related costs include legal fees and other third party costs incurred in acquisition related activities. These costs will vary from period to period depending

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on the amount of acquisition activity that takes place. For the years ended December 31, 2011 and 2010, acquisition related costs include legal fees net of recoveries, of $1.2 million and $0.4 million, respectively, related to amounts paid to pursue the recovery of misappropriation claims related to our second quarter 2010 acquisition.

Non-segment Allocated Results

As previously mentioned, certain income statement amounts are not allocated to segment operations. These amounts are those line items that can be found on our income statement below operating profit and above income before income taxes.

The table below summarizes these items and the changes between the years ended December 31, 2011 and 2010:

	Year ended December 31,			
	2011	2010	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Expenses related to refinancing	$ 453	$	$ 453	100.0%
Gain on acquisition		7,152	(7,152)	-100.0%
Gain on sale of funeral home	92		92	100.0%
Early extinguishment of debt	4,010		4,010	100.0%
Increase (decrease) in fair value of interest rate swap		4,724	(4,724)	-100.0%
Interest expense	19,198	21,973	(2,775)	-12.6%
Income tax (benefit)	$ (4,019)	$ (5,383)	$ 1,364	-25.3%

The expenses related to refinancing for the year ended December 31, 2011 were incurred when we amended our credit facilities in January of 2011.

The gain on acquisition relates to our first and third quarter 2010 acquisitions. Refer to Note 14 of our consolidated financial statements in Item 8 of this Form 10-K for a more detailed discussion.

The gain on sale of a funeral home relates to the sale of one funeral home in West Virginia that we sold for $0.1 million.

The early extinguishment of debt charge of $4.0 million relates to a one-time make-whole premium we paid in connection with the early repayment of our $35.0 million in Class B and Class C Senior Secured Notes.

We entered into two interest rate swaps during the fourth quarter of 2009. In October of 2010, when the swaps were in a favorable position to us, we elected to early terminate our interest rate swap agreements. As a result, we received a payment of approximately $2.0 million at the time the agreement was settled. This payment combined with the reversal of the preceding year s interest rate swap liability created the prior year gain of $4.7 million.

Interest expense decreased as a result of our reduced debt. Borrowings on our credit facilities have fluctuated and have been impacted by borrowings we made for acquisitions and repayments of borrowings using proceeds from follow-on public offerings. The average debt outstanding under our credit facilities was $15.9 million for year ended December 31, 2011 compared to $28.0 million for the year ended December 31, 2010. We also had $35.0 million of Senior Secured Notes outstanding at December 31, 2010. The Senior Secured Notes, along with all amounts outstanding on our credit facilities were repaid in February of 2011. We did not have any borrowing on our credit facilities from this point through the end of May 2011. From May of 2011 through the end of the year, we have borrowed additional amounts on our credit facilities and we had $33.0 million and $10.8 million outstanding on our revolving and acquisition credit facilities, respectively, at December 31, 2011. In addition, the decrease in interest expense for the year ended December 31, 2011 was partially offset by interest rate swaps that reduced our interest payments and expense by approximately $1.2 million. The interest rate swaps were terminated in fourth quarter of 2010.

Income tax benefit was $4.0 million for the year ended December 31, 2011, a decrease of $1.4 million, or 25.3%, as compared to $5.4 million during 2010. The decrease in the income tax benefit is due to a decrease in pre-tax losses at our corporate subsidiaries that are subject to corporate tax, offset in part by the recording of a $0.9 million income tax benefit related to the reversal of uncertain tax positions for which the statute of limitations had expired. In addition, our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

Year Ended December 31, 2010 versus Year Ended December 31, 2009

Cemetery Segments

As previously mentioned, during 2010 we acquired 19 cemeteries and 6 funeral homes and began operating 3 cemeteries under a long-term operating agreement. Of the cemeteries we acquired or began operating, 19 were in our Cemetery Operations-West segment. Our 2010 acquisitions did not have a meaningful impact on the results of operations in our Cemetery Operations-Southeast or Cemetery Operations-Northeast segments.

Cemetery Operations Southeast

The table below compares the results of operations for our Cemetery Operations Southeast for the year ended December 31, 2010 as compared to the year ended December 31, 2009:

	Year ended December 31,			
	2010	2009	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 104,576	$ 99,732	$ 4,844	4.9%
Total costs and expenses	73,764	69,317	4,447	6.4%
Operating profit	$ 30,812	$ 30,415	$ 397	1.3%

Revenues

Revenues for Cemetery Operations Southeast were $104.6 million for the year ended December 31, 2010, an increase of $4.8 million, or 4.9%, compared to $99.7 million during 2009.

The increase was primarily due to increases in the value of pre-need contracts written of $5.5 million and at-need contracts written of $1.2 million, offset in part by a net decrease in investment income from our merchandise and perpetual care trusts of $1.5 million.

Total costs and expenses

Total costs and expenses for Cemetery Operations Southeast were $73.8 million for the year ended December 31, 2010, an increase of $4.5 million, or 6.4%, compared to $69.3 million during 2009.

The increase was primarily related to:

A $0.1 million increase in cost of goods sold. This was attributable in part to the corresponding increase in the value of pre-need and at-need contracts written, offset by a change in product mix.

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A $2.1 million increase in selling expenses. This was also directly attributable to the corresponding increase in the value of pre-need and at-need contracts written. The ratio of selling expenses to the total value of contracts written increased to 26.3% during the year ended December 31, 2010 compared to 25.9% during 2009.

A $1.9 million increase in cemetery expenses. The increase was primarily due to increases in repair and maintenance costs of $0.6 million, labor costs of $0.5 million, real estate taxes of $0.4 million and utility and fuel costs of $0.2 million.

A $0.5 million increase in general and administrative expenses. This was primarily due to an increase in professional fees of $0.3 million and labor costs of $0.2 million.

Cemetery Operations Northeast

The table below compares the results of operations for our Cemetery Operations Northeast for the year ended December 31, 2010 as compared to the year ended December 31, 2009:

	Year ended December 31,			
	2010	2009	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 56,744	$ 54,193	$ 2,551	4.7%
Total costs and expenses	40,011	37,611	2,400	6.4%
Operating profit	$ 16,733	$ 16,582	$ 151	0.9%

Revenues

Revenues for Cemetery Operations Northeast were $56.7 million for the year ended December 31, 2010, an increase of $2.6 million, or 4.7%, compared to $54.2 million during 2009. A $1.3 million increase in the value of pre-need contracts written and a $0.9 million increase in investment income from trusts were offset by a $0.4 million decrease in the value of at-need contracts written. There was also an increase of $0.8 million related to the sale of assets.

Total costs and expenses

Total costs and expenses for Cemetery Operations Northeast were $40.0 million for the year ended December 31, 2010, an increase of $2.4 million, or 6.4%, compared to $37.6 million during 2009.

The increase was primarily related to:

A $1.2 million increase in cost of goods sold. The ratio of cost of goods sold to the total value of contracts written increased by 250 basis points to 18.7% during the year ended December 31, 2010 as compared to 16.2% during 2009.

A $0.6 million increase in selling expenses. This was also directly attributable to the corresponding increase in the value of pre-need and at-need contracts written. The ratio of selling expenses to the total value of contracts written increased to 24.7% during the year ended December 31, 2010 compared to 23.9% during 2009.

A $0.6 million increase in cemetery expenses driven by an increase of $0.5 million in repair and maintenance costs.

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Cemetery Operations West

The table below compares the results of operations for our Cemetery Operations West for the year ended December 31, 2010 as compared to the year ended December 31, 2009:

	Year ended December 31,			
	2010	2009	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 60,524	$ 39,957	$ 20,567	51.5%
Total costs and expenses	39,633	27,422	12,211	44.5%
Operating profit	$ 20,891	$ 12,535	$ 8,356	66.7%

Revenues

Revenues for Cemetery Operations West were $60.5 million for the year ended December 31, 2010, an increase of $20.6 million, or 51.5%, compared to $40.0 million during 2009. The increase was primarily related to a $7.4 million increase in the value of pre-need contracts written, a $6.2 million increase in the value of at-need contracts written, and a $6.4 million increase in investment income from trusts. Further, 19 of the cemeteries we acquired during 2010 were located in the West and accounted for $20.1 million of the overall increase in revenues.

Total costs and expenses

Total costs and expenses for Cemetery Operations West were $39.6 million for the year ended December 31, 2010, an increase of $12.2 million, or 44.5%, compared to $27.4 million during 2009. As noted above, the overall increase is primarily driven by the cemeteries we acquired or began operating in 2010.

The increase was primarily related to:

- A $1.5 million increase in cost of goods sold. This increase is directly attributable to the corresponding increase in the value of pre-need and at-need contracts written. The ratio of cost of goods sold to the total value of contracts remained relatively consistent decreasing 70 basis points to 12.7% during the year ended December 31, 2010 as compared to 13.4% during 2009.

- A $3.3 million increase in selling expenses. This increase is also directly attributable to the corresponding increase in the value of pre-need and at-need contracts written. The ratio of selling expenses to the total value of contracts written increased to 24.0% during the year ended December 31, 2010 compared to 23.8% during 2009.

- A $4.9 million increase in cemetery expenses. This consisted of a $2.5 million increase in labor costs, a $1.3 million increase in repair and maintenance costs, $0.4 million increase in utility and fuel related costs and a $0.4 million increase in real estate taxes.

- A $2.5 million increase in general and administrative expenses which was primarily driven by an increase of $1.1 million in labor related costs, $0.7 million in varied non-labor related costs and $0.7 million in depreciation expense, primarily as a result of the 19 cemeteries we acquired during 2010.

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Funeral Home Segment

The table below compares the results of operations for our Funeral Home segment for the year ended December 31, 2010 as compared to the year ended December 31, 2009:

	Year ended December 31,			
	2010	2009	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Total revenues	$ 25,546	$ 23,365	$ 2,181	9.3%
Total costs and expenses	21,591	20,107	1,484	7.4%
Operating profit	$ 3,955	$ 3,258	$ 697	21.4%

Revenues

Revenues for the Funeral Home segment were $25.6 million for the year ended December 31, 2010, an increase of $2.2 million, or 9.3%, compared to $23.4 million during 2009.

The increase is primarily attributable to the acquisition of six funeral homes during 2010.

Total costs and expenses

Total costs and expenses for the Funeral Home segment were $21.6 million for the year ended December 31, 2010, an increase of $1.5 million, or 7.4%, compared to $20.1 million during 2009. This increase was also primarily related to the acquisition of six funeral homes during 2010. The largest portion of the increase consists of $0.5 million in labor costs and $0.6 million of depreciation expense.

Corporate Segment

Amounts allocated to the Corporate segment include each of the following:

- Miscellaneous selling, cemetery and general administrative expenses that are not allocable to other operating segments.
- Various home office and other expenses. These expenses equal the total corporate expenses as shown on the face of the income statement.
- Certain depreciation and amortization expenses.
- Acquisition related costs.

The table below details expenses incurred by the Corporate segment for the year ended December 31, 2010 and December 31, 2009:

	Year ended December 31,			
	2010	2009	Change ($)	Change (%)
	(in thousands) (non-GAAP)			

Selling, cemetery and general and administrative expenses	$ 619	$ 908	$ (289)	-31.8%
Depreciation and amortization	3,804	2,608	1,196	45.9%
Acquisition related costs	5,715	1,072	4,643	433.1%
Corporate expenses				
Corporate personnel expenses	12,575	10,382	2,193	21.1%
Other corporate expenses	11,804	11,988	(184)	-1.5%
Total corporate overhead	24,379	22,370	2,009	9.0%
Total corporate expenses	$ 34,517	$ 26,958	$ 7,559	28.0%

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Selling, cemetery and general administrative expenses that were allocated to the corporate segment were $0.6 million during the year ended December 31, 2010, a decrease of $0.3 million, or 31.8%, compared to $0.9 million for the year ended December 31, 2009. The decrease was primarily caused by a decrease in salesperson s bonuses and advertising costs.

Depreciation and amortization allocated to the corporate segment was $3.8 million during the year ended December 31, 2010, an increase of $1.2 million, or 45.9%, compared to $2.6 million for the year ended December 31, 2009. The increase was primarily caused by an increase in the amortization of deferred financing fees.

Acquisition related costs include legal fees and other third party costs incurred in acquisition related activities. Acquisition related costs were $5.7 million during the year ended December 31, 2010, an increase of $4.6 million, or 433.1%, compared to $1.1 million for the year ended December 31, 2009. The increase in these costs is directly related to the increase in acquisition activity that we had during the year ended December 31, 2010.

Total corporate overhead was $24.4 million during the year ended December 31, 2010, an increase of $2.0 million, or 9.0%, compared to $22.4 million during the year ended December 31, 2009. The overall increase consists of an increase in personnel related expenses of $2.2 million and a decrease of $0.2 million in non-personnel expenses. The increase in personnel related expenses was primarily attributable to an increase of $1.8 million in bonus expenses, with the remained being attributable to increased salary and payroll tax expenses.

Reconciliation of Segment Results of Operations to Consolidated Results of Operations

As discussed in the segment sections of this Management s Discussion and Analysis of Financial Condition and Results of Operations, cemetery revenues and their associated costs as reported at the segment level are not deferred until such time that we meet the delivery component for revenue recognition.

Periodic consolidated revenues reflect the amount of total merchandise and services which were delivered during the period. Accordingly, period over period changes to revenues can be impacted by:

- Changes in the value of contracts written and other revenues generated during a period that are delivered in their period of origin and are recognized as revenue and not deferred as of the end of their period of origination.

- Changes in merchandise and services that are delivered during a period that had been originated during a prior period.

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The table below analyzes results of operations and the changes therein for the year ended December 31, 2010 compared to the year ended December 31, 2009. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/or changes in the timing of when merchandise and services were delivered:

	Year ended December 31, 2010 (in thousands)			Year ended December 31, 2009 (in thousands)				
	Segment Results (non-GAAP)	Non-segment Results	GAAP Results	Segment Results (non-GAAP)	Non-segment Results	GAAP Results	Change in GAAP results ($)	Change in GAAP results (%)
Revenues								
Pre-need cemetery revenues	$ 113,183	$ (34,089)	$ 79,094	$ 99,773	$ (26,930)	$ 72,843	$ 6,251	8.6%
At-need cemetery revenues	71,764	(6,743)	65,021	63,970	(6,549)	57,421	7,600	13.2%
Investment income from trusts	28,511	(10,136)	18,375	22,706	(3,180)	19,526	(1,151)	-5.9%
Interest income	5,649		5,649	5,834		5,834	(185)	-3.2%
Funeral home revenues	25,546		25,546	23,365		23,365	2,181	9.3%
Other cemetery revenues	2,747	860	3,607	1,613	601	2,214	1,393	62.9%
Total revenues	247,400	(50,108)	197,292	217,261	(36,058)	181,203	16,089	8.9%
Costs and expenses								
Cost of goods sold	29,865	(6,336)	23,529	27,016	(5,222)	21,794	1,735	8.0%
Cemetery expense	48,784		48,784	41,246		41,246	7,538	18.3%
Selling expense	47,400	(9,155)	38,245	41,652	(7,529)	34,123	4,122	12.1%
General and administrative expense	24,591		24,591	22,498		22,498	2,093	9.3%
Corporate overhead	24,379		24,379	22,370		22,370	2,009	9.0%
Depreciation and amortization	8,845		8,845	6,528		6,528	2,317	35.5%
Funeral home expense	19,937		19,937	19,006		19,006	931	4.9%
Acquisition related costs	5,715		5,715	1,072		1,072	4,643	n/a
Total costs and expenses	209,516	(15,491)	194,025	181,388	(12,751)	168,637	25,388	15.1%
Operating profit	$ 37,884	$ (34,617)	$ 3,267	$ 35,873	$ (23,307)	$ 12,566	$ (9,299)	-74.0%

Revenues

Pre-need cemetery revenues were $79.1 million for the year ended December 31, 2010, an increase of $6.3 million, or 8.6%, as compared to $72.8 million during 2009. There was a substantial increase in the value of contracts written ($13.4 million), which was offset by an increase in deferred revenue ($7.1 million).

At-need cemetery revenues were $65.0 million for the year ended December 31, 2010, an increase of $7.6 million, or 13.2%, as compared to $57.4 million during 2009. The value of contracts written increased $7.1 million while the change in deferred revenues remained relatively consistent.

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Investment income from trusts was $18.4 million for the year ended December 31, 2010, a decrease of $1.2 million, or 5.9%, as compared to $19.5 million during 2009. The overall decline in investment income consists of an increase of $5.8 million of investment income on a segment basis, offset by an adjustment of $7.0 million related to funds for which we have not met the requirements that would allow us to recognize them as revenue.

