

STONEMOR PARTNERS LP
Form 10-Q
August 07, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

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: 001-32270

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

80-0103159
(I.R.S. Employer
Identification No.)

311 Veterans Highway, Suite B

Levittown, Pennsylvania
(Address of principal executive offices)

19056
(Zip Code)

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 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 No

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.

Large accelerated filer Accelerated filer

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 Exchange Act). Yes No

The number of the registrant's outstanding common units at August 1, 2012 was 19,538,051.

Table of Contents

Index Form 10-Q

| | Page |
|----------------|---|
| Part I | |
| | <u>Financial Information</u> |
| Item 1. | <u>Financial Statements (unaudited)</u> 1 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 27 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> 48 |
| Item 4. | <u>Controls and Procedures</u> 50 |
| Part II | |
| | <u>Other Information</u> |
| Item 1. | <u>Legal Proceedings</u> 50 |
| Item 1A. | <u>Risk Factors</u> 50 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 51 |
| Item 3. | <u>Defaults Upon Senior Securities</u> 51 |
| Item 4. | <u>Mine Safety Disclosures</u> 51 |
| Item 5. | <u>Other Information</u> 51 |
| Item 6. | <u>Exhibits</u> 52 |
| | <u>Signatures</u> 53 |

Table of Contents**Part I Financial Information****Item 1. Financial Statements****StoneMor Partners L.P.****Condensed Consolidated Balance Sheet****(in thousands)****(unaudited)**

| | June 30, 2012 | December 31, 2011 |
|---|--------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,787 | \$ 12,058 |
| Accounts receivable, net of allowance | 51,908 | 48,837 |
| Prepaid expenses | 5,899 | 4,266 |
| Other current assets | 15,990 | 16,670 |
| Total current assets | 81,584 | 81,831 |
| Long-term accounts receivable, net of allowance | 71,098 | 68,394 |
| Cemetery property | 302,986 | 298,938 |
| Property and equipment, net of accumulated depreciation | 72,948 | 73,777 |
| Merchandise trusts, restricted, at fair value | 345,884 | 344,515 |
| Perpetual care trusts, restricted, at fair value | 269,223 | 254,679 |
| Deferred financing costs, net of accumulated amortization | 9,667 | 8,817 |
| Deferred selling and obtaining costs | 71,921 | 68,542 |
| Deferred tax assets | 420 | 415 |
| Goodwill | 34,091 | 32,299 |
| Other assets | 13,608 | 16,918 |
| Total assets | \$ 1,273,430 | \$ 1,249,125 |
| Liabilities and partners capital | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 25,663 | \$ 26,428 |
| Accrued interest | 1,654 | 1,632 |
| Current portion, long-term debt | 2,035 | 1,487 |
| Total current liabilities | 29,352 | 29,547 |
| Other long-term liabilities | 1,977 | 2,830 |
| Long-term debt | 211,991 | 193,835 |
| Deferred cemetery revenues, net | 462,088 | 441,878 |
| Deferred tax liabilities | 16,347 | 16,968 |
| Merchandise liability | 125,024 | 129,109 |
| Perpetual care trust corpus | 269,223 | 254,679 |
| Total liabilities | 1,116,002 | 1,068,846 |

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Commitments and contingencies

| | | |
|---|--------------|--------------|
| Partners' capital | | |
| General partner | 1,288 | 2,192 |
| Common partners | 156,140 | 178,087 |
| Total partners' capital | 157,428 | 180,279 |
| Total liabilities and partners' capital | \$ 1,273,430 | \$ 1,249,125 |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

Table of Contents**StoneMor Partners L.P.****Condensed Consolidated Statement of Operations****(in thousands, except unit data)****(unaudited)**

| | Three months ended | | Six months ended | |
|--|---------------------------|---------------|-------------------------|----------------|
| | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | |
| Cemetery | | | | |
| Merchandise | \$ 30,337 | \$ 31,104 | \$ 57,481 | \$ 52,539 |
| Services | 11,265 | 11,604 | 23,347 | 22,402 |
| Investment and other | 12,051 | 10,036 | 23,475 | 19,702 |
| Funeral home | | | | |
| Merchandise | 3,569 | 2,957 | 7,587 | 6,096 |
| Services | 4,286 | 4,406 | 9,205 | 8,599 |
| Total revenues | 61,508 | 60,107 | 121,095 | 109,338 |
| Costs and Expenses: | | | | |
| Cost of goods sold (exclusive of depreciation shown separately below): | | | | |
| Perpetual care | 1,415 | 1,399 | 2,782 | 2,724 |
| Merchandise | 5,821 | 5,817 | 10,874 | 9,485 |
| Cemetery expense | 14,775 | 15,462 | 27,567 | 27,548 |
| Selling expense | 13,123 | 12,187 | 24,910 | 21,731 |
| General and administrative expense | 7,195 | 7,031 | 14,388 | 13,458 |
| Corporate overhead (including \$210 and \$191 in unit-based compensation for the three months ended June 30, 2012 and 2011, and \$409 and \$381 for the six months ended June 30, 2012 and 2011, respectively) | 7,756 | 5,986 | 14,359 | 11,944 |
| Depreciation and amortization | 2,230 | 2,042 | 4,560 | 4,488 |
| Funeral home expense | | | | |
| Merchandise | 1,107 | 1,009 | 2,530 | 2,215 |
| Services | 3,302 | 2,803 | 6,707 | 5,349 |
| Other | 2,206 | 1,886 | 4,134 | 3,443 |
| Acquisition related costs | 782 | 1,025 | 1,113 | 1,958 |
| Total cost and expenses | 59,712 | 56,647 | 113,924 | 104,343 |
| Operating profit | 1,796 | 3,460 | 7,171 | 4,995 |
| Expenses related to refinancing | | | | 453 |
| Gain (loss) on termination of operating agreement | (83) | | 1,737 | |
| Gain on acquisition | 122 | | 122 | |
| Early extinguishment of debt | | | | 4,010 |
| Interest expense | 4,870 | 4,352 | 9,836 | 9,442 |
| Net loss before income taxes | (3,035) | (892) | (806) | (8,910) |
| Income tax expense (benefit) | | | | |
| State | 97 | (902) | 242 | (898) |

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

| | | | | |
|--|-------------------|---------------|-----------------|-------------------|
| Federal | (963) | (805) | (909) | (1,613) |
| Total income tax expense (benefit) | (866) | (1,707) | (667) | (2,511) |
| Net income (loss) | \$ (2,169) | \$ 815 | \$ (139) | \$ (6,399) |
| General partner's interest in net income (loss) for the period | \$ (43) | \$ 16 | \$ (3) | \$ (128) |
| Limited partners' interest in net income (loss) for the period | \$ (2,126) | \$ 799 | \$ (136) | \$ (6,271) |
| Net income (loss) per limited partner unit (basic and diluted) | \$ (.11) | \$.04 | \$ (.01) | \$ (.34) |
| Weighted average number of limited partners' units outstanding (basic and diluted) | 19,375 | 19,341 | 19,372 | 18,529 |
| Distributions declared per unit | \$.585 | \$.585 | \$ 1.170 | \$ 1.170 |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

Table of Contents

StoneMor Partners L.P.