Interest income on accounts receivable was $5.6 million for the year ended December 31, 2010, a decrease of $0.2 million, or 3.2%, as compared to $5.8 million during 2009.

Revenues for the Funeral Home segment were $25.5 million for the year ended December 31, 2010, an increase of $2.2 million, or 9.3%, compared to $23.4 million during 2009. The increase was primarily attributable to the acquisition of six funeral homes during 2010.

Other cemetery revenues include miscellaneous items that are not grouped with our cemetery merchandise and services. Other cemetery revenues were $3.6 million for the year ended December 31, 2010, an increase of $1.4 million, or 62.9%, as compared to $2.2 million during 2009. The increase was primarily related to a $0.8 million increase in asset sales revenue.

Costs and Expenses

Cost of goods sold were $23.5 million for the year ended December 31, 2010, an increase of $1.7 million, or 8.0%, as compared to $21.8 million in 2009. The increase was primarily due to the associated increase in (combined) pre-need and at-need cemetery revenues. The ratio of cost of goods sold to pre-need and at-need cemetery revenues remained relatively consistent as it slightly decreased to 16.3% for the year ended December 31, 2010 as compared to 16.7% during 2009.

Cemetery expenses were $48.8 million during the year ended December 31, 2010, an increase of $7.5 million, or 18.3%, compared to $41.3 million during 2009. The major components of the increase consisted of $3.0 million for labor costs, $2.4 million for repair and maintenance costs, $0.8 million for real estate taxes and $0.6 million in utility and fuel costs. Approximately $5.0 million of the increase in cemetery expenses can be attributable to the 19 cemeteries we acquired and 3 cemeteries we began operating during the year. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 26.4% during the year ended December 31, 2010 as compared to 25.2% during 2009.

Selling expenses were $38.2 million during the year ended December 31, 2010, an increase of $4.1 million, or 12.1%, as compared to $34.1 million in 2009. The increase was primarily caused by the associated increase in (combined) pre-need and at-need cemetery revenues. The ratio of cost of selling expenses to segment level pre-need and at-need cemetery revenues decreased to 20.7% for the year ended December 31, 2010 as compared to 20.8% during 2009. This ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, the majority of our selling expenses are sales commissions and bonuses which are based on a percentage of the value of actual contracts written. As a result, we would expect this ratio to remain fairly consistent.

General and administrative expenses were $24.6 million during the year ended December 31, 2010, an increase of $2.1 million, or 9.3%, as compared to $22.5 million during 2009. The increase was split between an increase of $1.2 million in labor costs and $0.9 million in non-labor costs. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our general and administrative costs relative to our overall cemetery operations. An increase in the ratio indicates that general and administrative percentage expense increases related to our cemetery properties exceeded percent increases in the value of contracts written, while a decrease in the ratio indicates that expense growth on a percentage basis did not exceed percentage increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decrease as many of the expenses in this category are fixed in nature. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues was 13.3% during the year ended December 31, 2010 as compared to 13.7% during 2009.

Total corporate overhead was $24.4 million during the year ended December 31, 2010, an increase of $2.0 million, or 9.0%, compared to $22.4 million during 2009. Overall, personnel related expenses increased $2.2 million and non-personnel expenses decreased $0.2 million. The increase in personnel related expense was primarily attributable to bonuses of $1.8 million with the remaining attributable to an increase in salary payroll tax expenses.

Depreciation and amortization was $8.8 million during the year ended December 31, 2010, an increase of $2.3 million, or 35.5%, as compared to $6.5 million during the period last year. The increase was primarily due to increases in amortized deferred financing fees and the increases in amortization of covenants not to compete related to our 2010 acquisitions.

Funeral Home expenses were $19.9 million for the year ended December 31, 2010, an increase of $0.9 million, or 4.9%, compared to $19.0 million during 2009. The largest portion of the increase consists of $0.5 million in labor costs. In addition, many other expense categories had slight increase as a result of the six funeral homes we acquired during 2010.

Non-segment Allocated Results

As previously mentioned, certain income statement amounts are not allocated to segment operations. These amounts are those line items that can be found on our income statement below operating profit and above income before income taxes.

The table below summarizes these items and the changes between the years ended December 31, 2010 and 2009:

	Year ended December 31,			
	2010	2009	Change ($)	Change (%)
	(in thousands) (non-GAAP)			
Gain on acquisitions	$ 7,152	$	$ 7,152	100.0%
Gain on sale of funeral home		434	(434)	-100.0%
Increase (decrease) in fair value of interest rate swap	4,724	(2,681)	7,405	-276.2%
Expenses related to refinancing		2,242	(2,242)	-100.0%
Interest expense	21,973	14,410	7,563	52.5%
Income tax (benefit)	$ (5,383)	$ (1,945)	$ (3,438)	176.8%

The 2010 gains on acquisition relate primarily to our first quarter 2010 acquisition of eight cemeteries and five funeral homes ($7.1 million) and the acquisition of a single cemetery in the third quarter of 2010 ($0.1 million). Refer to Note 14 of our consolidated Financial Statements for a more detailed discussion.

We entered into two interest rate swaps during the fourth quarter of 2009. At December 31, 2009, these swaps had a fair value of ($2.7 million). We recorded this as a loss during 2009. In October of 2010, when the swaps were in a favorable position to us, we elected to early terminate our interest rate swap agreements. As a result, we received a payment of approximately $2.0 million at the time the agreement was settled. This payment combined with the reversal of the prior year s interest rate swap liability has created the current year gain of $4.7 million.

The $2.2 million in expenses incurred due to refinancing activities related to the write-down of deferred financing fees that were recorded in conjunction with our fourth quarter 2009 private debt offering for which certain of the funds were used to pay down prior existing debt.

The increase in interest expense was primarily due to an overall increase in the average amount of debt outstanding and a higher average interest rate. At June 30, 2009, we had approximately $181.5 million in debt outstanding. At June 30, 2010, we had approximately $237.7 million in debt outstanding, at September 30, 2010, we had approximately $207.3 million outstanding and by December 31, 2010, we had approximately $222.0 million of debt outstanding. Further, in November of 2009, we retired $80.0 million of our Series A Notes bearing interest at 7.66% and $17.5 million of our Series B Notes bearing interest at 9.34%, with the proceeds generated from the issuance of $150.0 million of Senior Notes bearing interest at 10.25%. The combination of incurring additional debt and replacing existing debt with higher interest rate created the increase in interest expense.

The increase in the income tax benefit was primarily related to increased pre-tax losses at our corporate subsidiaries that are subject to corporate taxes.

The increase in the income tax benefit was primarily related to increased pre-tax losses at our corporate subsidiaries that are subject to corporate taxes.

Liquidity and Capital Resources

Overview

Our primary short-term liquidity needs are to fund general working capital requirements, repay our debt obligations, service our debt, make routine maintenance capital improvements and pay distributions. We will need additional liquidity to construct mausoleum and lawn crypts on the grounds of our cemetery properties.

Our primary sources of liquidity are cash flow from operations and amounts available under our credit facilities as described below. In the past, we have been able to increase our liquidity through long-term bank borrowings and the issuance of additional common units and other partnership securities, including debt, subject to the restrictions in our credit facility and under our senior secured notes.

We believe that cash generated from operations and our borrowing capacity under our Credit Agreement, which is discussed below, will be sufficient to meet our working capital requirements as well as our anticipated capital expenditures for the foreseeable future.

In addition to macroeconomic conditions, our ability to satisfy our debt service obligations, fund planned capital expenditures, make acquisitions and pay distributions to partners will depend upon our future operating performance. Our operating performance is primarily dependent on the sales volume of customer contracts, the cost of purchasing cemetery merchandise that we have sold, the amount of funds withdrawn from merchandise trusts and perpetual care trusts and the timing and amount of collections on our pre-need installment contracts.

Offerings of Common Units

On February 9, 2011, we completed a follow-on public offering of 3,756,155 common units, including an option to purchase up to 731,155 common units to cover over-allotments which was exercised in full by the underwriters, at a price of $29.25 per unit, representing a 19.4% interest in us. Total gross proceeds from these transactions were approximately $109.9 million, before offering costs and underwriting discounts. Net proceeds of the offering, including the related capital contribution of our general partner, after deducting underwriting discounts and offering expenses, were approximately $105.5 million. As part of this transaction, selling unitholders also sold 1,849,366 common units. We did not receive any of the proceeds generated by the sale of any units held by the selling unitholders.

Long-term Debt

Purchase Agreement

On November 18, 2009, we entered into a Purchase Agreement (the Purchase Agreement) by and among StoneMor Operating LLC (the Operating Company), Cornerstone Family Services of West Virginia Subsidiary, Inc. (CFS West Virginia), Osiris Holding of Maryland Subsidiary, Inc. (Osiris), the Partnership, the subsidiary guarantors named in the Purchase Agreement (together with us, the Note Guarantors) and Bank of America Securities LLC (BAS), acting on behalf of itself and as the representative for the other initial purchasers named in the Purchase Agreement (collectively, the Initial Purchasers). Pursuant to the Purchase Agreement, the Operating Company, CFS West Virginia and Osiris (collectively, the Issuers), each our wholly-owned subsidiary, as joint and several obligors, agreed to sell to the Initial Purchasers $150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 (the Senior Notes), with an original issue discount of approximately $4.0 million, in a private placement exempt from the registration requirements under the Securities Act of 1933, as amended (the Securities Act), for resale by the Initial Purchasers (i) to qualified institutional buyers pursuant to Rule 144A under the Securities Act or (ii) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act (the Notes Offering). The Notes Offering closed on November 24, 2009.

The Purchase Agreement contains customary representations and warranties of the parties and indemnification and contribution provisions under which we, the Issuers, and other Note Guarantors, on one hand, and the Initial Purchasers, on the other, have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act. The Issuers, us and the other Note Guarantors also agreed to enter into a Registration Rights Agreement (described below) for the benefit of holders of the Senior Notes.

The net proceeds from the Notes Offering and Units Offering were used, in part, to:

- repay approximately $30.7 million of borrowings under the Revolving Credit Facility (as defined below);
- repay approximately $104.7 million of borrowings under the Acquisition Credit Facility (as defined below); and
- redeem $17.5 million of outstanding Series B Notes (as defined below).

Indenture

On November 24, 2009, the Issuers, us and the other Note Guarantors entered into an indenture (the Indenture), among the Issuers, us, the other Note Guarantors and Wilmington Trust FSB, as trustee (the Trustee) governing the Senior Notes.

The Issuers will pay 10.25% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year, starting on June 1, 2010. The Senior Notes mature on December 1, 2017.

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The Senior Notes are senior unsecured obligations of the Issuers and:

- rank equally in right of payment with all existing and future senior unsecured debt of the Issuers;
- rank senior in right of payment to all existing and future senior subordinated and subordinated debt of the Issuers;
- are effectively subordinated in right of payment to existing and future secured debt of the Issuers, to the extent of the value of the assets securing such debt; and
- are structurally subordinated to all of the existing and future liabilities of each subsidiary of the Issuers that does not guarantee the Senior Notes.

The Issuers obligations under the Senior Notes and the Indenture are jointly and severally guaranteed (the Note Guarantees) by us and each subsidiary, other than the Issuers, that is a guarantor of any indebtedness under the Credit Agreement (as defined below), or is a borrower under the Credit Agreement and each other subsidiary that the Issuers shall otherwise cause to become a Note Guarantor pursuant to the terms of the Indenture (each, a Restricted Subsidiary).

At any time on or after December 1, 2013, the Issuers, at their option, may redeem the Senior Notes, in whole or in part, at the redemption prices (expressed as percentages of the principal amount) set forth below, together with accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period beginning December 1 of the years indicated:

Year	Optional Redemption Price
2013	105.125%
2014	102.563%
2015 and thereafter	100%

At any time prior to December 1, 2013, the Issuers may, on one or more occasions, redeem all or any portion of the Senior Notes, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed, plus the Applicable Premium (as defined in the Indenture) as of the date of redemption, including accrued and unpaid interest to the redemption date.

In addition, at any time prior to December 1, 2012, the Issuers, at their option, may redeem up to 35% of the aggregate principal amount of the Senior Notes issued under the Indenture with the net cash proceeds of certain of the equity offerings described in the Indenture at a redemption price equal to 110.250% of the principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest to the redemption date provided, however, that (i) at least 65% of the aggregate principal amount of the Senior Notes issued under the Indenture remain outstanding immediately after the occurrence of such redemption and (ii) the redemption occurs within 90 days of the closing date of such offering.

Subject to certain exceptions, upon the occurrence of a Change of Control (as defined in the Indenture), each holder of Senior Notes will have the right to require the Issuers to purchase that holder s Senior Notes for a cash price equal to 101% of the principal amounts to be purchased, plus accrued and unpaid interest to the date of purchase.

The Indenture requires us, the Issuers and/or the Note Guarantors, as applicable, to comply with various covenants including, but not limited to, covenants that, subject to certain exceptions, limit our and our subsidiaries ability to (i) incur additional indebtedness; (ii) make certain dividends, distributions, redemptions or investments; (iii) enter into certain transactions with affiliates; (iv) create, incur, assume or permit to exist certain liens against their assets; (v) make certain sales of their assets; and (vi) engage in certain mergers, consolidations or sales of all or substantially all of their assets. The Indenture also contains various affirmative covenants regarding, among other things, delivery of certain reports filed with the SEC and materials required pursuant to Rule 144A under the Securities Act to holders of the Senior Notes and joinder of future subsidiaries as Note Guarantors under the Indenture. We were in compliance with all covenants at December 31, 2011.

Events of default under the Indenture that could, subject to certain conditions, cause all amounts owing under the Senior Notes to become immediately due and payable include, but are not limited to, the following:

1. failure by the Issuers to pay interest on any of the Senior Notes when it becomes due and the continuance of any such failure for 30 days;

2. failure by the Issuers to pay the principal on any of the Senior Notes when it becomes due and payable, whether at stated maturity, upon redemption, upon purchase, upon acceleration or otherwise;

3. the Issuers failure to comply with the agreements and covenants relating to limitations on entering into certain mergers, consolidations or sales of all or substantially all of their assets or in respect of their obligations to purchase the Senior Notes in connection with a Change of Control;

4. failure by us or the Issuers to comply with any other agreement or covenant in the Indenture and the continuance of this failure for 60 days after notice of the failure has been given us by the Trustee or holders of at least 25% of the aggregate principal amount of the Senior Notes then outstanding;

5. failure by us to comply with our covenant to deliver certain reports and the continuance of such failure to comply for a period of 120 days after written notice thereof has been given to us by the Trustee or by the holders of at least 25% in aggregate principal amount of the Senior Notes then outstanding;

6. certain defaults under mortgages, indentures or other instruments or agreements under which there may be issued or by which there may be secured or evidenced our indebtedness or indebtedness of any Restricted Subsidiary, whether such indebtedness now exists or is incurred after the date of the Indenture;

7. certain judgments or orders that exceed $7.5 million for the payment of money have been entered by a court of competent jurisdiction against us or any Restricted Subsidiary and such judgments have not been satisfied, stayed, annulled or rescinded within 60 days of being entered;

8. certain events of bankruptcy of us, StoneMor GP LLC, our general partner (the General Partner), or any Restricted Subsidiary; or

9. other than in accordance with the terms of the Note Guarantee and the Indenture, any Note Guarantee ceasing to be in full force and effect, being declared null and void and unenforceable, found to be invalid or any Guarantor denying its liability under its Note Guarantee.

Registration Rights Agreement

In connection with the sale of the Senior Notes, on November 24, 2009, the Issuers, us, the other Note Guarantors and BAS, as representative of the Initial Purchasers, entered into a Registration Rights Agreement (the Registration Rights Agreement), pursuant to which the Issuers, us and the other Note Guarantors agreed, for the benefit of the holders of the Senior Notes, to use their commercially reasonable efforts to file a registration statement with the SEC with respect to a registered offer to exchange the Senior Notes for new exchange notes having terms substantially identical in all material respects to the Senior Notes, with certain exceptions (the Exchange Offer). The Issuers, us and the other Note Guarantors agreed to use their commercially reasonable efforts to consummate such Exchange Offer on or before the 366 th day after the issuance of the Senior Notes.

In addition, upon the occurrence of certain events described in the Registration Rights Agreement which result in the inability to consummate the Exchange Offer, the Issuers, us and the other Note Guarantors agreed to file a shelf registration statement with the SEC covering resales of the Senior Notes and to use their commercially reasonable efforts to cause such shelf registration statement to be declared effective.