Condensed Consolidated Statement of

Partners Capital

(in thousands)

(unaudited)

| | Partners Capital | | |
|------------------------------|--------------------------------|----------------------------|--------------|
| | Common Unit Holders | General Partner | Total |
| Balance, December 31, 2011 | \$ 178,087 | \$ 2,192 | \$ 180,279 |
| Issuance of common units | 603 | | 603 |
| Compensation related to UARs | 248 | | 248 |
| Net loss | (136) | (3) | (139) |
| Cash distribution | (22,662) | (901) | (23,563) |
| Balance, June 30, 2012 | \$ 156,140 | \$ 1,288 | \$ 157,428 |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

Table of Contents**StoneMor Partners L.P.****Condensed Consolidated Statement of Cash Flows****(in thousands)****(unaudited)**

| | For the six months ended June 30, | |
|--|--|-------------|
| | 2012 | 2011 |
| Operating activities: | | |
| Net income (loss) | \$ (139) | \$ (6,399) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Cost of lots sold | 3,979 | 3,281 |
| Depreciation and amortization | 4,560 | 4,488 |
| Unit-based compensation | 409 | 381 |
| Accretion of debt discounts | 723 | 625 |
| Gain on acquisition | (122) | |
| Gain on termination of operating agreement | (1,737) | |
| Write-off of deferred financing fees | | 453 |
| Fees paid related to early extinguishment of debt | | 4,010 |
| Changes in assets and liabilities that provided (used) cash: | | |
| Accounts receivable | (8,180) | (9,430) |
| Allowance for doubtful accounts | 3,293 | 2,473 |
| Merchandise trust fund | (1,917) | (11,217) |
| Prepaid expenses | (1,169) | (331) |
| Other current assets | (860) | (1,505) |
| Other assets | 139 | 198 |
| Accounts payable and accrued and other liabilities | 348 | (7,549) |
| Deferred selling and obtaining costs | (3,380) | (5,263) |
| Deferred cemetery revenue | 23,699 | 25,358 |
| Deferred taxes (net) | (1,000) | (1,745) |
| Merchandise liability | (4,451) | (954) |
| Net cash provided by (used in) operating activities | 14,195 | (3,126) |
| Investing activities: | | |
| Cash paid for cemetery property | (3,600) | (2,270) |
| Purchase of subsidiaries | (3,426) | (3,850) |
| Cash paid for property and equipment | (1,835) | (3,204) |
| Net cash used in investing activities | (8,861) | (9,324) |
| Financing activities: | | |
| Cash distribution | (23,563) | (21,056) |
| Additional borrowings on long-term debt | 29,200 | 12,300 |
| Repayments of long-term debt | (13,422) | (73,924) |
| Proceeds from public offering | | 103,207 |
| Proceeds from general partner contribution | | 2,246 |
| Fees paid related to early extinguishment of debt | | (4,010) |
| Cost of financing activities | (1,820) | (1,114) |
| Net cash provided by (used in) financing activities | (9,605) | 17,649 |

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

| | | |
|--|----------|-----------|
| Net increase in cash and cash equivalents | (4,271) | 5,199 |
| Cash and cash equivalents - Beginning of period | 12,058 | 7,535 |
| Cash and cash equivalents - End of period | \$ 7,787 | \$ 12,734 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the period for interest | \$ 9,048 | \$ 9,552 |
| Cash paid during the period for income taxes | \$ 3,655 | \$ 1,710 |
| Non-cash investing and financing activities | | |
| Acquisition of assets by financing | \$ 53 | \$ 143 |
| Issuance of limited partner units for cemetery acquisition | \$ 603 | \$ 264 |
| Acquisition of asset by assumption of directly related liability | \$ 544 | \$ |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

Table of Contents

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 June 30, 2012, the Partnership operated 272 cemeteries, 254 of which are owned, in 26 states and Puerto Rico and owned and operated 71 funeral homes in 18 states and Puerto Rico.

Basis of Presentation

The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All interim financial data is unaudited. However, in the opinion of management, the interim financial data as of June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year. The December 31, 2011 condensed consolidated balance sheet data was derived from audited financial statements included in the Company s 2011 Annual Report on Form 10-K (2011 Form 10-K) and has been adjusted to include the effects of retrospective adjustments resulting from the Company s 2011 acquisitions, but does not include all disclosures required by GAAP, which are presented in the Company s 2011 Form 10-K.

Principles of Consolidation

The unaudited condensed 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 18 cemeteries under long-term operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated in accordance with the provisions of Accounting Standards Codification (ASC) 810.

The Company operates 2 cemeteries under long-term operating agreements that 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.

Use of Estimates

Preparation of these unaudited condensed 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 unaudited condensed 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 unaudited condensed 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 unaudited condensed consolidated balance sheet.

Table of Contents**2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE**

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

| | June 30, 2012 | As of December 31, 2011 |
|---|------------------|-------------------------------|
| | (in thousands) | |
| Customer receivables | \$ 161,447 | \$ 151,540 |
| Unearned finance income | (18,424) | (16,727) |
| Allowance for contract cancellations | (20,017) | (17,582) |
| | 123,006 | 117,231 |
| Less: current portion, net of allowance | 51,908 | 48,837 |
| Long-term portion, net of allowance | \$ 71,098 | \$ 68,394 |

Activity in the allowance for contract cancellations is as follows:

| | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 |
|-------------------------------|---|---|
| | (in thousands) | |
| Balance - Beginning of period | \$ 17,582 | \$ 15,832 |
| Provision for cancellations | 9,791 | 9,211 |
| Charge-offs - net | (7,356) | (6,853) |
| Balance - End of period | \$ 20,017 | \$ 18,190 |

3. CEMETERY PROPERTY

Cemetery property consists of the following:

| | June 30, 2012 | As of December 31, 2011 |
|----------------------------------|------------------|-------------------------------|
| | (in thousands) | |
| Developed land | \$ 68,770 | \$ 64,266 |
| Undeveloped land | 166,227 | 164,723 |
| Mausoleum crypts and lawn crypts | 67,989 | 69,949 |
| Total | \$ 302,986 | \$ 298,938 |

Table of Contents**4. PROPERTY AND EQUIPMENT**

Major classes of property and equipment follow:

| | June 30, 2012 | As of December 31, 2011 |
|--------------------------------|------------------|-------------------------------|
| | (in thousands) | |
| Building and improvements | \$ 75,540 | \$ 75,076 |
| Furniture and equipment | 38,935 | 36,863 |
| | 114,475 | 111,939 |
| Less: accumulated depreciation | (41,527) | (38,162) |
| Property and equipment - net | \$ 72,948 | \$ 73,777 |

Depreciation expense was \$1.7 million and \$3.5 million for the three and six months ended June 30, 2012, respectively, as compared to \$1.5 million and \$2.9 million during the same periods last year.