The Issuers are required to pay additional interest to the holders of the Senior Notes under certain circumstances if they fail to comply with their obligations under the Registration Rights Agreement. In October of 2010, we complied with the terms of the registration rights agreement.

Note Purchase Agreement

On August 15, 2007, we entered into, along with the General Partner and certain of our subsidiaries, (collectively, the Note Issuers) the Amended and Restated Note Purchase Agreement (the NPA) with Prudential Investment Management Inc., The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company, certain Affiliates of Prudential Investment Management Inc., iStar Financial Inc., SFT I, Inc., and certain Affiliates of iStar Financial Inc. (collectively, the Note Purchasers). Capitalized terms which are not defined in this Annual Report on Form 10-K shall have the same meaning assigned to such terms in the NPA, as amended.

Pursuant to the NPA, the Note Issuers and the Note Purchasers agreed to (a) exchange certain senior secured notes previously issued by the Note Issuers to the Note Purchasers on September 20, 2004, for new Series A Notes, as defined in the NPA, due September 20, 2009, in the amount of $80.0 million; and (b) issue Series B Notes, as defined in the NPA, due August 15, 2012 in the aggregate amount of $35.0 million, subject to the option, on an uncommitted basis, to issue/purchase additional secured Shelf Notes in the aggregate amount of up to $35.0 million, and to issue/purchase additional secured Shelf Notes to refinance the Series A Notes. On December 21, 2007, pursuant to the NPA, as amended, certain of the Company s subsidiaries issued Series C Notes, as defined in the NPA, in the aggregate principal amount of $17.5 million, due December 21, 2012. On April 30, 2009, the Company entered into an amendment to its credit agreement, as further described below, pursuant to which the Company borrowed $63.0 million under a new Acquisition Credit Facility (as defined below), which, together with the $17.0 million of the existing availability under the Acquisition Credit Facility, was used to repay the Series A Notes. In addition, the Company borrowed $5.4 million under the Revolving Credit Facility (as defined below), which was used to pay the accrued interest on the Series A Notes, fees to Bank of America, N.A., amendment fees to noteholders under an amendment to the NPA as well as various other fees and costs incurred in connection with these transactions.

The NPA was amended seven times prior to January 28, 2011 to, among other things, amend borrowing levels, interest rates, maturity dates and covenants. On January 28, 2011, and in connection with our February 2011 follow-on public offering of common units, we entered into an additional amendment to our credit agreement. This amendment included the lenders consent to the use of a portion of the proceeds from the public offering of common units to redeem in full the outstanding $17.5 million of Series B Notes and $17.5 million of Series C Notes and to pay an aggregate make-whole premium of $4.0 million related thereto, which represented our final obligations outstanding under the NPA.

Acquisition Credit Facility and Revolving Credit Facility

On August 15, 2007, we, the General Partner, and the Operating Company and various subsidiaries of the Operating Company (collectively, the Borrowers), entered into an Amended and Restated Credit Agreement (the Original Credit Agreement) with Bank of America, N.A. (Bank of America), other lenders, and BAS (collectively, the Lenders). The Original Credit Agreement provided for both an acquisition credit facility (the Acquisition Credit Facility) and a revolving credit facility (the Revolving Credit Facility). Capitalized terms which are not defined in the following description shall have the same meaning assigned to such terms in the Original Credit Agreement, as amended.

The Original Credit Agreement initially provided that: (1) the Acquisition Credit Facility would have a maximum principal amount of $40.0 million (with an option to increase such facility by an additional $15.0 million on an uncommitted basis) and the term of 5 years, and (2) the Revolving Credit Facility would have a maximum principal amount of $25.0 million (with an option to increase such facility by up to $10.0 million on an uncommitted basis) and a term of 5 years. Amounts borrowed under the Acquisition Credit Facility and repaid or prepaid could not be reborrowed and amounts borrowed under the Revolving Credit Facility and repaid or prepaid during the term could be reborrowed. In addition, Bank of America agreed to provide to the borrowers swing line loans (Swing Line Loans) with a maximum limit of $5.0 million, which is a part of the Revolving Credit Facility. Loans outstanding under the Acquisition Credit Facility and the Revolving Credit Facility bore interest at rates set forth in the Credit Agreement, which were subsequently amended as described below.

The Original Credit Agreement was amended six times prior to September 22, 2010 to, among other things, amend borrowing levels, interest rates and covenants. On September 22, 2010, concurrently with the closing of the common units offering from which we used $22.5 million of net proceeds to prepay amounts on the Acquisition Credit Facility and used $14.5 million of net proceeds to pay down amounts on the Revolving Credit Facility, we entered into the Seventh Amendment to the Original Credit Agreement to, among other things, reinstate the amount available on the Acquisition Credit Facility to a total of $55.0 million and reinstate the amount available on the Revolving Credit Facility to $45.0 million.

On January 28, 2011, and in connection with our February 2011 follow-on public offering of common units, we entered into the Eighth Amendment to the Original Credit Agreement which, among other things, extended the Maturity Date from August 15, 2012 to January 29, 2016, changed the limit on Maintenance Capital Expenditures and reduced the applicable margins for each of: (i) Eurodollar Rate Loans and Letter of Credit Fees and (ii) Base Rate Loans by 50 basis points, resulting in Pricing Level 3 of the Applicable Rate (the currently applicable pricing level) of 3.75% and 2.75%, respectively. The Eighth Amendment to the Original Credit Agreement also increased the Lenders aggregate commitments by $10.0 million under each of the Acquisition Credit Facility and the Revolving Credit Facility, resulting in an Acquisition Credit Facility of $65.0 million and a Revolving Credit Facility of $55.0 million.

On April 29, 2011, we entered into the Second Amended and Restated Credit Agreement (the Credit Agreement) among the Operating Company as the Borrower, each of the subsidiaries of the Operating Company as additional Borrowers, the General Partner and the Company as Guarantors, the Lenders identified therein, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. The terms of the Credit Agreement were substantially the same as the terms of the Original Credit Agreement. The primary purpose of entering into the Credit Agreement was to consolidate the amendments to the Original Credit Agreement and to update outdated references. The terms of the Credit Agreement are set forth below. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the Credit Agreement.

The Credit Agreement provided for both an Acquisition Credit Facility of $65.0 million and a Revolving Credit Facility of $55.0 million, (together, the Credit Facility). Amounts borrowed could be either Base Rate Loans or Eurodollar Rate Loans and once repaid or prepaid, amounts under the Acquisition Credit Facility could not be reborrowed. Depending on the type of loan, borrowings bore interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.75% to 2.75% and 2.75% to 3.75%, respectively, depending on the Company s Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%.

The Eurodollar Rate is:

- with respect to a Eurodollar Rate Loan, the higher of the British Bankers Association LIBOR Rate or 2.0%; and

- with respect to a Base Rate Loan, the British Bankers Association LIBOR Rate.

The maturity date of the Credit Facility was January 29, 2016. The Company s maximum Consolidated Leverage Ratio, which is the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA, was 3.65 to 1.0 for all Measurement Periods ending after December 31, 2010. In addition, we were not permitted to have Maintenance Capital Expenditures, as defined in the Credit Agreement, for any Measurement Period ending in

2011, 2012 and 2013 exceeding $4.6 million, $5.2 million and $5.8 million, respectively, or $6.5 million for any Measurement Period ending in 2014 or thereafter. We also could not permit Consolidated EBITDA for any Measurement Period to be less than the sum of (i) $52 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after February 9, 2011.

At the time of entering into the Credit Agreement, the Consolidated Fixed Charge Coverage Ratio was required to be not less than 1.15x for any Measurement Period ending in 2011, or 1.20x for any Measurement Period thereafter.

On August 4, 2011, we entered into the First Amendment to the Credit Agreement (the First Amendment) to provide that we could not permit the Consolidated Fixed Charge Coverage Ratio to be less than 1.08x for any Measurement Period ending in the second and third fiscal quarters of 2011, 1.15x for any Measurement Period ending in the fourth quarter of 2011, or 1.20x thereafter. This amendment was effective on a retroactive basis to June 30, 2011.

On October 28, 2011, we entered into the Second Amendment to the Credit Agreement (the Second Amendment) to provide that we could not permit the Consolidated Fixed Charge Coverage Ratio to be less than 1.05x for any Measurement Period ending in the third and fourth fiscal quarters of 2011, or 1.20x thereafter. This amendment was effective on a retroactive basis to August 31, 2011.

The Borrowers under the Credit Agreement paid fees to Bank of America, as Administrative Agent, and BAS, as Arranger. In addition, the Credit Agreement required the Borrowers to pay an unused commitment fee, which was calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Commitment Fee ranged from 0.5% to 0.75% depending on the Company s Consolidated Leverage Ratio.

The proceeds of the Acquisition Credit Facility could have been used by the Borrowers to finance (i) Permitted Acquisitions, and (ii) the purchase and construction of mausoleums. The proceeds of the Revolving Credit Facility and Swing Line Loans could have been utilized to finance working capital requirements, Capital Expenditures and for other general corporate purposes. The Borrowers obligations under the Credit Agreement were guaranteed by both the Partnership and StoneMor GP LLC.

The Borrowers obligations under the Credit Facility were secured by a first priority lien and security interest in substantially all of the Borrowers assets, whether then owned or thereafter acquired, excluding: (i) trust accounts, certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts; (ii) the General Partner s interest in the Partnership, the incentive distribution rights under the Partnership s partnership agreement and the deposit accounts of the General Partner into which distributions are received; (iii) Equipment subject to a purchase money security interest or equipment lease permitted under the Credit Agreement and certain other contract rights under which contractual, legal or other restrictions on assignment would prohibit the creation of a security interest or such creation of a security interest would result in a default thereunder.

Events of Default under the Credit Agreement included, but were not limited to, the following:

- non-payment of any principal, interest or other amounts due under the Credit Agreement or any other Credit Document;

- failure to observe or perform any covenants related to: (i) the delivery of financial statements, compliance certificates, reports and other information; (ii) providing prompt notice of Defaults and other events; (iii) the preservation of the legal existence and good standing of each Borrower and Guarantor; (iv) the ability of the Administrative Agent and each Lender to visit and inspect properties, examine books and records, and discuss financial and business affairs with directors, officers and independent public accountants of each Borrower and Guarantor; (v) restrictions on the use of proceeds; (vi) guarantees by new Subsidiaries; (vii) the maintenance of corporate formalities for each Borrower and Guarantor; (viii) the maintenance of Trust Accounts and Trust Funds; and (ix) any of the negative covenants contained in the Credit Agreement;

failure to observe or perform any other covenant, if uncured 30 days after notice thereof is provided by the Administrative Agent or Lenders;

any default under any other Indebtedness of the Borrowers or Guarantors;

any insolvency proceedings by a Borrower or Guarantor;

the insolvency of any Borrower or Guarantor, or a writ of attachment or execution or similar process issuing or being levied against any material part of the property of a Borrower or Guarantor; and

any Change in Control.

The Credit Agreement contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require us to maintain certain financial covenants, including specified financial ratios. A material decrease in revenues could cause us to breach certain of its financial covenants, such as the Consolidated Leverage Ratio, Consolidated Fixed Charge Coverage Ratio and the Consolidated EBITDA covenant, under the Credit Agreement. Any such breach could allow the Lenders to accelerate (or create cross-default under) our debt which would have a material adverse effect on our business, financial condition or results of operations. The Company complied with these covenants as of December 31, 2011. At December 31, 2011, we had $10.8 million and $33.0 million outstanding under our Acquisition Credit Facility and Revolving Credit Facility, respectively.

On January 19, 2012, we entered into the Third Amended and Restated Credit Agreement (the New Credit Agreement) which amended the Credit Agreement. The terms of the New Credit Agreement and the Credit Agreement are substantially similar, and amendments to the Credit Agreement mostly relate to the following:

converting and consolidating the Acquisition Credit Facility of $65.0 million and the Revolving Credit Facility of $55.0 million into a single revolving credit facility (the New Credit Facility);

eliminating the borrowing formula under the Credit Facility;

increasing the Credit Facility to $130.0 million;

extending the maturity date to January 19, 2017;

effectively reducing the interest rate on the Credit Facility, as described below; and

amending certain financial covenants, as described below.

Amounts borrowed under the New Credit Facility and repaid or prepaid during the term may be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.25% to 2.75% and 2.25% to 3.75%, respectively, depending on the Company s Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%. The Eurodollar rate is the British Bankers Association LIBOR Rate. The Commitment Fee under the New Credit Agreement ranges from 0.375% to 0.75% depending on our Consolidated Leverage Ratio.

Under the New Credit Agreement, certain financial covenants were amended as follows:

Consolidated EBITDA for the most recently completed four fiscal quarters of the Partnership (the New Measurement Period) must not be less than the sum of (i) $53.5 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after September 30, 2011;

Maintenance Capital Expenditures for any New Measurement Period ending in 2012, 2013, 2014 and thereafter must not exceed $6.7 million, $7.3 million, and $8 million, respectively; and

the Consolidated Fixed Charge Coverage Ratio under the Credit Agreement was replaced with the Consolidated Debt Service Coverage Ratio, the calculation of which does not include distributions made by the Partnership and which must not be less than 2.50 to 1.0 for any New Measurement Period under the Credit Agreement.

Amounts outstanding under our credit facilities fluctuated during the years ended December 31, 2011 and 2010. At the beginning of 2010, we did not have any amounts outstanding on our credit facilities, but we increased our borrowings at various times during the next 9 months, primarily in connection with acquisitions, until we had $60.0 million outstanding during September 2010. In connection with a follow-on public offering that we completed on September 22, 2010, we repaid $38.0 million of this debt and then had additional borrowings to bring our outstanding borrowings to $33.5 million at December 31, 2010. We repaid this amount in February of 2011. We did not have any additional borrowings on our credit facilities from this point through the end of May 2011, when we borrowed $8.0 million. During the third and fourth quarters of 2011, we borrowed an additional $35.8 million on our credit facilities, bringing the total outstanding borrowings on these facilities to $43.8 million at December 31, 2011. The average amounts borrowed under our credit facilities were $15.9 million and $28.0 million for the years ended December 31, 2011 and 2010, respectively.

Green Lawn Note

In July of 2009, certain of our subsidiaries, entered into a $1.4 million note purchase agreement in connection with an operating agreement in which we became the exclusive operator of Green Lawn Cemetery (the Green Lawn Note). The Green Lawn Note bears interest at a rate of 6.5% per year on unpaid principal and is payable monthly, beginning on August 1, 2009. Principal on the note is due in 96 equal installments beginning on July 1, 2011. At December 31, 2011, the liability related to the note was stated on our balance sheet at approximately $1.3 million.

Nelms Note

In June of 2010, certain of our subsidiaries issued two installment notes in connection with our second quarter acquisition. The installment notes are to be paid over a 4 year period and mature April 1, 2014. The installment notes do not have a stated rate of interest. We recorded the installment notes at their fair market value of approximately $2.6 million. The face amounts of the installment notes were discounted approximately $0.7 million, and the discount will be amortized to interest expense over the life of the Installment Notes. At December 31, 2011, the liability related to the note was stated on our balance sheet at approximately $0.6 million.

In June of 2010, certain of our subsidiaries also issued four notes in the aggregate principal amount of approximately $5.8 million in connection with the acquisition referenced above. These notes were paid at the closing of the acquisition by: (i) the issuance by us of 293,947 unregistered common units representing limited partnership interests in us valued at approximately $5.8 million and (ii) a cash payment of approximately $0.2 million.

Acquisition Non-Compete Notes

In connection with our third quarter 2011 acquisition in Virginia and second and third quarter 2010 acquisitions, certain of our subsidiaries issued installment notes in consideration for non-compete agreements executed with the former owners of the acquired entities. The installment notes are to be paid over periods of 4 to 6 years and mature between April 1, 2014 and August 1, 2016. The installment notes do not have a stated rate of interest. At inception, we recorded the installment notes at their fair market value of approximately $2.4 million. The face amounts of the installment notes were discounted approximately $0.5 million, and the discount will be amortized to interest expense over the life of the installment notes. At December 31, 2011, the liability related to the installment notes was stated on our balance sheet at approximately $1.5 million.