5. MERCHANDISE TRUSTS

At June 30, 2012, 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 (REITs), 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. See Note 15 for further details. There were no Level 3 assets.

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

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

such merchandise, the Company may be required to fund this shortfall.

The Company has included \$7.3 million and \$6.9 million of investments held in trust by the West Virginia Funeral Directors Association at June 30, 2012 and December 31, 2011, 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.

Table of Contents

The cost and market value associated with the assets held in merchandise trusts at June 30, 2012 and December 31, 2011 were as follows:

| As of June 30, 2012 | Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses (in thousands) | Fair Value |
|--|-------------------|--|---|-------------------|
| Short-term investments | \$ 30,910 | \$ | \$ | \$ 30,910 |
| Fixed maturities: | | | | |
| U.S. Government and federal agency | | | | |
| U.S. State and local government agency | 23 | | | 23 |
| Corporate debt securities | 8,107 | 66 | (250) | 7,923 |
| Other debt securities | | | | |
| Total fixed maturities | 8,130 | 66 | (250) | 7,946 |
| Mutual funds - debt securities | 90,331 | 2,066 | (1,993) | 90,404 |
| Mutual funds - equity securities | 139,826 | 3,818 | (6,724) | 136,920 |
| Equity securities | 67,369 | 1,370 | (4,833) | 63,906 |
| Other invested assets | 8,413 | 86 | | 8,499 |
| Total managed investments | \$ 344,979 | \$ 7,406 | \$ (13,800) | \$ 338,585 |
| West Virginia Trust Receivable | 7,299 | | | 7,299 |
| Total | \$ 352,278 | \$ 7,406 | \$ (13,800) | \$ 345,884 |
| | | | | |
| As of December 31, 2011 | Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses (in thousands) | Fair Value |
| 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 |

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Total \$ 352,452 \$ 7,426 \$ (15,363) \$ 344,515

The contractual maturities of debt securities as of June 30, 2012 are as follows:

| As of June 30, 2012 | Less than 1 year | 1 year through 5 years | 6 years through 10 years (in thousands) | More than 10 years |
|--|------------------------|---------------------------|---|-----------------------|
| U.S. Government and federal agency | \$ | \$ | \$ | \$ |
| U.S. State and local government agency | 23 | | | |
| Corporate debt securities | | 6,010 | 1,785 | 128 |
| Other debt securities | | | | |
| Total fixed maturities | \$ 23 | \$ 6,010 | \$ 1,785 | \$ 128 |

Table of Contents

An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at June 30, 2012 and December 31, 2011 is presented below:

| As of June 30, 2012 | 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 | 2,253 | 61 | 2,747 | 189 | 5,000 | 250 |
| Other debt securities | | | | | | |
| Total fixed maturities | 2,253 | 61 | 2,747 | 189 | 5,000 | 250 |
| Mutual funds - debt securities | 40,167 | 370 | 27,859 | 1,623 | 68,026 | 1,993 |
| Mutual funds - equity securities | 6,961 | 569 | 58,311 | 6,155 | 65,272 | 6,724 |
| Equity securities | 26,007 | 2,017 | 13,532 | 2,816 | 39,539 | 4,833 |
| Other invested assets | | | | | | |
| Total | \$ 75,388 | \$ 3,017 | \$ 102,449 | \$ 10,783 | \$ 177,837 | \$ 13,800 |

| 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 | 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 |

A reconciliation of the Company's merchandise trust activities for the six months ended June 30, 2012 is presented below:

| Fair Value @ 12/31/2011 | Contributions | Distributions | Interest/Dividends | Capital Gain Distributions | Realized Gain/Loss | Taxes | Fees | Unrealized Change in | Fair Value @ 6/30/2012 |
|-------------------------|---------------|---------------|--------------------|----------------------------|--------------------|-------|------|----------------------|------------------------|
|-------------------------|---------------|---------------|--------------------|----------------------------|--------------------|-------|------|----------------------|------------------------|

| | | | | | | | | | Fair Value |
|----------------|--------|----------|-------|-----|-------|---------|---------|-------|---------------|
| (in thousands) | | | | | | | | | |
| \$ 344,515 | 26,702 | (36,545) | 8,426 | 105 | 5,622 | (3,309) | (1,175) | 1,543 | \$ 345,884 |

The Company made net distributions from the trusts of approximately \$9.8 million during the six months ended June 30, 2012. During the six months ended June 30, 2012, purchases and sales of securities available for sale included in trust investments were approximately \$207.3 million and \$218.3 million, respectively. Distributions include \$5.8 million of assets that were divested as a result of the termination of an operating agreement during the six months ended June 30, 2012.

Other-than-temporary Impairments of Trust Assets

During the three and six months ended June 30, 2012, the Company determined that there were six securities with an aggregate cost basis of approximately \$1.6 million and an aggregate fair value of approximately \$0.8 million, resulting in an impairment of \$0.8 million, wherein such impairment was considered to be other-than-temporary. During the three and six months ended June 30, 2011, the Company determined that there was a single security with an aggregate cost basis of approximately \$0.2 million and an aggregate fair value of approximately \$0.1 million, resulting in an impairment of \$0.1 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost

Table of Contents

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 June 30, 2012, the Company's perpetual care 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 REITs, 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;

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

Assets acquired related to the second quarter 2012 acquisition of one cemetery in Illinois (see Note 13). According to the terms of the agreement, the seller was required to liquidate the holdings of the related trusts upon closing and forward the proceeds to the Company as soon as practicable. As of June 30, 2012, the Company had not received these amounts. Accordingly, these assets are shown in a single line item in the disclosures below as Assets acquired via acquisition and the cost basis and fair value of such assets are based upon preliminary estimates that the Company is required to make in accordance with Accounting Topic 805.

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. See Note 15 for further details. There were no Level 3 assets.

Table of Contents

The cost and market value associated with the assets held in perpetual care trusts at June 30, 2012 and December 31, 2011 were as follows:

| As of June 30, 2012 | Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses (in thousands) | Fair Value |
|--|-------------------|--|---|-------------------|
| Short-term investment | \$ 15,831 | \$ | \$ | \$ 15,831 |
| Fixed maturities: | | | | |
| U.S. Government and federal agency | 408 | 104 | | 512 |
| U.S. State and local government agency | 66 | 81 | | 147 |
| Corporate debt securities | 23,378 | 443 | (640) | 23,181 |
| Other debt securities | 371 | | | 371 |
| Total fixed maturities | 24,223 | 628 | (640) | 24,211 |
| Mutual funds - debt securities | 104,118 | 1,451 | (360) | 105,209 |
| Mutual funds - equity securities | 92,254 | 3,485 | (2,675) | 93,064 |
| Equity Securities | 23,141 | 5,300 | (313) | 28,128 |
| Other invested assets | | | | |
| Total managed investments | \$ 259,567 | \$ 10,864 | \$ (3,988) | \$ 266,443 |
| Assets acquired via acquisition | 2,780 | | | 2,780 |
| Total | \$ 262,347 | \$ 10,864 | \$ (3,988) | \$ 269,223 |

| As of December 31, 2011 | Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses (in thousands) | Fair Value |
|--|-------------------|--|---|-------------------|
| Short-term investment | \$ 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 |

The contractual maturities of debt securities as of June 30, 2012 are as follows:

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

| As of June 30, 2012 | Less than 1 year | 1 year through 5 years | 6 years through 10 years (in thousands) | More than 10 years |
|--|------------------------|---------------------------|---|-----------------------|
| U.S. Government and federal agency | \$ | \$ 512 | \$ | \$ |
| U.S. State and local government agency | 147 | | | |
| Corporate debt securities | 51 | 17,789 | 4,928 | 413 |
| Other debt securities | 371 | | | |
| Total fixed maturities | \$ 569 | \$ 18,301 | \$ 4,928 | \$ 413 |

Table of Contents

An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at June 30, 2012 and December 31, 2011 held in perpetual care trusts is presented below:

| As of June 30, 2012 | Less than 12 months | | 12 Months or more | | Total | |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | | | | | | |
| Fixed maturities: | | | | | | |
| U.S. Government and federal agency | \$ | \$ | \$ | \$ | \$ | \$ |
| U.S. State and local government agency | | | | | | |
| Corporate debt securities | 4,437 | 155 | 7,803 | 485 | 12,240 | 640 |
| Other debt securities | | | | | | |
| Total fixed maturities | 4,437 | 155 | 7,803 | 485 | 12,240 | 640 |
| Mutual funds - debt securities | 328 | 18 | 1,074 | 342 | 1,402 | 360 |
| Mutual funds - equity securities | 4,178 | 200 | 7,704 | 2,475 | 11,882 | 2,675 |
| Equity securities | 4,298 | 313 | | | 4,298 | 313 |
| Other invested assets | | | | | | |
| Total | \$ 13,241 | \$ 686 | \$ 16,581 | \$ 3,302 | \$ 29,822 | \$ 3,988 |

| 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 |
| | | | | | | |
| 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 |

A reconciliation of the Company's perpetual care trust activities for the six months ended June 30, 2012 is presented below:

| Fair Value @ 12/31/2011 | Contributions | Distributions | Interest/ Dividends | Capital Gain Distributions | Realized Gain/ Loss | Taxes | Fees | Unrealized Change in | Fair Value @ 6/30/2012 |
|-------------------------|---------------|---------------|---------------------|----------------------------|---------------------|-------|------|----------------------|------------------------|
|-------------------------|---------------|---------------|---------------------|----------------------------|---------------------|-------|------|----------------------|------------------------|

| | | | | | | | | | Fair Value |
|----------------|-------|---------|-------|----|-------|-------|-------|-------|---------------|
| (in thousands) | | | | | | | | | |
| \$ 254,679 | 8,749 | (7,414) | 8,292 | 13 | 1,150 | (413) | (891) | 5,058 | \$ 269,223 |

The Company made net contributions to the trusts of approximately \$1.3 million during the six months ended June 30, 2012. During the six months ended June 30, 2012, purchases and sales of securities available for sale included in trust investments were approximately \$220.4 million and \$221.7 million, respectively. Contributions include \$2.8 million of assets that were acquired through an acquisition during the six months ended June 30, 2012.

Other-than-temporary Impairments of Trust Assets

During the three and six months ended June 30, 2012, the Company determined that there were no other than temporary impairments to the investment portfolio in the perpetual care trusts.

Table of Contents

During the three and six months ended June 30, 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 trust corpus.

7. GOODWILL AND INTANGIBLE ASSETS**Goodwill**

Goodwill 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:

| | Southeast | Cemeteries Northeast | West | Funeral Homes | Total |
|--|----------------|-------------------------|-----------|------------------|-----------|
| | (in thousands) | | | | |
| Balance as of December 31, 2011 | \$ 6,054 | \$ | \$ 11,948 | \$ 14,297 | \$ 32,299 |
| Goodwill resulting from acquisitions during the six months ended June 30, 2012 | 200 | | | 1,592 | 1,792 |
| Balance as of June 30, 2012 | \$ 6,254 | \$ | \$ 11,948 | \$ 15,889 | \$ 34,091 |

During the second quarter of 2012, the Company became aware that it will receive a payment of \$3.8 million in a legal settlement related to its fourth quarter 2011 acquisition of cemeteries and funeral homes in Tennessee. In addition, there were other adjustments of \$0.3 million related to an increase in merchandise trust assets and a small increase in accounts receivable. These amounts have been recorded retrospectively as a purchase price adjustment for this acquisition resulting in a decrease to goodwill of \$4.1 million. This adjustment has been reflected in the table above.

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 condensed consolidated balance sheet. All of the intangible assets are subject to amortization. The major classes of intangible assets are as follows:

| | As of | | As of | | | |
|-------------------------------------|--------------------------|-----------------------------|----------------------------|--------------------------|-----------------------------|---------------------|
| | June 30, 2012 | | December 31, 2011 | | Net | |
| | Gross Carrying Amount | Accumulated Amortization | Net Intangible Asset | Gross Carrying Amount | Accumulated Amortization | Intangible Asset |
| | (in thousands) | | | | | |
| Amortized Intangible Assets: | | | | | | |
| Underlying contract value | \$ 6,239 | \$ (463) | \$ 5,776 | \$ 8,484 | \$ (546) | \$ 7,938 |
| Non-compete agreements | 3,872 | (1,898) | 1,974 | 3,820 | (1,413) | 2,407 |
| Other intangible assets | 269 | (73) | 196 | 205 | (67) | 138 |
| Total Intangible Assets | \$ 10,380 | \$ (2,434) | \$ 7,946 | \$ 12,509 | \$ (2,026) | \$ 10,483 |

The decrease in the underlying contract value is mostly the result of the Company entering into an amended operating agreement with Kingwood Memorial Park Association. See Note 13 for further details.