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Interest Rate Swaps

On November 24, 2009, we entered into an interest rate swap (the First Interest Rate Swap) wherein we agreed to pay the counterparty interest in the amount of three month LIBOR plus 888 basis points in consideration for the counterparties agreement to pay us a fixed rate of interest of 10.25% on a principal amount of $108.0 million. On December 4, 2009, we entered into an interest rate swap (the Second Interest Rate Swap , together with the First Interest Rate Swap, the Interest Rate Swaps) wherein we agreed to pay the counterparty interest in the amount of three month LIBOR plus 869 basis points in consideration for the counterparties agreement to pay us a fixed rate of interest of 10.25% on a principal amount of $27.0 million.

The Interest Rate Swaps did not qualify for hedge accounting. Accordingly, the fair value of the Interest Rate Swaps was reported on the balance sheet and periodic changes in the fair value of the Interest Rate Swaps were recorded in earnings. On October 20, 2010, we elected to terminate the Interest Rate Swaps early. Upon termination, we received a payment of approximately $2.0 million to settle the Interest Rate Swaps. For the year ended December 31, 2010, we recognized a gain of approximately $4.7 million related to the change in fair value and termination payment of the Interest Rate Swaps.

Cash Flow from Operating Activities

Cash flows provided by operating activities were $5.5 million during 2011, an increase of $2.4 million compared to cash provided by operating activities of $3.1 million during the same period last year. The increase is primarily due to decreases of $3.3 million in cash paid for interest and $1.1 million in acquisition related costs combined with increased cash flows from our accounts receivable, which are being offset by increased cash flows into our merchandise trusts.

Cash flows provided by operating activities were $3.1 million in 2010, a decrease of $11.6 million, compared to $14.7 million in 2009. The decrease was driven in part by increased interest expense as we incurred debt to finance our acquisitions and we had higher interest rate debt outstanding during 2010. The remaining decrease was primarily driven by cash flow timing differences rather than specific operating results and a net cash inflow into our merchandise trust.

Cash flows from operations in 2011, 2010 and 2009 exceeded our net loss of $9.7 million, $1.4 million and $4.4 million, respectively, during the same periods. The differences between our operating cash flows and net loss are in large part attributable to the fact that various cash inflows for payments of amounts due under pre-need sales contracts were not and are not as of yet recognized as revenues as we had not and have not met the delivery criteria for revenue recognition. Although there is no assurance, we expect that the trend of operating cash flows exceeding our net income or net loss will continue into the foreseeable future.

Cash Flow from Investing Activities

Net cash used in investing activities was $29.2 million during 2011, a decrease of $20.4 million, compared to $49.6 million during 2010. Cash flows used for investing activities during 2011 primarily were $16.1 million for the acquisition of 17 cemetery properties and 12 funeral homes and $13.2 million for other capital expenditures compared to $39.1 million utilized for the acquisition of 22 cemetery properties and 6 funeral homes and $10.1 million for other capital expenditures.

Net cash used in investing activities was $49.6 million during 2010, an increase of $37.4 million, compared to $12.2 million during 2009. Cash used for acquisitions during 2010 was $39.1 million as compared to $4.1 million in 2009. Further, cash flow used for additions to cemetery property and property and equipment were $10.1 million in 2010 as compared to $7.3 million in 2009.

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Cash Flow from Financing Activities

Net cash provided by financing activities was $28.2 million during 2011, a decrease of $12.3 million, compared to $40.5 million during 2010. Cash flows provided by financing activities during 2011 primarily were $103.2 million of proceeds from our public offering and a contribution from our general partner of $2.3 million offset by net repayments of long-term debt of $27.1 million, cash distributions to unit holders of $44.6 million and the payment of a $4.0 million make-whole premium related to the pay-off of $35.0 million in senior secured notes. Cash flows provided by financing activities during 2010 primarily were $38.9 million of proceeds from our public offering and a contribution from our general partner of $1.0 million, and $33.7 million of net borrowings, which were in turn primarily used to fund our first, second, and third quarter 2010 acquisitions, offset by $32.4 million of cash distributions to unit holders. Additionally, we borrow to fund working capital as a result of cash build-ups in our accounts receivable and merchandise trusts and to fund acquisitions related to pre-need sales growth.

Net cash provided by financing activities was $40.5 million during 2010, an increase of $36.6 million, compared to $3.9 million during 2009. The 2010 net cash inflow was primarily related to proceeds from a public unit offering of $38.9 million and net additional borrowings of $33.7 million, offset by distributions to unitholders of $32.4 million and costs related to financing of $0.6 million. The 2009 net cash inflow was primarily related to proceeds from a public unit offering of $23.7 million and net additional borrowings of $20.8 million, offset by distributions to unitholders of $27.3 million and costs related to financing of $13.9 million.

Intercreditor and Collateral Agency Agreement

In connection with the closing of our credit facilities and the private placement of the notes we entered into, along with our general partner, certain of our subsidiaries, the lenders under the credit facility, the holders of the notes and Bank of America, N.A, as collateral agent, an intercreditor and collateral agency agreement setting forth the rights and obligations of the parties to the agreement as they relate to the collateral securing the Credit Facility and the Senior Secured Notes.

Capital Expenditures

The following table summarizes total maintenance capital expenditures and expansion capital expenditures, including for the construction of mausoleums and for acquisitions, for the periods presented:

	Year ended December 31,		
	2011	**2010**	**2009**
		(in thousands)	
Maintenance capital expenditures	$ 6,040	$ 7,878	$ 2,524
Expansion capital expenditures	23,268	$ 41,327	$ 4,770
Total capital expenditures	$ 29,308	$ 49,205	$ 7,294

Pursuant to our partnership agreement, in connection with determining operating cash flows available for distribution, costs to construct mausoleum crypts and lawn crypts may be considered to be a combination of maintenance capital expenditures and expansion capital expenditures depending on the purposes for construction. Our general partner, with the concurrence of its conflicts committee, has the discretion to determine how to allocate a capital expenditure for the construction of a mausoleum crypt or a lawn crypt between maintenance capital expenditures and expansion capital expenditures. In addition, maintenance capital expenditures for the construction of a mausoleum crypt or a lawn crypt are not subtracted from operating surplus in the quarter incurred but rather are subtracted from operating surplus ratably during the estimated number of years it will take to sell all of the available spaces in the mausoleum or lawn crypt. Estimated life is determined by our general partner, with the concurrence of its conflicts committee.

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Seasonality

The death care business is relatively stable and predictable. Although we experience seasonal increases in deaths due to extreme weather conditions and winter flu, these increases have not historically had any significant impact on our results of operations. In addition, we perform fewer initial openings and closings in the winter when the ground is frozen.

Off Balance Sheet Arrangements, Contractual Obligations and Contingencies

We have assumed various financial obligations and commitments in the ordinary course of conducting our business. We have contractual obligations requiring future cash payments related to debt maturities, interest on debt, operating lease agreements, and liabilities to purchase merchandise related to our in force pre-need sales contracts.

A summary of our total contractual obligations as of December 31, 2011 is presented in the table below:

	As of 12/31/2011				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Debt (1)	$ 300,591	$ 19,919	$ 38,123	$ 77,911	$ 164,638
Operating leases	7,974	2,031	2,713	1,362	1,868
Merchandise liabilities (2)	129,109				
Total	$ 437,674	$ 21,950	$ 40,836	$ 79,273	$ 166,506

(1) Represents the interest payable and par value of debt due and does not include the unamortized debt discount of $3,220 at December 31, 2011. Assumes that current amounts outstanding under our Credit Facility are not repaid until their due date of January 2016. On January 19, 2012, we amended our Credit Facility and extended the due date to January 2017.

(2) Total cannot be separated into periods because we are unable to anticipate when the merchandise will be needed.

We had no off-balance sheet arrangements as of December 31, 2011 or 2010.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The information presented below should be read in conjunction with the notes to our audited consolidated financial statements included under Item 8 Financial Statements and Supplementary Data.

The market risk inherent in our market risk sensitive instruments and positions is the potential change arising from increases or decreases in interest rates and the prices of marketable equity securities, as discussed below. Our exposure to market risk includes forward-looking statements and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates or equity markets. Our views on market risk are not necessarily indicative of actual results that may occur and do not represent the maximum possible gains and losses that may occur, since actual gains and losses will differ from those estimated, based on actual fluctuations in interest rates, equity markets and the timing of transactions. We classify our market risk sensitive instruments and positions as other than trading.

Interest-bearing Investments

Our fixed-income securities subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of December 31, 2011, the fair value of fixed-income securities in our merchandise

trusts represented 3.2% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 9.1% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $10.9 million and $23.2 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2011. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $108,880 and $231,850 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows. If these securities are held to maturity, no change in fair market value will be realized.

Our money market and other short-term investments subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of December 31, 2011, the fair value of money market and short-term investments in our merchandise trusts represented 11.1% of the fair value of total trust assets while the fair value of money market and short-term investments in our perpetual care trusts represented 8.9% of the fair value of total trust assets. The aggregate quoted fair value of these money market and short-term investments was $38.3 million and $22.6 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2011. Each 1% change in interest rates on these money market and short-term investments would result in changes of approximately $383,120 and $226,070 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows.

Marketable Equity Securities

Our marketable equity securities subject to market risk consist primarily of investments held in our merchandise trusts and perpetual care trusts. These assets consist of investments in both individual equity securities as well as closed and open ended mutual funds. As of December 31, 2011, the fair value of marketable equity securities in our merchandise trusts represented 21.0% of the fair value of total trust assets while the fair value of marketable equity securities in our perpetual care trusts represented 19.0% of total trust assets. The aggregate quoted fair market value of these marketable equity securities was $72.4 million and $48.4 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2011, based on final quoted sales prices. Each 10% change in the average market prices of the equity securities would result in a change of approximately $7.2 million and $4.8 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively. As of December 31, 2011, the fair value of marketable closed and open ended mutual funds in our merchandise trusts represented 60.6% of the fair value of total trust assets while the fair value of closed and open ended mutual funds in our perpetual care trusts represented 62.9% of total trust assets. The aggregate quoted fair market value of these closed and open ended mutual funds was $208.7 million and $160.3 million in merchandise trusts and perpetual care trusts, respectively, as of December 31, 2011, based on final quoted sales prices. Each 10% change in the average market prices of the closed and open ended mutual funds would result in a change of approximately $20.9 million and $16.0 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively.

Investment Strategies and Objectives

Our internal investment strategies and objectives for funds held in merchandise trusts and perpetual care trusts are specified in an Investment Policy Statement which requires us to do the following:

- State in a written document our expectations, objectives, tolerances for risk and guidelines in the investment of our assets;

- Set forth a disciplined and consistent structure for managing all trust assets. This structure is based on a long-term asset allocation strategy, which is diversified across asset classes, investment styles and strategies. We believe this structure is likely to meet our stated objectives within our tolerances for risk and variability. This structure also includes ranges around the target allocations allowing for adjustments when appropriate to reduce risk or enhance returns. It further includes guidelines for the selection of investment managers and vehicles through which to implement the investment strategy;

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Provide specific guidelines for each investment manager. These guidelines control the level of overall risk and liquidity assumed in each portfolio;

Appoint third-party investment advisors to oversee the specific investment managers and advise our Trust and Compliance Committee; and

Establish criteria to monitor, evaluate and compare the performance results achieved by the overall trust portfolios and by our investment managers. This allows us to compare the performance results of the trusts to our objectives and other benchmarks, including peer performance, on a regular basis.

Our investment guidelines are based on relatively long investment horizons, which vary with the type of trust. Because of this, interim fluctuations should be viewed with appropriate perspective. The strategic asset allocation of the trust portfolios is also based on this longer-term perspective. However, in developing our investment policy, we have taken into account the potential negative impact on our operations and financial performance of significant short-term declines in market value.

We recognize the challenges we face in achieving our investment objectives in light of the uncertainties and complexities of contemporary investment markets. Furthermore, we recognize that, in order to achieve the stated long-term objectives, we may have short-term declines in market value. Given the need to maintain consistent values in the portfolio, we have attempted to develop a strategy which is likely to maximize returns and earnings without experiencing overall declines in value in excess of 3% over any 12-month period. We were able to achieve this objective in 2010 and 2009. However in the third quarter of 2011, the markets took a downturn over fears of a European debt crisis and did not fully recover by year end. As a result, we did not achieve this objective in 2011.

In order to consistently achieve the stated return objectives within our tolerance for risk, we use a strategy of allocating appropriate portions of our portfolio to a variety of asset classes with attractive risk and return characteristics, and low to moderate correlations of returns. See the notes to our consolidated financial statements for a breakdown of the assets held in our merchandise trusts and perpetual care trusts by asset class.

Debt Instruments

Our Acquisition Credit Facility and Revolving Credit Facility bear interest at a floating rate, based on LIBOR, which is adjusted quarterly. These credit facilities will subject us to increases in interest expense resulting from movements in interest rates. As of December 31, 2011, we had $10.8 million of outstanding borrowings under our Acquisition Credit Facility and $33.0 million of outstanding borrowings under our Revolving Credit Facility. On January 19, 2012, we entered into the Third Amended and Restated Credit Agreement which amended our Credit Agreement. As part of the amendment, the Acquisition Credit Facility and Revolving Credit Facility were combined into a single Credit Facility and the Lenders aggregate commitments were increased by $10.0 million to an aggregate Credit Facility of $130.0 million. In addition, the maturity date was extended to January 19, 2017 and certain financial covenants were amended. Based on our $43.8 million of outstanding debt on our credit facilities at December 31. 2011, a 1% increase in our interest rate would increase our annual interest expense by $0.4 million.

In the fourth quarter of 2009, we entered into two interest rate swaps wherein we swapped a fixed rate of interest for a floating rate of interest on $135.0 million of debt. These interest rate swaps subjected us to changes in interest expense resulting from movements in interest rates. We reduced cash paid for interest by approximately $0.2 million in the fourth quarter of 2009 and approximately $1.0 million for the year ended December 31, 2010 as a result of these interest rate swaps. On October 20, 2010, we elected to terminate the Interest Rate Swaps early and we received a payment of approximately $2.0 million to settle the Interest Rate Swaps. For the year ended December 31, 2010, we recognized a gain of approximately $4.7 million related to the change in fair value and termination payment of the Interest Rate Swaps.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of StoneMor Partners GP LLC and Unitholders of StoneMor Partners L.P.

Levittown, Pennsylvania

We have audited the accompanying consolidated balance sheets of StoneMor Partners L.P. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, partners capital, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of StoneMor Partners L.P. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2012 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania

March 15, 2012

StoneMor Partners L.P.

Consolidated Balance Sheets

(in thousands)

	December 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 12,058	$ 7,535
Accounts receivable, net of allowance	48,837	45,149
Prepaid expenses	4,266	3,783
Other current assets	16,336	9,002
Total current assets	81,497	65,469
Long-term accounts receivable, net of allowance	68,354	60,061
Cemetery property	298,938	283,460
Property and equipment, net of accumulated depreciation	73,777	66,249
Merchandise trusts, restricted, at fair value	344,515	318,318
Perpetual care trusts, restricted, at fair value	254,679	249,690
Deferred financing costs, net of accumulated amortization	8,817	9,801
Deferred selling and obtaining costs	68,542	59,422
Deferred tax assets	415	605
Goodwill	36,439	18,153
Other assets	13,152	14,364
Total assets	$ 1,249,125	$ 1,145,592
Liabilities and partners capital		
Current liabilities:		
Accounts payable and accrued liabilities	$ 26,428	$ 23,444
Accrued interest	1,632	2,034
Current portion, long-term debt	1,487	1,386
Total current liabilities	29,547	26,864
Other long-term liabilities	2,830	3,687
Long-term debt	193,835	219,008
Deferred cemetery revenues, net	441,878	386,465
Deferred tax liabilities	16,968	18,331
Merchandise liability	129,109	113,356
Perpetual care trust corpus	254,679	249,690
Total liabilities	1,068,846	1,017,401
Commitments and Contingencies		
Partners capital		
General partner	2,192	1,809
Common partners	178,087	126,382
Total partners capital	180,279	128,191
Total liabilities and partners capital	$ 1,249,125	$ 1,145,592

See Accompanying Notes to the Consolidated Financial Statements.

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StoneMor Partners L.P.