Table of Contents**8. LONG-TERM DEBT**

The Company had the following outstanding debt:

| | June 30, 2012 | As of December 31, 2011 |
|--|------------------|-------------------------------|
| | (in thousands) | |
| Insurance premium financing | \$ 818 | \$ 211 |
| Vehicle Financing | 934 | 1,147 |
| Acquisition Credit Facility, due January 2017 | | 10,750 |
| Revolving Credit Facility, due January 2017 | 61,950 | 33,000 |
| Note Payable - Greenlawn acquisition | 1,250 | 1,321 |
| Note Payable - Nelms acquisition (net of discount) | 427 | 623 |
| Note Payable - acquisition non-competes (net of discounts) | 1,662 | 1,490 |
| 10.25% senior notes, due 2017 | 150,000 | 150,000 |
| Total | 217,041 | 198,542 |
| Less current portion | 2,035 | 1,487 |
| Less unamortized bond discount | 3,015 | 3,220 |
| Long-term portion | \$ 211,991 | \$ 193,835 |

This note includes a summary of material terms of the Company's senior notes, senior secured notes, credit facilities and other debt obligations. For a more detailed description of the Company's long-term debt agreements, see the Company's 2011 Form 10-K.

10.25% Senior Notes due 2017

The Company has outstanding a \$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. The Company pays 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. The Senior Notes mature on December 1, 2017.

Credit Facility

On January 19, 2012, the Company entered into the Third Amended and Restated Credit Agreement (the "Credit Agreement"). The terms of the Credit Agreement are substantially the same as the terms of the prior agreement. 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 a total Revolving Credit Facility of \$130.0 million (the "Credit Facility"). Previously, the agreement had an Acquisition Credit Facility and a Revolving Credit Facility with different borrowing limits. The proceeds of the Credit Facility may be used to finance working capital requirements, Permitted Acquisitions and the purchase and construction of mausoleums. The maturity date of the Credit Facility is January 19, 2017.

At June 30, 2012, amounts outstanding under the Credit Facility bear interest at a rate of 3.7%. Amounts borrowed may be either Base Rate Loans or Eurodollar Rate Loans and amounts 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 Credit Agreement requires the Company to pay an unused Commitment Fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the outstanding amounts under the Credit Facility. The Commitment Fee Rate under the Credit Agreement ranges from 0.375% to 0.75% depending on the Company's Consolidated Leverage Ratio.

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

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. Any such breach could allow the Lenders to accelerate the Company's debt which would have a material adverse effect on the Company's business, financial condition or results of operations. The Company's covenants include a Consolidated Leverage Ratio and a Consolidated Debt Service Coverage Ratio. As of June 30, 2012, the Company was in compliance with all applicable financial covenants.

Table of Contents**9. INCOME TAXES**

As of June 30, 2012, the Company's taxable corporate subsidiaries had federal net operating loss carryforwards of approximately \$152.8 million, which will begin to expire in 2019 and \$184.1 million in state net operating losses, a portion of which expires annually.

The Partnership is not a taxable entity for federal and state income tax purposes; rather, the Partnership's tax attributes (except those of its corporate subsidiaries) are to be included in the individual tax returns of its partners. Neither the Partnership's financial reporting income, nor the cash distributions to unit-holders, can be used as a substitute for the detailed tax calculations that the Partnership must perform annually for its partners. Net income from the Partnership is not treated as passive income for federal income tax purposes. As a result, partners subject to the passive activity loss rules are not permitted to offset income from the Partnership with passive losses from other sources.

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 basis and operating loss and tax credit carryforwards.

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 provision for income taxes for the three and six months ended June 30, 2012 and 2011 is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2012 and 2011, respectively. The Company's effective tax rate differs from its statutory tax rate primarily because the Company's legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

The Company is not currently under examination by any federal or state jurisdictions. The federal statute of limitations and certain state statutes of limitations are open from 2008 forward. Management believes that the accrual for tax liabilities is adequate for all open years. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. On the basis of present information, it is the opinion of the Company's management that there are no pending assessments that will result in a material effect on the Company's consolidated financial statements over the next twelve months.

10. DEFERRED CEMETERY REVENUES, NET

At June 30, 2012 and December 31, 2011, deferred cemetery revenues, net, consisted of the following:

| | June 30, 2012 | As of December 31, 2011 |
|--|------------------|-------------------------------|
| | (in thousands) | |
| Deferred cemetery revenue | \$ 323,688 | \$ 306,488 |
| Deferred merchandise trust revenue | 59,099 | 50,419 |
| Deferred merchandise trust unrealized gains (losses) | (6,394) | (7,937) |
| Deferred pre-acquisition margin | 130,289 | 135,243 |
| Deferred cost of goods sold | (44,594) | (42,335) |
| Deferred cemetery revenues, net | \$ 462,088 | \$ 441,878 |
| Deferred selling and obtaining costs | \$ 71,921 | \$ 68,542 |

Deferred selling and obtaining costs are carried as an asset on the unaudited condensed consolidated balance sheet in accordance with the Financial Services Insurance topic of the ASC.

Table of Contents**11. COMMITMENTS AND CONTINGENCIES***Legal*

The Company is party to legal proceedings in the ordinary course of its business but does not expect the outcome of any proceedings, individually or in the aggregate, to have a material effect on the Company's financial position, results of operations or liquidity.

Leases

At June 30, 2012, the Company was committed to operating lease payments for premises, automobiles and office equipment under various operating leases with initial terms ranging from one to ten years and options to renew at varying terms. Expenses under operating leases were \$0.7 million and \$1.3 million for the three and six months ended June 30, 2012, respectively, and \$0.5 million and \$1.1 million for the three and six months ended June 30, 2011, respectively.

At June 30, 2012, operating leases will result in future payments in the following approximate amounts:

| | (in thousands) |
|--------------|-----------------|
| 2013 | \$ 2,039 |
| 2014 | 1,359 |
| 2015 | 866 |
| 2016 | 799 |
| 2017 | 753 |
| Thereafter | 1,892 |
| Total | \$ 7,708 |

12. PARTNERS CAPITAL*Unit-Based Compensation*

The Company has issued to certain key employees and management unit-based compensation in the form of unit appreciation rights and phantom partnership units.

Compensation expense recognized related to unit appreciation rights and restricted phantom unit awards for the three and six months ended June 30, 2012 and 2011 are summarized in the table below:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|---------------|------------------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (in thousands) | | (in thousands) | |
| Unit appreciation rights | \$ 129 | \$ 119 | \$ 248 | \$ 239 |
| Restricted phantom units | 81 | 72 | 161 | 142 |
| Total unit-based compensation expense | \$ 210 | \$ 191 | \$ 409 | \$ 381 |

As of June 30, 2012, there was approximately \$0.9 million in non-vested unit appreciation rights outstanding. These unit appreciation rights will be expensed through the first quarter of 2014.

Other Unit Issuances

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

On June 6, 2012, the Company issued 13,720 units in connection with an acquisition. See Note 13. On June 21, 2012 and 2011, the Company issued 9,853 units in connection with an acquisition consummated in the second quarter of 2010.

Table of Contents**13. ACQUISITIONS****First Quarter 2012 Acquisition**

In second quarter of 2009, the Company entered into a long-term operating agreement (the "Operating Agreement") with Kingwood Memorial Park Association ("Kingwood") wherein the Company became the exclusive operator of the cemetery. At that time, the Operating Agreement did not qualify as an acquisition for accounting purposes. However, the existing merchandise and perpetual care trusts were consolidated as variable interest entities. In addition, merchandise and other liabilities assumed by the Company were also recorded as of the initial contract date. The consideration paid for this transaction, including cash and an assumed liability, exceeded the net assets recorded as of the initial contract date and an intangible asset was recorded for this amount.

In January of 2012, the Company entered into an amended and restated operating agreement (the "Amended Operating Agreement"), that supersedes the Operating Agreement. The Amended Operating Agreement has a term of 40 years and the Company remains the exclusive operator of the cemetery. As consideration for entering into the Amended Operating Agreement, the Company paid \$1.7 million in cash and was relieved of a note payable to Kingwood. In addition, the prior trustees of Kingwood have resigned in favor of new trustees appointed by the Company. As a result of the changes in the Amended Operating Agreement, for accounting purposes, the Company has gained control of Kingwood, and acquisition accounting is now applicable.

The table below reflects the Company's preliminary assessment of the fair value of net assets acquired, the elimination of debt and other assets and the purchase price, which results in the recognition of goodwill recorded in our Cemetery Operations - Southeast segment. These amounts may be retrospectively adjusted as additional information is received.

| | Preliminary Assessment (in thousands) |
|---|--|
| Net Assets Acquired: | |
| Accounts receivable | \$ 66 |
| Cemetery property | 3,001 |
| Property and equipment | 102 |
| Total net assets acquired | 3,169 |
| Assets and Liabilities divested: | |
| Note payable to Kingwood | 519 |
| Intangible asset representing underlying contract value | (2,236) |
| Fair value of net assets acquired and divested | 1,452 |
| Consideration paid | 1,652 |
| Goodwill from purchase | \$ 200 |

Second Quarter 2012 Acquisitions

On April 10, 2012, certain subsidiaries of the Company (collectively the "Buyer") entered into a Stock Purchase Agreement with several individuals (collectively the "Seller") to purchase all of the stock of Bronswood Cemetery, Inc., an Illinois Corporation. Through the purchase, the Buyer acquired one cemetery in Illinois, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller \$0.9 million in cash.

The table below reflects the Company's preliminary assessment of the fair value of net assets acquired, the purchase price and the gain on bargain purchase. These amounts may be retrospectively adjusted as additional information is received.

Table of Contents

| | Preliminary Assessment (in thousands) |
|--|--|
| Assets: | |
| Accounts receivable | \$ 72 |
| Cemetery property | 842 |
| Property and equipment | 518 |
| Perpetual care trusts, restricted, at fair value | 2,780 |
| Non-compete agreements | 12 |
| Total assets | 4,224 |
| Liabilities: | |
| Perpetual care trust corpus | 2,780 |
| Other liabilities | 24 |
| Deferred tax liability | 374 |
| Total liabilities | 3,178 |
| Fair value of net assets acquired | 1,046 |
| Consideration paid | 924 |
| Gain on bargain purchase | \$ 122 |

In addition, on June 6, 2012, certain subsidiaries of the Company (collectively the Buyer) entered into a Purchase Agreement with several individuals and Lodi Funeral Home, Inc. (collectively the Seller) to purchase certain assets and assume certain liabilities of Lodi Funeral Home, Inc., a California corporation and all of the stock of Lodi All Faiths Cremation, a California corporation. Through the purchase, the Buyer acquired two funeral homes in California including certain related assets, and assumed certain related liabilities. As part of the agreement, the building and underlying real estate of Lodi Funeral Home, Inc. is being leased from the Seller. The lease agreement is a ten year agreement that contains one five year renewal term at the Buyer's election. In addition, at the end of the original lease or renewal term, the Buyer can elect to purchase the property for fair value less 10% of any rental amounts previously paid under the lease agreement. The Buyer also has a right of first refusal related to any potential sale of the property occurring during the lease term.

In consideration for the net assets acquired, the Buyer paid the Seller \$0.85 million in cash and issued 13,720 units, which equates to \$0.35 million worth of units. The Buyer will also pay an aggregate amount of \$0.6 million in equal quarterly installments commencing on January 2, 2013 in exchange for non-compete agreements with the Seller.

The table below reflects the Company's preliminary assessment of the fair value of net assets acquired, the purchase price and the resulting goodwill recorded in our Funeral Homes operating segment. These amounts may be retrospectively adjusted as additional information is received.

Table of Contents

| | Preliminary Assessment (in thousands) |
|---|--|
| Assets: | |
| Property and equipment | \$ 48 |
| Merchandise trusts, restricted, at fair value | 105 |
| Underlying lease value | 64 |
| Non-compete agreements | 40 |
| | |
| Total assets | 257 |
| | |
| Liabilities: | |
| Merchandise liabilities | 105 |
| | |
| Total liabilities | 105 |
| | |
| Fair value of net assets acquired | 152 |
| | |
| Consideration paid - cash | 850 |
| Consideration paid - units | 350 |
| Fair value of debt assumed for non-compete agreements | 544 |
| | |
| Total consideration paid | 1,744 |
| | |
| Goodwill from purchase | \$ 1,592 |

First and Second Quarter 2011 Acquisitions

On January 5, 2011, the Operating Company, StoneMor North Carolina LLC, a North Carolina limited liability company and StoneMor North Carolina Subsidiary LLC, a North Carolina limited liability company, each a wholly-owned subsidiary of the Company (collectively the Buyer), entered into an Asset Purchase and Sale Agreement (the 1st Quarter Purchase Agreement) with Heritage Family Services, Inc., a North Carolina corporation and an individual (collectively the Seller). Pursuant to the 1st Quarter Purchase Agreement, the Buyer acquired three cemeteries in North Carolina, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller \$1.7 million in cash.