Consolidated Statement of Operations

(in thousands, except unit data)

	2011	2010	2009
Revenues:			
Cemetery			
Merchandise	$ 108,088	$ 94,898	$ 87,836
Services	46,995	40,951	36,947
Investment and other	42,901	35,897	33,055
Funeral home			
Merchandise	12,810	10,435	9,701
Services	17,594	15,111	13,664
Total revenues	228,388	197,292	181,203
Costs and Expenses:			
Cost of goods sold (exclusive of depreciation shown separately below):			
Perpetual care	5,727	5,094	4,727
Merchandise	20,388	18,435	17,067
Cemetery expense	57,145	48,784	41,246
Selling expense	45,291	38,245	34,123
General and administrative expense	29,544	24,591	22,498
Corporate overhead (including $773, $711, and $1,576 in unit-based compensation for 2011, 2010 and 2009 respectively)	23,766	24,379	22,370
Depreciation and amortization	8,534	8,845	6,528
Funeral home expense			
Merchandise	4,473	4,001	3,716
Services	11,717	9,752	9,275
Other	7,364	6,184	6,015
Acquisition related costs	4,604	5,715	1,072
Total cost and expenses	218,553	194,025	168,637
Operating profit	9,835	3,267	12,566
Gain on sale of funeral home	92		434
Gain on acquisitions		7,152	
Early extinguishment of debt	4,010		
Increase (decrease) in fair value of interest rate swaps		4,724	(2,681)
Expenses related to refinancing	453		2,242
Interest expense	19,198	21,973	14,410
Loss before income taxes	(13,734)	(6,830)	(6,333)
Income tax expense (benefit)			
State	(701)	(245)	808
Federal	(3,318)	(5,138)	(2,753)
Total income tax expense (benefit)	(4,019)	(5,383)	(1,945)
Net loss	$ (9,715)	$ (1,447)	$ (4,388)

General partner s interest in net loss for the period	$	(194)	$	(29)	$	(87)
Limited partners interest in net loss for the period						
Common	$	(9,521)	$	(1,418)	$	(3,622)
Subordinated	$		$		$	(679)
Net loss per limited partner unit basic	$	(0.50)	$	(0.10)	$	(0.36)
Net loss per limited partner unit diluted	$	(0.50)	$	(0.10)	$	(0.36)
Weighted average number of limited partners units outstanding (basic and diluted)		18,947		14,133		12,034
Distributions declared per unit		2.34		2.25		2.22

See Accompanying Notes to the Consolidated Financial Statements.

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StoneMor Partners L.P.

Consolidated Statement of Partners Capital

(in thousands)

	Partners Capital				
	Limited Partners				
	Common	Subordinated	Total	General Partner	Total
Balance, December 31, 2008	$ 111,052	$ 6,066	$ 117,118	$ 2,271	$ 119,389
Proceeds from public offering	23,680		23,680		23,680
General partner contribution				509	509
Conversion of subordinated to common units	680	(680)			
Net loss	(3,622)	(679)	(4,301)	(87)	(4,388)
Cash distribution	(21,692)	(4,707)	(26,399)	(854)	(27,253)
Balance, December 31, 2009	110,098		110,098	1,839	111,937
Proceeds from public offering	38,891		38,891		38,891
Issuance of common units	9,727		9,727		9,727
Compensation related to UARs	488		488		488
General partner contribution				1,038	1,038
Net loss	(1,418)		(1,418)	(29)	(1,447)
Cash distribution	(31,404)		(31,404)	(1,039)	(32,443)
Balance, December 31, 2010	126,382		126,382	1,809	128,191
Issuance of common units	264		264		264
Proceeds from public offering	103,207		103,207		103,207
General partner contribution				2,262	2,262
Compensation related to UARs	675		675		675
Net loss	(9,521)		(9,521)	(194)	(9,715)
Cash distribution	(42,920)		(42,920)	(1,685)	(44,605)
Balance, December 31, 2011	$ 178,087	$	$ 178,087	$ 2,192	$ 180,279

See Accompanying Notes to the Consolidated Financial Statements.

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StoneMor Partners L.P.

Consolidated Statement of Cash Flows

(in thousands)

	2011	2010	2009
Operating activities:			
Net loss	$ (9,715)	$ (1,447)	$ (4,388)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Cost of lots sold	6,664	7,124	5,179
Depreciation and amortization	8,534	8,845	6,528
Unit-based compensation	773	711	1,576
Previously capitalized acquisition costs			1,365
Accretion of debt discounts	1,354	340	34
Change in fair value of interest rate swaps		(2,681)	2,681
Write-off of deferred financing fees	453		2,242
Gain on sale of funeral home	(92)		(434)
Gain on acquisitions		(7,152)	
Fees paid related to early extinguishment of debt	4,010		
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable	(9,241)	(15,357)	(9,770)
Allowance for doubtful accounts	2,217	951	103
Merchandise trust fund	(23,889)	(13,517)	(6,133)
Prepaid expenses	1,273	(252)	(109)
Other current assets	(7,355)	(3,836)	(239)
Other assets	291	143	(416)
Accounts payable and accrued and other liabilities	868	516	(125)
Deferred selling and obtaining costs	(9,120)	(9,640)	(7,987)
Deferred cemetery revenue	47,598	46,060	32,225
Deferred taxes (net)	(3,488)	(5,301)	(3,271)
Merchandise liability	(5,669)	(2,401)	(4,332)
Net cash provided by operating activities	5,466	3,106	14,729
Investing activities:			
Cash paid for cemetery property	(7,126)	(2,200)	(4,770)
Purchase of subsidiaries	(16,142)	(39,127)	
Proceeds from divestiture of funeral home	122		434
Cash paid for management agreements		(346)	(5,320)
Cash paid for property and equipment	(6,040)	(7,878)	(2,524)
Net cash used in investing activities	(29,186)	(49,551)	(12,180)
Financing activities:			
Cash distribution	(44,605)	(32,443)	(27,253)
Additional borrowings on long-term debt	48,050	75,400	260,647
Repayments of long-term debt	(75,184)	(41,712)	(239,862)
Proceeds from public offering	103,207	38,891	23,680
Proceeds from general partner contribution	2,262	1,038	509
Fees paid related to early extinguishment of debt	(4,010)		
Cost of financing activities	(1,477)	(673)	(13,859)
Net cash provided by financing activities	28,243	40,501	3,862

Net increase (decrease) in cash and cash equivalents	4,523	(5,944)	6,411
Cash and cash equivalents Beginning of period	7,535	13,479	7,068
Cash and cash equivalents End of period	$ 12,058	$ 7,535	$ 13,479
Supplemental disclosure of cash flow information			
Cash paid during the period for interest	$ 18,130	$ 21,433	$ 13,239
Cash paid during the period for income taxes	$ 2,452	$ 1,411	$ 1,886
Non-cash investing and financing activities			
Acquisition of assets by financing	$ 294	$	$
Issuance of limited partner units for cemetery acquisition	$ 264	$ 5,785	$
Acquisition of assets by assumption of directly related liability	$	$ 2,532	$ 2,150

See Accompanying Notes to the Consolidated Financial Statements.

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1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

StoneMor Partners L.P. (StoneMor , the Company or the Partnership) is a provider of funeral and cemetery products and services in the death care industry in the United States. Through its subsidiaries, StoneMor offers a complete range of funeral merchandise and services, along with cemetery property, merchandise and services, both at the time of need and on a pre-need basis. As of December 31, 2011, the Partnership owned 253 and operated 274 cemeteries in 26 states and Puerto Rico and owned and operated 69 funeral homes in 18 states and Puerto Rico.

Basis of Presentation

The consolidated financial statements included in this Form 10-K have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Principles of Consolidation

The consolidated financial statements include the accounts of each of the Company s subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The Company operates 21 cemeteries under long-term operating or management contracts. The operations of 15 of these managed cemeteries have been consolidated in accordance with the provisions of ASC 810. The financial statements also include the effects of retroactive adjustments, resulting from the Company s 2011 and 2010 acquisitions (see Note 14).

The 3 cemeteries that the Company began operating under a long-term operating agreement in the third quarter of 2010 and the 3 cemeteries the Company began operating under long-term operating agreements in 2009 do not qualify as acquisitions for accounting purposes. As a result, the Company did not consolidate all of the existing assets and liabilities related to these cemeteries. The Company has consolidated the existing assets and liabilities of each of these cemeteries merchandise and perpetual care trusts as variable interest entities since the Company controls and receives the benefits and absorbs any losses from operating these trusts. Under these long-term operating agreements, which are subject to certain termination provisions, the Company is the exclusive operator of these cemeteries. The Company earns revenues related to sales of merchandise, services, and interment rights and incurs expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, the Company will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Company has also recognized the existing merchandise liabilities that it assumed as part of these agreements. See Note 14 for further details.

Total revenues derived from the cemeteries under long-term management or operating contracts totaled approximately $39.5 million, $33.9 million and $27.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Summary of Significant Accounting Policies

The significant accounting policies followed by the Company are summarized below:

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less from the time they are acquired to be cash equivalents.

Cemetery Property

Cemetery property consists of developed and undeveloped cemetery property and constructed mausoleum crypts and lawn crypts and is valued at cost, which is not in excess of market value.

Property and Equipment

Property and equipment is recorded at cost and depreciated on a straight-line basis. Maintenance and repairs are charged to expense as incurred, whereas additions and major replacements are capitalized and depreciation is recorded over their estimated useful lives as follows:

Buildings and improvements	10 to 40 years
Furniture and equipment	5 to 10 years
Leasehold improvements	over the shorter of the term of the lease or the life of the asset

Merchandise Trusts

Pursuant to state law, a portion of the proceeds from pre-need sales of merchandise and services is put into trust (the merchandise trust) until such time that the Company meets the requirements for releasing trust principal, which is generally delivery of merchandise or performance of services. All investment earnings generated by the assets in the merchandise trusts (including realized gains and losses) are deferred until the associated merchandise is delivered or the services are performed (see Note 5).

Perpetual Care Trusts

Pursuant to state law, a portion of the proceeds from the sale of cemetery property is required to be paid into perpetual care trusts. The perpetual care trust principal does not belong to the Company and must remain in this trust into perpetuity while interest and dividends may be released and used to defray cemetery maintenance costs, which are expensed as incurred. The Company consolidates the trust into the Company s financial statements in accordance with ASC 810-10-15-(13 through 22) because the trust is considered a variable interest entity for which the Company is the primary beneficiary. Earnings from the perpetual care trusts are recognized in current cemetery revenues (see Note 6).

Inventories

Inventories are classified within other current assets on the Company s consolidated balance sheet and include cemetery and funeral home merchandise valued at the lower of cost or net realizable value. Cost is determined primarily on a specific identification basis on a first-in, first-out basis. Inventories were approximately $6.4 million and $6.0 million at December 31, 2011 and 2010, respectively.

Impairment of Long-Lived Assets

The Company monitors the recoverability of long-lived assets, including cemetery property, property and equipment and other assets, based on estimates using factors such as current market value, future asset utilization, business and regulatory climate and future undiscounted cash flows expected to result from the use of the related assets. The Company s policy is to evaluate an asset for impairment when events or circumstances indicate that a long-lived asset s carrying value may not be recovered. An impairment charge is recorded to write-down the asset to its fair value if the sum of future undiscounted cash flows is less than the carrying value of the asset. No impairment charges were recorded during the years ended December 31, 2011, 2010 and 2009, respectively.

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Other-Than-Temporary Impairment of Trust Assets

The Company determines whether or not the impairment of a fixed maturity debt security is other-than-temporary by evaluating each of the following:

- Whether it is the Company s intent to sell the security. If there is intent to sell, the impairment is considered to be other-than-temporary.

- If there is no intent to sell, the Company evaluates if it is not more likely than not that the Company will be required to sell the debt security before its anticipated recovery. If the Company determines that it is more likely than not that it will be required to sell an impaired investment before its anticipated recovery, the impairment is considered to be other-than-temporary.

The Company has further evaluated whether or not all assets in the merchandise trusts have other-than-temporary impairments based upon a number of criteria including the severity of the impairment, length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer.

If an impairment is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair value.

For assets held in the perpetual care trusts, any reduction in the cost basis due to an other-than-temporary impairment is offset with an equal and opposite reduction in the perpetual care trust corpus and has no impact on earnings.

For assets held in the merchandise trusts, any reduction in the cost basis due to an other-than-temporary impairment is recorded in deferred revenue.

The trust footnotes (Notes 5 and 6) disclose the adjusted cost basis of the assets in the both the merchandise and perpetual care trust. This adjusted cost basis includes any adjustments to the original cost basis due to other-than-temporary impairments.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. The Company tests goodwill for impairment using a two-step test. In the first step of the test, the Company compares the fair value of the reporting unit to its carrying amount, including goodwill. The Company determines the fair value of each reporting unit using the income approach. The Company does not record an impairment of goodwill in instances where the fair value of a reporting unit exceeds its carrying amount. If the aggregate fair value of a reporting unit is less than the related carrying amount, the Company records an impairment loss in an amount equal to the excess of the carrying amount of goodwill over the implied fair value. The goodwill impairment test is performed annually or more frequently if events or circumstances indicate that impairment may exist.

Two Class Method of Accounting for Earnings per Share

The Company utilizes the two class method of accounting for earnings per share as required by Accounting Topic 260. Under this method:

1. Periodic net income is reduced by the amount of distributions declared for each class of participating security in order to determine undistributed earnings.

2. Undistributed earnings are allocated to each participating security as if all earnings had been distributed in accordance with the distribution schedule per the partnership agreement.

3. Total periodic earnings (TPE) for each class is the sum of their share of distributions plus undistributed earnings.

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The Company s general partner s agreement contains incentive distribution rights (IDR s) and such IDR s are detachable from the general partner units (i.e. can be sold on a stand alone basis). As a result, the Company must consider the IDR s to be a separate class of ownership interest and allocate and disclose TPE to such class by itself. For all periods presented, the Company made distributions in excess of earnings. As such, there was no allocation of TPE to the IDR s. Accordingly, the Consolidated Statement of Partners Capital only reflects amounts allocated to general and common partners.

Deferred Cemetery Revenues, Net

Revenues from the sale of services and merchandise, as well as any investment income from the merchandise trust is deferred until such time that the services are performed or the merchandise is delivered.

In addition to amounts deferred on new contracts, and investment income and unrealized gains on our merchandise trust, deferred cemetery revenues, net, includes deferred revenues from pre-need sales that were entered into by entities prior to the acquisition of those entities by the Company, including entities that were acquired by Cornerstone Family Services, Inc. upon its formation in 1999. The Company provides for a reasonable profit margin for these deferred revenues (deferred margin) to account for the future costs of delivering products and providing services on pre-need contracts that the Company acquired through acquisition. Deferred margin amounts are deferred until the merchandise is delivered or services are performed.

Sales of Cemetery Merchandise and Services

The Company sells its merchandise and services on both a pre-need and at-need basis. Sales of at-need cemetery services and merchandise are recognized as revenue when the service is performed or merchandise is delivered.

Pre-need sales are usually made on an installment contract basis. Contracts are usually for a period not to exceed 60 months with payments of principal and interest required. For those contracts that do not bear a market rate of interest, the Company imputes such interest based upon the prime rate plus 150 basis points (this resulted in a rate of 4.75% for contracts entered into during the years ended December 31, 2011, 2010, and 2009) in order to segregate the principal and interest component of the total contract value.

At the time of a pre-need sale, the Company records an account receivable in an amount equal to the total contract value less any cash deposit paid net of an estimated allowance for customer cancellations. The revenue from both the sales and interest component is deferred. Interest revenue is recognized utilizing the effective interest method. Sales revenue is recognized in accordance with the rules discussed below.

The allowance for customer cancellations is established based on management s estimates of expected cancellations and historical experiences and is currently averaging approximately 10% of total contract values. Future cancellation rates may differ from this current estimate. Management will continue to evaluate cancellation rates and will make changes to the estimate should the need arise. Actual cancellations did not vary significantly from the estimates of expected cancellations at December 31, 2011 and December 31, 2010, respectively.

Revenue recognition related to sales of cemetery merchandise and services is governed by Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements (SAB No. 104), and the retail land sales provisions of ASC 976. Per this guidance, revenue from the sale of burial lots and constructed mausoleum crypts is deferred until such time that 10% of the sales price has been collected, at which time it is fully earned; revenues from the sale of unconstructed mausoleums are recognized using the percentage-of-completion method of accounting while revenues from merchandise and services are recognized once such merchandise is delivered (title has transferred to the customer and the merchandise is either installed or stored, at the direction of the customer, at the vendor s warehouse or a third-party warehouse at no additional cost to us) or services are performed.

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In order to appropriately match revenue and expenses, the Company defers certain pre-need cemetery and prearranged funeral direct obtaining costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business. Such costs are accounted for under the provisions of ASC 944, and are expensed as revenues are recognized.

The Company records a merchandise liability equal to the estimated cost to provide services and purchase merchandise for all outstanding and unfulfilled pre-need contracts. The merchandise liability is established and recorded at the time of the sale but is not recognized as an expense until such time that the associated revenue for the underlying contract is also recognized. The merchandise liability is established based on actual costs incurred or an estimate of future costs, which may include a provision for inflation. The merchandise liability is reduced when services are performed or when payment for merchandise is made by the Company and title is transferred to the customer.

Sales of Funeral Home Services

Revenue from funeral home services is recognized as services are performed and merchandise is delivered.

Pursuant to state law, a portion of proceeds received from pre-need funeral service contracts is put into trust while amounts used to defray the initial administrative costs are not. All investment earnings generated by the assets in the trust (including realized gains and losses) are deferred until the associated merchandise is delivered or the services are performed. The balance of the amounts in these trusts is included within the merchandise trusts above.

Net Income per Unit

Basic net income per unit is determined by dividing net income, after deducting the amount of net income allocated to the general partner interest from its issuance date of September 20, 2004, by the weighted average number of units outstanding during the period. Diluted net income per unit is calculated in the same manner as basic net income per unit, except that the weighted average number of outstanding units is increased to include the dilutive effect of outstanding unit options or phantom unit options. All outstanding unit appreciation rights (See Note 12) that would have a dilutive effect were assumed to be exercised and converted to common units using the average fair market value of a common unit for the period presented. The diluted weighted average number of limited partners units outstanding presented on the consolidated statement of operations do not include 322,866 units, 213,261 units and 63,693 units for the years ended December 31, 2011, 2010, and 2009, respectively, as their effects would be anti-dilutive.

New Accounting Pronouncements

In the third quarter of 2011, the Financial Accounting Standards Board issued Update No. 2011-08, Intangibles Goodwill and Other (Topic 350) (ASU 2011-08). Prior to ASU 2011-08, the first step in the goodwill impairment test was to compare the fair value of a reporting unit to its carrying amount, including goodwill. ASU 2011-08 allows a Company to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after this assessment, it is determined that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, the goodwill test can be concluded and it is not necessary to calculate the fair value of the reporting unit. However, if the qualitative assessment does not lead to this conclusion, the full two step goodwill test, which has not been changed by ASU 2011-08, must be performed. The Company plans to adopt the provisions of ASU 2011-08 in 2012. This adoption is not expected to have a significant impact on the Company s financial position, results of operations, or cash flows.

Use of Estimates

Preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting periods. As a result, actual results could differ from those estimates. The most significant estimates in the consolidated financial statements are the valuation of assets in the merchandise trust and perpetual care trust, allowance for cancellations, unit-based compensation, merchandise liability, deferred sales revenue, deferred margin, deferred merchandise trust investment earnings, deferred obtaining costs and income taxes. Deferred sales revenue, deferred margin and deferred merchandise trust investment earnings are included in deferred cemetery revenues, net, on the consolidated balance sheets.

2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

Long-term accounts receivable, net, consisted of the following:

	As of December 31,	
	2011	2010
	(in thousands)	
Customer receivables	$ 151,500	$ 135,530
Unearned finance income	(16,727)	(14,488)
Allowance for contract cancellations	(17,582)	(15,832)
	117,191	105,210
Less: current portion net of allowance	48,837	45,149
Long-term portion net of allowance	$ 68,354	$ 60,061

Activity in the allowance for contract cancellations is as follows:

	For the Year Ended December 31,		
	2011	2010	2009
		(in thousands)	
Balance Beginning of period	$ 15,832	$ 13,350	$ 13,763
Provision for cancellations	18,649	16,529	13,201
Charge-offs net	(16,899)	(14,047)	(13,614)
Balance End of period	$ 17,582	$ 15,832	$ 13,350

The Company s customer receivables are considered financing receivables as they primarily relate to pre-need sales which are usually made on an installment contract basis. Contracts are usually for a period not to exceed 60 months with payments of principal and interest required. The Company has a standard contractual agreement that it executes related to these receivables and therefore the Company only has one portfolio segment of receivables with no separate classes of receivables within that segment.

Management evaluates customer receivables for impairment on an individual contract basis based upon the age of the receivable and a customer s payment history. The Company s receivables primarily relate to pre-need sales and therefore the Company has not performed the service or fulfilled all of its obligations for the merchandise to which the receivable relates. As a result, the Company has some leverage with its customers in terms of collecting its receivables. Further, the Company will be flexible with customers who have difficulty making payments and will try to create revised or alternative payment agreements with the customer. As a result, the Company does not write-off of a receivable until all possible collection efforts have been exhausted. As of December 31, 2011 and 2010, approximately 9% of the Company s gross accounts receivable balance was 90 days past due.

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3. CEMETERY PROPERTY

Cemetery property consists of the following:

	As of December 31, 2011	As of December 31, 2010
	(in thousands)	
Developed land	$ 64,266	$ 61,849
Undeveloped land	164,723	159,386
Mausoleum crypts and lawn crypts	69,949	62,225
Total	$ 298,938	$ 283,460

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	As of December 31, 2011	As of December 31, 2010
	(in thousands)	
Building and improvements	$ 75,076	$ 67,247
Furniture and equipment	36,863	31,947
	111,939	99,194
Less: accumulated depreciation	(38,162)	(32,945)
Property and equipment net	$ 73,777	$ 66,249

Depreciation expense was $5.9 million, $5.8 million and $4.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

5. MERCHANDISE TRUSTS

At December 31, 2011 and December 31, 2010, the Company s merchandise trusts consisted of the following types of assets:

- Money Market Funds that invest in low risk short term securities;
- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;
- Equity investments that are currently paying dividends or distributions. These investments include Real Estate Investment Trusts (REIT s); Master Limited Partnerships and global equity securities;

- Fixed maturity debt securities issued by various corporate entities;
- Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and
- Fixed maturity debt securities issued by U.S. states and local government agencies.

All of these investments are classified as Available for Sale as defined by the Investments in Debt and Equity topic of the ASC. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. At December 31, 2011, approximately 94.6% of these assets were Level 1 investments while approximately 5.4% were Level 2 assets. At December 31, 2010, approximately 94.6% of these assets were Level 1 investments while approximately 5.4% were Level 2 assets. There were no Level 3 assets.

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The merchandise trusts are variable interest entities (VIE) for which the Company is the primary beneficiary. The assets held in the merchandise trusts are required to be used to purchase the merchandise to which they relate. If the value of these assets falls below the cost of purchasing such merchandise, the Company may be required to fund this shortfall.

The Company has included $6.9 million and $6.4 million of investments held in trust by the West Virginia Funeral Directors Association at December 31, 2011 and December 31, 2010, respectively, in its merchandise trust assets. As required by law, the Company deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recorded at their account value, which approximates fair value.

The cost and market value associated with the assets held in the merchandise trusts at December 31, 2011 and December 31, 2010 is presented below:

As of December 31, 2011	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 38,312	$	$	$ 38,312
Fixed maturities:				
U.S. Government and federal agency				
U.S. State and local government agency	23			23
Corporate debt securities	10,537	19	(791)	9,765
Other debt securities	1,100			1,100
Total fixed maturities	11,660	19	(791)	10,888
Mutual funds debt securities	68,291	1,711	(2,581)	67,421
Mutual funds equity securities	148,209	1,939	(8,860)	141,288
Equity securities	71,760	3,723	(3,131)	72,352
Other invested assets	7,326	34		7,360
Total managed investments	$ 345,558	$ 7,426	$ (15,363)	$ 337,621
West Virginia Trust Receivable	6,894			6,894
Total	$ 352,452	$ 7,426	$ (15,363)	$ 344,515

As of December 31, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 40,723	$	$	$ 40,723
Fixed maturities:				
U.S. Government and federal agency				
U.S. State and local government agency	23			23
Corporate debt securities	9,973	119	(152)	9,940
Other debt securities	1,503	35		1,538
Total fixed maturities	11,499	154	(152)	11,501
Mutual funds debt securities	49,717	3,087	(286)	52,518
Mutual funds equity securities	124,177	6,444	(3,956)	126,665
Equity securities	69,462	6,708	(909)	75,261
Other invested assets	4,991	217		5,208

Total managed investments	$ 300,569	$ 16,610	$ (5,303)	$ 311,876
West Virginia Trust Receivable	6,442			6,442
Total	$ 307,011	$ 16,610	$ (5,303)	$ 318,318

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The contractual maturities of debt securities as of December 31, 2011 and December 31, 2010 are presented below:

As of December 31, 2011	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$	$	$	$
U.S. State and local government agency	23			
Corporate debt securities		8,984	781	
Other debt securities	1,100			
Total fixed maturities	$ 1,123	$ 8,984	$ 781	$

As of December 31, 2010	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$	$	$	$
U.S. State and local government agency		23		
Corporate debt securities	85	2,887	6,064	904
Other debt securities	1,538			
Total fixed maturities	$ 1,623	$ 2,910	$ 6,064	$ 904

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at December 31, 2011 and December 31, 2010 is presented below:

	Less than 12 months		12 Months or more		Total	
As of December 31, 2011	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	4,007	351	4,459	440	8,466	791
Other debt securities						
Total fixed maturities	4,007	351	4,459	440	8,466	791
Mutual funds debt securities	19,691	1,109	31,916	1,472	51,607	2,581
Mutual funds equity securities	32,631	970	59,010	7,890	91,641	8,860
Equity securities	20,349	1,941	5,775	1,190	26,124	3,131
Other invested assets						
Total	$ 76,678	$ 4,371	$ 101,160	$ 10,992	$ 177,838	$ 15,363

As of December 31, 2010	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	4,887	95	813	57	5,700	152
Other debt securities						
Total fixed maturities	4,887	95	813	57	5,700	152
Mutual funds debt securities	1,619	11	2,331	275	3,950	286
Mutual funds equity securities	364	48	56,316	3,908	56,680	3,956
Equity securities	5,227	129	7,817	780	13,044	909
Total	$ 12,097	$ 283	$ 67,277	$ 5,020	$ 79,374	$ 5,303

A reconciliation of the Company s merchandise trust activities for the years ended December 31, 2011 and December 31, 2010 is presented below:

Year ended December 31, 2011

Fair Value @ 12/31/2010	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 12/31/2011
			(in thousands)						
$318,318	61,851	(39,455)	13,597	9,706	3,723	(1,592)	(2,389)	(19,244)	$ 344,515

Year ended December 31, 2010

Fair Value @ 12/31/2009	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 12/31/2010
				(in thousands)					
$203,829	97,401	(28,480)	1,993	1,601	7,025	(904)	(1,869)	37,722	$ 318,318

The Company made net deposits into the trusts of approximately $22.4 million and net deposits into the trusts of approximately $68.9 million during the years ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, purchases and sales of securities available for sale included in trust investments were approximately $279.3 million and $262.6 million, respectively. During the year ended December 31, 2010, purchases and sales of securities available for sale included in trust investments were approximately $448.3 million and $365.0 million, respectively. Contributions include $15.5 million and $72.2 million of assets that were acquired through acquisitions during the years ended December 31, 2011 and 2010, respectively.

Other-Than-Temporary Impairment of Trust Assets

In accordance with ASC 320-10-65-1, the Company assesses whether an impairment is other-than-temporary by performing each of the following:

Fixed Maturity Debt Securities

The Company assesses whether it has the intent to sell any impaired debt security; or

The Company assesses whether it is more likely than not it will be required to sell any impaired debt security before its anticipated recovery;

If either of these conditions exists, the impairment is considered to be other than temporary;

The Company assesses whether or not there is a credit loss on an impaired security. A credit loss is the excess of the amortized cost of the security over the present value of future expected cash flows. If there is a credit loss, the Company recognizes an other-than-temporary impairment in earnings in an amount equal to the credit loss. This amount becomes the new cost basis of the asset and will not be adjusted for subsequent changes in the fair value of the asset;

The Company assesses the overall credit quality of each issue by evaluating its credit rating as reported by any credit rating agency. The Company also determines if there has been any downgrade in its creditworthiness as reported by such credit rating agency;

The Company determines if there has been any suspension of interest payments or any announcements of any intention to do so;

The Company evaluates the length of time until the principal becomes due and whether the ability to satisfy this payment has been impaired.

Equity Securities

The Company compares the proportional decline in value to the overall sector decline as measured via certain specific indices;

The Company determines whether there has been further periodic decline from prior periods or whether there has been a recovery in value.

For all securities

The Company evaluates the severity of the impairment and length of time that a security has been in a loss position;

The Company determines if there is any publicly available information that would cause us to believe that impairment is other than temporary in nature.

During the year ended December 31, 2011, the Company determined that there were 4 securities with an aggregate cost basis of approximately $1.5 million and an aggregate fair value of approximately $1.0 million, resulting in an impairment of $0.5 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of these assets to their current value and offset this change against deferred revenue. This reduction in deferred revenue will be reflected in earnings in future periods as the underlying merchandise is delivered or the underlying service is performed.

During the year ended December 31, 2010, the Company determined that there were 17 securities, with an aggregate cost basis of approximately $40.9 million, an aggregate fair value of approximately $27.6 million and a resulting impairment of approximately $13.3 million, wherein such impairment is considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of these assets to their current value and offset this change against deferred revenue. This reduction in deferred revenue will be reflected in earnings in future periods as the underlying merchandise is delivered or the underlying service is performed.

6. PERPETUAL CARE TRUSTS

At December 31, 2011 and December 31, 2010, the Company s perpetual care trust consisted of the following types of assets:

Money Market Funds that invest in low risk short term securities;

Publicly traded mutual funds that invest in underlying debt securities;

Publicly traded mutual funds that invest in underlying equity securities;

Equity investments that are currently paying dividends or distributions. These investments include REIT s and Master Limited Partnerships;

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Fixed maturity debt securities issued by various corporate entities;

Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and

Fixed maturity debt securities issued by U.S. states and local government agencies.

All of these investments are classified as Available for Sale as defined by the Investments in Debt and Equity topic of the ASC. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. At December 31, 2011, approximately 91.0% of these assets were Level 1 investments while approximately 9.0% were Level 2 assets. At December 31, 2010, approximately 90.3% of these assets were Level 1 investments while approximately 9.7% were Level 2 assets. There were no Level 3 assets.

The cost and market value associated with the assets held in perpetual care trusts at December 31, 2011 and December 31, 2010 were as follows:

As of December 31, 2011	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 22,607	$	$	$ 22,607
Fixed maturities:				
U.S. Government and federal agency	408	105		513
U.S. State and local government agency	66	81		147
Corporate debt securities	23,359	229	(1,434)	22,154
Other debt securities	371			371
Total fixed maturities	24,204	415	(1,434)	23,185
Mutual funds debt securities	61,700	185	(1,079)	60,806
Mutual funds equity securities	104,824	4,295	(9,621)	99,498
Equity Securities	39,199	9,326	(112)	48,413
Other invested assets	327	156	(313)	170
Total	$ 252,861	$ 14,377	$ (12,559)	$ 254,679

As of December 31, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 20,583	$	$	$ 20,583
Fixed maturities:				
U.S. Government and federal agency	515	85		600
U.S. State and local government agency	67	81		148
Corporate debt securities	22,047	879	(234)	22,692
Other debt securities	509		(1)	508
Total fixed maturities	23,138	1,045	(235)	23,948
Mutual funds debt securities	52,809	2,865	(525)	55,149
Mutual funds equity securities	88,871	5,787	(2,878)	91,780
Equity Securities	48,054	9,379	(181)	57,252
Other invested assets	887	91		978

Total	$ 234,342	$ 19,167	$ (3,819)	$ 249,690

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The contractual maturities of debt securities as of December 31, 2011 and December 31, 2010 are as follows:

As of December 31, 2011	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$	$ 388	$ 125	$
U.S. State and local government agency	147			
Corporate debt securities	128	19,762	2,264	
Other debt securities	371			
Total fixed maturities	$ 646	$ 20,150	$ 2,389	$

As of December 31, 2010	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$ 103	$ 381	$ 116	$
U.S. State and local government agency	148			
Corporate debt securities	292	6,377	14,667	1,356
Other debt securities	508			
Total fixed maturities	$ 1,051	$ 6,758	$ 14,783	$ 1,356

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at December 31, 2011 and December 31, 2010 held in perpetual care trusts is presented below:

As of December 31, 2011	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	7,967	727	8,471	707	16,438	1,434
Other debt securities						
Total fixed maturities	7,967	727	8,471	707	16,438	1,434
Mutual funds debt securities	37,956	772	1,675	307	39,631	1,079
Mutual funds equity securities	21,483	3,023	44,416	6,598	65,899	9,621
Equity securities	2,978	106	351	6	3,329	112
Other invested assets	170	313			170	313
Total	$ 70,554	$ 4,941	$ 54,913	$ 7,618	$ 125,467	$ 12,559

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As of December 31, 2010	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	9,195	145	1,196	89	10,391	234
Other debt securities	137	1			137	1
Total fixed maturities	9,332	146	1,196	89	10,528	235
Mutual funds debt securities	1,444	127	2,702	398	4,146	525
Mutual funds equity securities			45,268	2,878	45,268	2,878
Equity securities	1,695	107	3,102	74	4,797	181
Total	$ 12,471	$ 380	$ 52,268	$ 3,439	$ 64,739	$ 3,819

A reconciliation of the Company s perpetual care trust activities for the years ended December 31, 2011 and 2010 is presented below:

Year ended December 31, 2011

Fair Value @ 12/31/2010	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 12/31/2011
			(in thousands)						
$249,690	15,307	(13,720)	15,819	1,076	2,408	(910)	(1,461)	(13,530)	$ 254,679

Year ended December 31, 2010

Fair Value @ 12/31/2009	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 12/31/2010
			(in thousands)						
$196,276	32,967	(15,414)	14,892	941	(14,048)	(425)	(1,525)	36,026	$ 249,690

The Company made net deposits into the trusts of approximately $1.6 million and $17.6 million during the years ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011 purchases and sales of securities available for sale included in trust investments were approximately $139.9 million and $127.2 million, respectively. During the year ended December 31, 2010 purchases and sales of securities available for sale included in trust investments were approximately $311.1 million and $262.6 million, respectively. Contributions include $8.3 million and $19.8 million of assets that were acquired through acquisitions during the years ended December 31, 2011 and 2010, respectively.