On June 22, 2011, the Operating Company, StoneMor Missouri LLC, a Missouri limited liability company and StoneMor Missouri Subsidiary LLC, a Missouri limited liability company, each a wholly-owned subsidiary of the Company (collectively the Buyer), entered into an Asset Purchase and Sale Agreement (the 2nd Quarter Purchase Agreement) with SCI International, LLC, a Delaware limited liability company and Keystone America, Inc., a Delaware corporation (collectively the Seller or SCI Missouri). Pursuant to the 2nd Quarter Purchase Agreement, the Buyer acquired three cemeteries and four funeral homes in Missouri, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller \$2.15 million in cash.

The table below reflects the Company's final assessment of the fair value of net assets acquired, the purchase price and the resulting goodwill from these acquisitions. For a detailed breakout of the purchase price for these acquisitions on an individual basis, see our 2011 Form 10-K.

Table of Contents

| | Final Assessment |
|--|-----------------------------|
| Assets: | |
| Accounts receivable | \$ 191 |
| Cemetery property | 2,590 |
| Merchandise trusts, restricted, at fair value | 3,507 |
| Perpetual care trusts, restricted, at fair value | 1,534 |
| Property and equipment | 2,144 |
| Other assets | 100 |
| | |
| Total assets | 10,066 |
| | |
| Liabilities: | |
| Deferred margin | 2,097 |
| Merchandise liabilities | 2,382 |
| Perpetual care trust corpus | 1,534 |
| Deferred tax liability | 525 |
| | |
| Total liabilities | 6,538 |
| | |
| Fair value of net assets acquired | 3,528 |
| | |
| Consideration paid | 3,850 |
| | |
| Goodwill from purchase | \$ 322 |

The results of operations and pro forma results related to the acquisitions made in 2012 and 2011 are not material to the unaudited condensed consolidated financial statements taken as a whole.

The Company has made retrospective adjustments to its fourth quarter 2011 acquisition in Tennessee. See Note 7 for further details.

First Quarter 2012 Contract Termination

During the third quarter of 2010, certain subsidiaries of the Company entered into a long-term operating agreement (the Operating Agreement) with the Archdiocese of Detroit (the Archdiocese) wherein the Company became the exclusive operator of certain cemeteries in Michigan owned by the Archdiocese. The Operating Agreement did not qualify as an acquisition for accounting purposes. However, the existing merchandise trust had been consolidated as a variable interest entity as the Company controlled and directly benefited from the operations of the merchandise trust. In addition, liabilities assumed were also recorded as of the contract date. As no consideration was paid in this transaction, the Company had recorded a deferred gain of approximately \$3.1 million within deferred cemetery revenues, net, which represented the excess of the value of the merchandise trust over the liabilities assumed.

Effective March 31, 2012, the Company and the Archdiocese agreed to terminate the Operating Agreement. As of the termination date, the Company no longer operated these properties. All activity occurring after March 31, 2012 is the responsibility of the Archdiocese and the Company has no remaining obligation to fulfill any merchandise liabilities or responsibility to perform any obligations of the properties.

In the first and second quarters of 2012, the Company received payments of approximately \$2.0 million from the Archdiocese as a result of the termination. Consequently, the Company recognized a gain of \$1.7 million during the six months ended June 30, 2012, which is the amount by which the payments from the Archdiocese exceeded the value of the net assets transferred to the Archdiocese.

14. SEGMENT INFORMATION

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

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.

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

Table of Contents

The cemetery operations segments sell interment rights, caskets, burial vaults, cremation niches, markers and other cemetery related merchandise. The nature of the Company's 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.

The Company's 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.

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

Segment information as of and for the three and six months ended June 30, 2012 and 2011 is as follows:

As of and for the three months ended June 30, 2012:

| | Southeast | Cemeteries Northeast | West | Funeral Homes (in thousands) | Corporate | Adjustment | Total |
|-----------------------------------|-------------------|-------------------------|-------------------|------------------------------------|-------------------|--------------------|---------------------|
| Revenues | | | | | | | |
| Sales | \$ 23,812 | \$ 9,545 | \$ 10,292 | \$ | \$ | \$ (9,535) | \$ 34,114 |
| Service and other | 9,255 | 7,138 | 7,373 | | | (4,227) | 19,539 |
| Funeral home | | | | 8,189 | | (334) | 7,855 |
| Total revenues | 33,067 | 16,683 | 17,665 | 8,189 | | (14,096) | 61,508 |
| Costs and expenses | | | | | | | |
| Cost of sales | 4,972 | 2,028 | 1,739 | | 49 | (1,552) | 7,236 |
| Cemetery | 6,746 | 3,814 | 4,215 | | | | 14,775 |
| Selling | 7,691 | 3,322 | 3,395 | | 370 | (1,655) | 13,123 |
| General and administrative | 3,813 | 1,487 | 1,883 | | 12 | | 7,195 |
| Corporate overhead | | | | | 7,756 | | 7,756 |
| Depreciation and amortization | 510 | 215 | 547 | 518 | 440 | | 2,230 |
| Funeral home | | | | 6,688 | | (73) | 6,615 |
| Acquisition related costs | | | | | 782 | | 782 |
| Total costs and expenses | 23,732 | 10,866 | 11,779 | 7,206 | 9,409 | (3,280) | 59,712 |
| Operating profit | \$ 9,335 | \$ 5,817 | \$ 5,886 | \$ 983 | \$ (9,409) | \$ (10,816) | \$ 1,796 |
| Total assets | \$ 491,103 | \$ 291,245 | \$ 384,949 | \$ 79,938 | \$ 26,195 | \$ | \$ 1,273,430 |
| Amortization of cemetery property | \$ 1,022 | \$ 853 | \$ 275 | \$ | \$ | \$ (21) | \$ 2,129 |
| Long lived asset additions | \$ 802 | \$ 825 | \$ 2,630 | \$ 401 | \$ 194 | \$ | \$ 4,852 |
| Goodwill | \$ 6,254 | \$ | \$ 11,948 | \$ 15,889 | \$ | \$ | \$ 34,091 |