Other-Than-Temporary Impairment of Trust Assets

Refer to Note 5 for a detailed discussion of the accounting rules related to other-than-temporarily impaired assets and the Company s procedures for evaluating whether impairment to assets are other than temporary.

During the year ended December, 2011, the Company determined that there was a single security with an aggregate cost basis of less than $0.1 million which was substantially impaired, and such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of this asset to its current value and offset this change against the liability for perpetual care trusts.

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During the year ended December 31, 2010, the Company determined that there were 3 securities, with an aggregate cost basis of approximately $25.6 million, an aggregate fair value of approximately $10.8 million and a resulting impairment of approximately $14.8 million, wherein such impairment is considered to be other-than- temporary. Accordingly, the Company adjusted the cost basis of these assets to their current value and offset this change against the liability for perpetual care trusts.

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company has recorded goodwill of approximately $36.4 million and $18.2 million as of December 31, 2011 and December 31, 2010, respectively. This amount represents the excess of the purchase price over the fair value of identifiable net assets acquired in acquisitions.

A rollforward of goodwill by reportable segment is as follows:

	Cemeteries			Funeral	
	Southeast	Northeast	West (in thousands)	Homes	Total
Balance as of January 1, 2010	$	$	$	$ 480	$ 480
Goodwill acquired from acquisitions during 2010	456		11,801	5,416	17,673
Balance as of December 31, 2010	456		11,801	5,896	18,153
Goodwill acquired from acquisitions during 2011	6,815		147	11,324	18,286
Balance as of December 31, 2011	$ 7,271	$	$ 11,948	$ 17,220	$ 36,439

The Company evaluates the carrying value of goodwill during the fourth quarter of each year or more frequently if events and circumstances indicate that the asset may have been impaired. No impairment of the Company s goodwill has been identified during the years ended December 31, 2011 or 2010.

Other Acquired Intangible Assets

The Company has other acquired intangible assets, most of which have been recognized as a result of acquisitions and long-term operating agreements. These amounts are included within other assets on the consolidated balance sheet. All of the intangible assets are subject to amortization. The major classes of intangible assets are as follows:

	As of December 31, 2011			As of December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset
			(in thousands)			
Amortized Intangible Assets:						
Underlying contract value	$ 8,484	$ (546)	$ 7,938	$ 8,484	$ (328)	$ 8,156
Non-compete agreements	3,820	(1,413)	2,407	3,560	(502)	3,058
Other intangible assets	205	(67)	138	205	(57)	148
Total Intangible Assets	$ 12,509	$ (2,026)	$ 10,483	$ 12,249	$ (887)	$ 11,362

Underlying Contract Value of Long-Term Operating Agreements

The Company entered into three long-term operating agreements during 2009, wherein it became the exclusive operator of cemetery properties. These transactions did not qualify for acquisition accounting. The fair value of the consideration paid and liabilities assumed to enter into these agreements exceeded the fair value of assets acquired by approximately $8.5 million (See Note 14). This amount, which represents the underlying contract values, has been recorded as an intangible asset and is being amortized on the straight-line basis over the expected life of the contracts, which is 40 years. The amortization expense is included as a component of depreciation and amortization in the Consolidated Statement of Operations.

Non-Compete Agreements

In connection with acquisitions entered into in the second and third quarters of 2010 and the first and third quarters of 2011, the Company entered into non-compete agreements with the former owners of the acquired entities. The non-compete agreements were valued in purchase accounting at a fair value of approximately $3.8 million. The non-compete agreements are being amortized on the straight-line basis over the life of the agreements, which is 4 to 6 years. The amortization expense is included as a component of depreciation and amortization in the consolidated statement of operations.

At December 31, 2011, amortization expense related to intangible assets with definite lives is estimated to be the following for each of the next five years:

For the Year Ending December 31,	**Amortization Expense (in thousands)**
2012	$ 1,181
2013	940
2014	779
2015	329
2016	$ 289

8. DERIVATIVE INSTRUMENTS

On November 24, 2009, the Company entered into an interest rate swap (the First Interest Rate Swap) wherein the Company agreed to pay the counterparty interest in the amount of three month LIBOR plus 888 basis points in consideration for the counterparties agreement to pay the Company a fixed rate of interest of 10.25% on a principal amount of $108.0 million. On December 4, 2009, the Company entered into an interest rate swap (the Second Interest Rate Swap , together with the First Interest Rate Swap, the Interest Rate Swaps) wherein the Company agreed to pay the counterparty interest in the amount of three month LIBOR plus 869 basis points in consideration for the counterparties agreement to pay the Company a fixed rate of interest of 10.25% on a principal amount of $27.0 million.

The Interest Rate Swaps did not qualify for hedge accounting. Accordingly, the fair value of the Interest Rate Swaps were reported on the Company s balance sheet and periodic changes in the fair value of the Interest Rate Swaps were recorded in earnings. On October 20, 2010, the Company elected to terminate the Interest Rate Swaps early. Upon termination, the Company received a payment of approximately $2.0 million to settle the Interest Rate Swaps. For the year ended December 31, 2010, the Company recognized a gain of approximately $4.7 million related to the change in fair value and termination payment of the Interest Rate Swaps.

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9. LONG-TERM DEBT

The Company had the following outstanding debt:

	As of December 31, 2011	2010
	(in thousands)	
Insurance premium financing	$ 211	$ 215
Vehicle Financing	1,147	1,365
Acquisition Credit Facility, due January 2016	10,750	15,000
Revolving Credit Facility, due January 2016	33,000	18,500
Note Payable Greenlawn acquisition	1,321	1,400
Note Payable Nelms acquisition (net of discount)	623	866
Note Payable acquisition non-competes (net of discounts)	1,490	1,646
10.25% senior notes, due 2017	150,000	150,000
Class B Senior secured notes		17,500
Class C Senior secured notes		17,500
Total	198,542	223,992
Less current portion	1,487	1,386
Less unamortized bond discount	3,220	3,598
Long-term portion	$ 193,835	$ 219,008

10.25% Senior Notes due 2017

Purchase Agreement

On November 18, 2009, the Company entered into a Purchase Agreement (the Purchase Agreement) by and among StoneMor Operating LLC (the Operating Company), Cornerstone Family Services of West Virginia Subsidiary, Inc. (CFS West Virginia), Osiris Holding of Maryland Subsidiary, Inc. (Osiris), the Partnership, the subsidiary guarantors named in the Purchase Agreement (together with the Company, the Note Guarantors) and Bank of America Securities LLC (BAS), acting on behalf of itself and as the representative for the other initial purchasers named in the Purchase Agreement (collectively, the Initial Purchasers). Pursuant to the Purchase Agreement, the Operating Company, CFS West Virginia and Osiris (collectively, the Issuers), each the Company s wholly-owned subsidiary, as joint and several obligors, agreed to sell to the Initial Purchasers $150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 (the Senior Notes), with an original issue discount of approximately $4.0 million, in a private placement exempt from the registration requirements under the Securities Act, for resale by the Initial Purchasers (i) to qualified institutional buyers pursuant to Rule 144A under the Securities Act or (ii) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act (the Notes Offering). The Notes Offering closed on November 24, 2009.

The Purchase Agreement contains customary representations and warranties of the parties and indemnification and contribution provisions under which the Company, the Issuers, and other Note Guarantors, on one hand, and the Initial Purchasers, on the other, have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act. The Issuers, the Company and the other Note Guarantors also agreed to enter into a Registration Rights Agreement (described below) for the benefit of holders of the Senior Notes.

Indenture

On November 24, 2009, the Issuers, us and the other Note Guarantors entered into an indenture (the Indenture), among the Issuers, the Company, the other Note Guarantors and Wilmington Trust FSB, as trustee (the Trustee) governing the Senior Notes.

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The Issuers will pay 10.25% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year, starting on June 1, 2010. The Senior Notes mature on December 1, 2017.

The Senior Notes are senior unsecured obligations of the Issuers and:

- rank equally in right of payment with all existing and future senior unsecured debt of the Issuers;
- rank senior in right of payment to all existing and future senior subordinated and subordinated debt of the Issuers;
- are effectively subordinated in right of payment to existing and future secured debt of the Issuers, to the extent of the value of the assets securing such debt; and
- are structurally subordinated to all of the existing and future liabilities of each subsidiary of the Issuers that does not guarantee the Senior Notes.

The Issuers obligations under the Senior Notes and the Indenture are jointly and severally guaranteed (the Note Guarantees) by the Company and each subsidiary, other than the Issuers, that is a guarantor of any indebtedness under the Credit Agreement (as defined below), or is a borrower under the Credit Agreement and each other subsidiary that the Issuers shall otherwise cause to become a Note Guarantor pursuant to the terms of the Indenture (each, a Restricted Subsidiary).

At any time on or after December 1, 2013, the Issuers, at their option, may redeem the Senior Notes, in whole or in part, at the redemption prices (expressed as percentages of the principal amount) set forth below, together with accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period beginning December 1 of the years indicated:

Year	Optional Redemption Price
2013	105.125%
2014	102.563%
2015 and thereafter	100%

At any time prior to December 1, 2013, the Issuers may, on one or more occasions, redeem all or any portion of the Senior Notes, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed, plus the Applicable Premium (as defined in the Indenture) as of the date of redemption, including accrued and unpaid interest to the redemption date.

In addition, at any time prior to December 1, 2012, the Issuers, at their option, may redeem up to 35% of the aggregate principal amount of the Senior Notes issued under the Indenture with the net cash proceeds of certain of the equity offerings of the Company described in the Indenture at a redemption price equal to 110.250% of the principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest to the redemption date provided, however, that (i) at least 65% of the aggregate principal amount of the Senior Notes issued under the Indenture remain outstanding immediately after the occurrence of such redemption and (ii) the redemption occurs within 90 days of the closing date of such offering.

Subject to certain exceptions, upon the occurrence of a Change of Control (as defined in the Indenture), each holder of Senior Notes will have the right to require the Issuers to purchase that holder s Senior Notes for a cash price equal to 101% of the principal amounts to be purchased, plus accrued and unpaid interest to the date of purchase.

The Indenture requires the Company, the Issuers and/or the Note Guarantors, as applicable, to comply with various covenants including, but not limited to, covenants that, subject to certain exceptions, limit the Company s and its subsidiaries ability to (i) incur additional indebtedness; (ii) make certain dividends, distributions,

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redemptions or investments; (iii) enter into certain transactions with affiliates; (iv) create, incur, assume or permit to exist certain liens against their assets; (v) make certain sales of their assets; and (vi) engage in certain mergers, consolidations or sales of all or substantially all of their assets. The Indenture also contains various affirmative covenants regarding, among other things, delivery of certain reports filed with the SEC and materials required pursuant to Rule 144A under the Securities Act to holders of the Senior Notes and joinder of future subsidiaries as Note Guarantors under the Indenture. The Company was in compliance with all financial covenants at December 31, 2011.

Events of default under the Indenture that could, subject to certain conditions, cause all amounts owing under the Senior Notes to become immediately due and payable include, but are not limited to, the following:

1. failure by the Issuers to pay interest on any of the Senior Notes when it becomes due and the continuance of any such failure for 30 days;

2. failure by the Issuers to pay the principal on any of the Senior Notes when it becomes due and payable, whether at stated maturity, upon redemption, upon purchase, upon acceleration or otherwise;

3. the Issuers failure to comply with the agreements and covenants relating to limitations on entering into certain mergers, consolidations or sales of all or substantially all of their assets or in respect of their obligations to purchase the Senior Notes in connection with a Change of Control;

4. failure by the Company or the Issuers to comply with any other agreement or covenant in the Indenture and the continuance of this failure for 60 days after notice of the failure has been given the Company by the Trustee or holders of at least 25% of the aggregate principal amount of the Senior Notes then outstanding;

5. failure by the Company to comply with its covenant to deliver certain reports and the continuance of such failure to comply for a period of 120 days after written notice thereof has been given to the Company by the Trustee or by the holders of at least 25% in aggregate principal amount of the Senior Notes then outstanding;

6. certain defaults under mortgages, indentures or other instruments or agreements under which there may be issued or by which there may be secured or evidenced indebtedness of the Company or any Restricted Subsidiary, whether such indebtedness now exists or is incurred after the date of the Indenture;

7. certain judgments or orders that exceed $7.5 million for the payment of money have been entered by a court of competent jurisdiction against the Company or any Restricted Subsidiary and such judgments have not been satisfied, stayed, annulled or rescinded within 60 days of being entered;

8. certain events of bankruptcy of the Company, StoneMor GP LLC, the general partner of the Company (the General Partner), or any Restricted Subsidiary; or

9. other than in accordance with the terms of the Note Guarantee and the Indenture, any Note Guarantee ceasing to be in full force and effect, being declared null and void and unenforceable, found to be invalid or any Guarantor denying its liability under its Note Guarantee.

Registration Rights Agreement

In connection with the sale of the Senior Notes, on November 24, 2009, the Issuers, the Company, the other Note Guarantors and BAS, as representative of the Initial Purchasers, entered into a Registration Rights Agreement (the Registration Rights Agreement), pursuant to which the Issuers, the Company and the other Note Guarantors agreed, for the benefit of the holders of the Senior Notes, to use their commercially reasonable efforts to file a registration statement with the SEC with respect to a registered offer to exchange the Senior Notes for new exchange notes having terms substantially identical in all material respects to the Senior Notes, with certain exceptions (the Exchange Offer). The Issuers, the Company and the other Note Guarantors agreed to use their commercially reasonable efforts to consummate such Exchange Offer on or before the 366 th day after the issuance of the Senior Notes.

In addition, upon the occurrence of certain events described in the Registration Rights Agreement which result in the inability to consummate the Exchange Offer, the Issuers, the Company and the other Note Guarantors agreed to file a shelf registration statement with the SEC covering resales of the Senior Notes and to use their commercially reasonable efforts to cause such shelf registration statement to be declared effective.

The Issuers are required to pay additional interest to the holders of the Senior Notes under certain circumstances if they fail to comply with their obligations under the Registration Rights Agreement.

Note Purchase Agreement

On August 15, 2007, the Company entered into, along with the General Partner and certain of the Company s subsidiaries, (collectively, the Note Issuers) the Amended and Restated Note Purchase Agreement (the NPA) with Prudential Investment Management Inc., The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company, certain Affiliates of Prudential Investment Management Inc., iStar Financial Inc., SFT I, Inc., and certain Affiliates of iStar Financial Inc. (collectively, the Note Purchasers). Capitalized terms which are not defined in the following description shall have the same meaning assigned to such terms in the NPA, as amended.

Pursuant to the NPA, the Note Issuers and the Note Purchasers agreed to (a) exchange certain senior secured notes previously issued by the Note Issuers to the Note Purchasers on September 20, 2004, for new Series A Notes, as defined in the NPA, due September 20, 2009, in the amount of $80.0 million; and (b) issue Series B Notes, as defined in the NPA, due August 15, 2012 in the aggregate amount of $35.0 million, subject to the option, on an uncommitted basis, to issue/purchase additional secured Shelf Notes in the aggregate amount of up to $35.0 million, and to issue/purchase additional secured Shelf Notes to refinance the Series A Notes. On December 21, 2007, pursuant to the NPA, as amended, certain of the Company s subsidiaries issued Senior Secured Series C Notes (the Series C Notes and together with Series A Notes, Series B Notes and the Shelf Notes are referred to as the Notes) in the aggregate principal amount of $17.5 million, due December 21, 2012.

The NPA was amended seven times prior to January 28, 2011 to amend borrowing levels, interest rates, maturity dates and covenants. On January 28, 2011, and in connection with the Company s February 2011 follow-on public offering of common units, the Company entered into an amendment to its credit agreement. This amendment included the lenders consent to the use of a portion of the proceeds from the public offering of common units to redeem in full the outstanding $17.5 million of 12.5% Series B and $17.5 million of 12.5% Series C Notes and to pay an aggregate make-whole premium of $4.0 million related thereto, which represented the Company s final obligations outstanding under the NPA. The make-whole premium has been classified as early extinguishment of debt on the consolidated statement of operations.

Acquisition Credit Facility and Revolving Credit Facility

On August 15, 2007, the Company, the General Partner, and the Operating Company and various subsidiaries of the Operating Company (collectively, the Borrowers), entered into an Amended and Restated Credit Agreement (the Original Credit Agreement) with Bank of America, N.A. (Bank of America), other lenders, and BAS (collectively, the Lenders). The Original Credit Agreement provided for both an acquisition credit facility (the Acquisition Credit Facility) and a revolving credit facility (the Revolving Credit Facility). Capitalized terms which are not defined in the following description shall have the same meaning assigned to such terms in the Original Credit Agreement, as amended.

The Original Credit Agreement initially provided that: (1) the Acquisition Credit Facility would have a maximum principal amount of $40.0 million (with an option to increase such facility by an additional $15.0 million on an uncommitted basis) and the term of 5 years, and (2) the Revolving Credit Facility would have a maximum principal amount of $25.0 million (with an option to increase such facility by up to $10.0 million on an uncommitted basis) and a term of 5 years. Amounts borrowed under the Acquisition Credit Facility and repaid or prepaid may not be reborrowed and amounts borrowed under the Revolving Credit Facility and repaid or prepaid during the term may be reborrowed. In addition, Bank of America agreed to provide to the borrowers swing line loans (Swing Line Loans) with a maximum limit of $5.0 million, which is a part of the Revolving Credit Facility. Loans outstanding under the Acquisition Credit Facility and the Revolving Credit Facility bear interest at rates set forth in the Credit Agreement, which have since been amended as described below.

The Original Credit Agreement was amended six times prior to September 22, 2010, to amend borrowing levels, interest rates and covenants. On September 22, 2010, concurrently with the closing of the common units offering from which the Company used $22.5 million of net proceeds to prepay amounts on the Acquisition Credit Facility and used $14.5 million of net proceeds to pay down amounts on the Revolving Credit Facility, the Company entered into the Seventh Amendment to the Original Credit Agreement to, among other things, reinstate the amount available on the Acquisition Credit Facility to a total of $55.0 million and reinstate the amount available on the Revolving Credit Facility to $45.0 million.

On January 28, 2011, and in connection with our February 2011 follow-on public offering of common units, the Company entered into the Eighth Amendment to the Original Credit Agreement which extended the Maturity Date from August 15, 2012 to January 29, 2016, changed the limit on Maintenance Capital Expenditures and reduced the applicable margins for each of: (i) Eurodollar Rate Loans and Letter of Credit Fees and (ii) Base Rate Loans by 50 basis points, resulting in Pricing Level 3 of the Applicable Rate (the currently applicable pricing level) of 3.75% and 2.75%, respectively. The Eighth Amendment to the Original Credit Agreement also increased the Lenders aggregate commitments by $10.0 million under each of the Acquisition Credit Facility and the Revolving Credit Facility, resulting in an Acquisition Credit Facility of $65.0 million and a Revolving Credit Facility of $55.0 million.

On April 29, 2011, the Company entered into the Second Amended and Restated Credit Agreement (the Credit Agreement) among the Operating Company as the Borrower, each of the subsidiaries of the Operating Company as additional Borrowers, the General Partner and the Company as Guarantors, the Lenders identified therein, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. The terms of the Credit Agreement are substantially the same as the terms of the Original Credit Agreement. The primary purpose of entering into the Credit Agreement was to consolidate the amendments to the Original Credit Agreement and to update outdated references. The current terms of the Credit Agreement are set forth below. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the Credit Agreement.

The Credit Agreement provides for both an Acquisition Credit Facility of $65.0 million and a Revolving Credit Facility of $55.0 million, (together, the Credit Facility). Amounts borrowed may be either Base Rate Loans or Eurodollar Rate Loans and once repaid or prepaid, amounts under the Acquisition Credit Facility may not be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.75% to 2.75% and 2.75% to 3.75%, respectively, depending on the Company s Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%.

The Eurodollar Rate is:

- with respect to a Eurodollar Rate Loan, the higher of the British Bankers Association LIBOR Rate or 2.0%; and
- with respect to a Base Rate Loan, the British Bankers Association LIBOR Rate.

The maturity date of the Credit Facility is January 29, 2016. The Company s maximum Consolidated Leverage Ratio, which is the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA, is 3.65 to 1.0 for all Measurement Periods ending after December 31, 2010. In addition, the Company will not be permitted to have Maintenance Capital Expenditures, as defined in the Credit Agreement, for any Measurement Period ending in 2011, 2012 and 2013 exceeding $4.6 million, $5.2 million and $5.8 million, respectively, or $6.5 million for

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any Measurement Period ending in 2014 or thereafter. The Company will also not permit Consolidated EBITDA for any Measurement Period to be less than the sum of (i) $52 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after February 9, 2011.

At the time of entering into the Credit Agreement, Consolidated Fixed Charge Coverage Ratio was required to be not less than 1.15x for any Measurement Period ending in 2011, or 1.20x for any Measurement Period thereafter.

On August 4, 2011, the Company entered into the First Amendment to the Credit Agreement (the First Amendment) to provide that the Company may not permit the Consolidated Fixed Charge Coverage Ratio to be less than 1.08x for any Measurement Period ending in the second and third fiscal quarters of 2011, 1.15x for any Measurement Period ending in the fourth quarter of 2011, or 1.20x thereafter. This amendment was effective on a retroactive basis to June 30, 2011.

On October 28, 2011, the Company entered into the Second Amendment to the Credit Agreement (the Second Amendment) to provide that the Company may not permit the Consolidated Fixed Charge Coverage Ratio to be less than 1.05x for any Measurement Period ending in the third and fourth fiscal quarters of 2011, or 1.20x thereafter. This amendment was effective on a retroactive basis to August 31, 2011.

The Borrowers under the Credit Agreement paid fees to Bank of America, as Administrative Agent, and BAS, as Arranger. In addition, the Credit Agreement requires the Borrowers to pay an unused commitment fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Commitment Fee ranges from 0.5% to 0.75% depending on the Company s Consolidated Leverage Ratio.

The proceeds of the Acquisition Credit Facility may be used by the Borrowers to finance (i) Permitted Acquisitions, and (ii) the purchase and construction of mausoleums. The proceeds of the Revolving Credit Facility and Swing Line Loans may be utilized to finance working capital requirements, Capital Expenditures and for other general corporate purposes. The Borrowers obligationsunder the Credit Agreement are guaranteed by both the Partnership and StoneMor GP LLC.

The Borrowers obligations under the Credit Facility are secured by a first priority lien and security interest in substantially all of the Borrowers assets, whether then owned or thereafter acquired, excluding: (i) trust accounts, certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts; (ii) the General Partner s interest in the Partnership, the incentive distribution rights under the Partnership s partnership agreement and the deposit accounts of the General Partner into which distributions are received; (iii) Equipment subject to a purchase money security interest or equipment lease permitted under the Credit Agreement and certain other contract rights under which contractual, legal or other restrictions on assignment would prohibit the creation of a security interest or such creation of a security interest would result in a default thereunder.

Events of Default under the Credit Agreement include, but are not limited to, the following:

- non-payment of any principal, interest or other amounts due under the Credit Agreement or any other Credit Document;

- failure to observe or perform any covenants related to: (i) the delivery of financial statements, compliance certificates, reports and other information; (ii) providing prompt notice of Defaults and other events; (iii) the preservation of the legal existence and good standing of each Borrower and Guarantor; (iv) the ability of the Administrative Agent and each Lender to visit and inspect properties, examine books and records, and discuss financial and business affairs with directors, officers and independent public accountants of each Borrower and Guarantor; (v) restrictions on the use of proceeds; (vi) guarantees by new Subsidiaries; (vii) the maintenance of corporate formalities for each Borrower and Guarantor; (viii) the maintenance of Trust Accounts and Trust Funds; and (ix) any of the negative covenants contained in the Credit Agreement;

- failure to observe or perform any other covenant, if uncured 30 days after notice thereof is provided by the Administrative Agent or Lenders;
- any default under any other Indebtedness of the Borrowers or Guarantors;
- any insolvency proceedings by a Borrower or Guarantor;
- the insolvency of any Borrower or Guarantor, or a writ of attachment or execution or similar process issuing or being levied against any material part of the property of a Borrower or Guarantor; and
- any Change in Control.

The Credit Agreement contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require the Company to maintain certain financial covenants, including specified financial ratios. A material decrease in revenues could cause the Company to breach certain of its financial covenants, such as the Consolidated Leverage Ratio, Consolidated Fixed Charge Coverage Ratio and the Consolidated EBITDA covenant, under the Credit Agreement. Any such breach could allow the Lenders to accelerate (or create cross-default under) the Company s debt which would have a material adverse effect on the Company s business, financial condition or results of operations.

As of December 31, 2011, there were $10.8 million of outstanding borrowings under the Acquisition Credit Facility and $33.0 million of outstanding borrowings under the Revolving Credit Facility, and the Company was in compliance with applicable financial covenants. The Consolidated Leverage Ratio was 3.09 at December 31, 2011. The Consolidated Debt Service Coverage Ratio, which replaced the Consolidated Fixed Charge Coverage Ratio effective with our January 19, 2012 amendment, was 3.28 at December 31, 2011. At December 31, 2011, amounts outstanding under the Credit Facility bear interest at a rate of 5.75%.

On January 19, 2012, the Company entered into the Third Amended and Restated Credit Agreement (the New Credit Agreement) which amended the Credit Agreement. The terms of the New Credit Agreement and the Credit Agreement are substantially similar, and amendments to the Credit Agreement mostly relate to the following:

- converting and consolidating the Acquisition Credit Facility of $65.0 million and the Revolving Credit Facility of $55.0 million into a single revolving credit facility (the New Credit Facility);
- eliminating the borrowing formula under the Credit Facility;
- increasing the Credit Facility to $130.0 million;
- extending the maturity date to January 19, 2017;
- effectively reducing the interest rate on the Credit Facility, as described below; and
- amending certain financial covenants, as described below.

Amounts borrowed under the New Credit Facility and repaid or prepaid during the term may be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.25% to 2.75% and 2.25% to 3.75%, respectively, depending on the Company s Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%. The Eurodollar rate is the British Bankers Association LIBOR Rate. The Commitment Fee under the New Credit Agreement ranges from 0.375% to 0.75% depending on the Company s Consolidated Leverage Ratio.

Under the New Credit Agreement, certain financial covenants were amended as follows:

Consolidated EBITDA for the most recently completed four fiscal quarters of the Partnership (the Measurement Period) must not be less than the sum of (i) $53.5 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after September 30, 2011;

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Maintenance Capital Expenditures for any Measurement Period ending in 2012, 2013, 2014 and thereafter must not exceed $6.7 million, $7.3 million, and $8 million, respectively; and

the Consolidated Fixed Charge Coverage Ratio under the Credit Agreement was replaced with the Consolidated Debt Service Coverage Ratio, the calculation of which does not include distributions made by the Partnership and which must not be less than 2.50 to 1.0 for any Measurement Period under the Credit Agreement.

Green Lawn Note

In July of 2009, certain of the Company s subsidiaries, entered into a $1.4 million note purchase agreement in connection with an operating agreement in which the Company became the exclusive operator of Green Lawn Cemetery (the Green Lawn Note). The Green Lawn Note bears interest at a rate of 6.5% per year on unpaid principal and is payable monthly, beginning on August 1, 2009. Principal on the note is due in 96 equal installments beginning on July 1, 2011. At December 31, 2011 and 2010, the liability related to the installment notes was stated on the Company s balance sheet at approximately $1.3 million and $1.4 million, respectively.

Nelms Note

In June of 2010, certain of the Company s subsidiaries issued two installment notes in connection with the second quarter acquisition discussed in Note 14. The Installment Notes are to be paid over a 4 year period and mature April 1, 2014. The Installment Notes do not have a stated rate of interest. The Company has recorded the Installment Notes at their fair market value of approximately $2.6 million. The face amounts of the Installment Notes were discounted approximately $0.7 million, and the discount will be amortized to interest expense over the life of the Installment Notes. The installment notes bear 10.25% interest per annum on the portion of the outstanding balance after the maturity date or while there exists any uncured event of default or the exercise by lender of any remedies following the occurrence and during the continuance of any event of default. In addition, if StoneMor voluntarily files for bankruptcy or is involved in an involuntary bankruptcy proceeding, the entire principal balance of the installment notes will automatically become due and payable. At December 31, 2011 and 2010, the liability related to the installment notes was stated on the Company s balance sheet at approximately $0.6 million and $0.9 million, respectively.

In June of 2010, certain of the Company s subsidiaries also issued four notes in the aggregate principal amount of approximately $5.8 million in connection with the acquisition referenced above. These notes were paid at the closing of the acquisition referenced above by: (i) the issuance by the Company of 293,947 unregistered common units representing limited partnership interests of the Company valued at approximately $5.8 million and (ii) a cash payment of approximately $0.2 million.

Acquisition Non-Compete Notes

In connection with the Company s third quarter 2011 acquisition in Virginia and its second and third quarter 2010 acquisitions, certain of the Company s subsidiaries issued installment notes in consideration for non-compete agreements executed with the former owners of the acquired entities. The Installment Notes are to be paid over periods of 4 to 6 years and mature between April 1, 2014 and August 1, 2016. The Installment Notes do not have a stated rate of interest. At inception, the Company recorded the Installment Notes at their fair market value of approximately $2.4 million. The face amounts of the Installment Notes were discounted approximately $0.5 million, and the discount will be amortized to interest expense over the life of the Installment Notes. At December 31, 2011 and 2010, the liability related to the Installment Notes was stated on the Company s balance sheet at approximately $1.5 and $1.6 million, respectively.

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10. INCOME TAXES

Effective with the closing of the Partnership s initial public offering on September 20, 2004 (see Note 1), the Company was no longer a taxable entity for federal and state income tax purposes; rather, the Partnership s tax attributes, except for those of its corporate subsidiaries, are to be included in the individual tax returns of its partners.

The tax on the Company s net income is borne by its general and limited partners. Net income for financial statement purposes may differ significantly from the taxable income of such partners as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the partnership agreement. The aggregate difference in the basis of the Company s net assets for financial and tax reporting purposes cannot be readily determined because information regarding each partner s tax attributes is not available to the Company.

The Partnership s corporate subsidiaries, account for their income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The tax returns of the Partnership are subject to examination by state and federal tax authorities. If such examinations result in changes to taxable income, the tax liability of the partners could be changed accordingly.

Components of the income tax provision (benefit) applicable to continuing operations for federal and state taxes are as follows:

	Years ended December 31,		
	2011	2010 (in thousands)	2009
Current provision:			
Federal	$ 6	$	$ 69
State	(538)	306	567
Total	(532)	306	636
Deferred provision:			
Federal	(3,324)	(5,138)	(2,822)
State	(163)	(551)	241
Total	(3,487)	(5,689)	(2,581)
Total income tax provision (benefit)	$ (4,019)	$ (5,383)	$ (1,945)

The difference between the statutory federal income tax and the Company s effective income tax is summarized as follows:

	Years ended December 31,		
	2011	2010 (in thousands)	2009
Computed tax provision (benefit) at the applicable statutory tax rate	$ (4,806)	$ (2,322)	$ (2,153)
State and local taxes net of federal income tax benefit	(350)	202	374
Tax exempt (income) loss	300	238	365
Change in valuation allowance	3,930	3,210	3,506
Partnership earnings not subject to tax	(3,192)	(6,882)	(4,079)

Permanent differences	99	171	42
Income taxes	$ (4,019)	$ (5,383)	$ (1,945)