Table of Contents

As of and for the six months ended June 30, 2012:

| | Southeast | Cemeteries Northeast | West | Funeral Homes (in thousands) | Corporate | Adjustment | Total |
|-----------------------------------|-------------------|-------------------------|-------------------|------------------------------------|--------------------|--------------------|---------------------|
| Revenues | | | | | | | |
| Sales | \$ 44,692 | \$ 18,003 | \$ 20,324 | \$ | \$ | \$ (17,882) | \$ 65,137 |
| Service and other | 18,783 | 13,713 | 14,894 | | | (8,224) | 39,166 |
| Funeral home | | | | 17,462 | | (670) | 16,792 |
| Total revenues | 63,475 | 31,716 | 35,218 | 17,462 | | (26,776) | 121,095 |
| Costs and expenses | | | | | | | |
| Cost of sales | 9,263 | 3,701 | 3,403 | | 52 | (2,763) | 13,656 |
| Cemetery | 12,451 | 6,879 | 8,237 | | | | 27,567 |
| Selling | 14,716 | 6,458 | 6,607 | | 831 | (3,702) | 24,910 |
| General and administrative | 7,436 | 3,013 | 3,923 | | 16 | | 14,388 |
| Corporate overhead | | | | | 14,359 | | 14,359 |
| Depreciation and amortization | 1,046 | 440 | 1,114 | 1,138 | 822 | | 4,560 |
| Funeral home | | | | 13,487 | | (116) | 13,371 |
| Acquisition related costs | | | | | 1,113 | | 1,113 |
| Total costs and expenses | 44,912 | 20,491 | 23,284 | 14,625 | 17,193 | (6,581) | 113,924 |
| Operating profit | \$ 18,563 | \$ 11,225 | \$ 11,934 | \$ 2,837 | \$ (17,193) | \$ (20,195) | \$ 7,171 |
| Total assets | \$ 491,103 | \$ 291,245 | \$ 384,949 | \$ 79,938 | \$ 26,195 | \$ | \$ 1,273,430 |
| Amortization of cemetery property | \$ 2,001 | \$ 1,413 | \$ 569 | \$ | \$ | \$ (3) | \$ 3,980 |
| Long lived asset additions | \$ 4,765 | \$ 1,374 | \$ 3,100 | \$ 460 | \$ 606 | \$ | \$ 10,305 |
| Goodwill | \$ 6,254 | \$ | \$ 11,948 | \$ 15,889 | \$ | \$ | \$ 34,091 |

As of and for the three months ended June 30, 2011:

| | Southeast | Cemeteries Northeast | West | Funeral Homes (in thousands) | Corporate | Adjustment | Total |
|----------------------------|---------------|-------------------------|---------------|------------------------------------|-----------|----------------|---------------|
| Revenues | | | | | | | |
| Sales | \$ 21,223 | \$ 8,565 | \$ 12,931 | \$ | \$ 1 | \$ (7,926) | \$ 34,794 |
| Service and other | 7,820 | 5,618 | 6,256 | | | (1,744) | 17,950 |
| Funeral home | | | | 7,563 | | (200) | 7,363 |
| Total revenues | 29,043 | 14,183 | 19,187 | 7,563 | 1 | (9,870) | 60,107 |
| Costs and expenses | | | | | | | |
| Cost of sales | 4,354 | 1,715 | 2,062 | | | (915) | 7,216 |
| Cemetery | 6,076 | 3,899 | 5,487 | | | | 15,462 |
| Selling | 7,189 | 2,952 | 3,784 | | 97 | (1,835) | 12,187 |
| General and administrative | 3,292 | 1,493 | 2,246 | | | | 7,031 |
| Corporate overhead | | | | | 5,986 | | 5,986 |

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

| | | | | | | | |
|-----------------------------------|-------------------|-------------------|-------------------|------------------|-------------------|-------------------|---------------------|
| Depreciation and amortization | 427 | 230 | 733 | 169 | 483 | | 2,042 |
| Funeral home | | | | 5,698 | | | 5,698 |
| Acquisition related costs | | | | | 1,025 | | 1,025 |
| Total costs and expenses | 21,338 | 10,289 | 14,312 | 5,867 | 7,591 | (2,750) | 56,647 |
| Operating profit | \$ 7,705 | \$ 3,894 | \$ 4,875 | \$ 1,696 | \$ (7,590) | \$ (7,120) | \$ 3,460 |
| Total assets | \$ 435,391 | \$ 287,396 | \$ 382,551 | \$ 51,521 | \$ 32,089 | \$ | \$ 1,188,948 |
| Amortization of cemetery property | \$ 1,000 | \$ 591 | \$ 215 | \$ | \$ | \$ (231) | \$ 1,575 |
| Long lived asset additions | \$ 932 | \$ 488 | \$ 1,946 | \$ 2,092 | \$ 192 | \$ | \$ 5,650 |
| Goodwill | \$ 629 | \$ | \$ 11,949 | \$ 5,897 | \$ | \$ | \$ 18,475 |

Table of Contents

As of and for the six months ended June 30, 2011:

| | Southeast | Cemeteries Northeast | West | Funeral Homes (in thousands) | Corporate | Adjustment | Total |
|-----------------------------------|-------------------|-------------------------|-------------------|------------------------------------|--------------------|--------------------|---------------------|
| Revenues | | | | | | | |
| Sales | \$ 39,967 | \$ 16,533 | \$ 23,022 | \$ | \$ 5 | \$ (20,203) | \$ 59,324 |
| Service and other | 16,179 | 11,579 | 15,071 | | | (7,510) | 35,319 |
| Funeral home | | | | 15,044 | | (349) | 14,695 |
| Total revenues | 56,146 | 28,112 | 38,093 | 15,044 | 5 | (28,062) | 109,338 |
| Costs and expenses | | | | | | | |
| Cost of sales | 8,071 | 3,316 | 3,616 | | | (2,794) | 12,209 |
| Cemetery | 11,027 | 6,969 | 9,552 | | | | 27,548 |
| Selling | 13,605 | 5,770 | 6,716 | | 678 | (5,038) | 21,731 |
| General and administrative | 6,269 | 3,020 | 4,172 | | (3) | | 13,458 |
| Corporate overhead | | | | | 11,944 | | 11,944 |
| Depreciation and amortization | 758 | 444 | 1,241 | 567 | 1,478 | | 4,488 |
| Funeral home | | | | 11,007 | | | 11,007 |
| Acquisition related costs | | | | | 1,958 | | 1,958 |
| Total costs and expenses | 39,730 | 19,519 | 25,297 | 11,574 | 16,055 | (7,832) | 104,343 |
| Operating profit | \$ 16,416 | \$ 8,593 | \$ 12,796 | \$ 3,470 | \$ (16,050) | \$ (20,230) | \$ 4,995 |
| Total assets | \$ 435,391 | \$ 287,396 | \$ 382,551 | \$ 51,521 | \$ 32,089 | \$ | \$ 1,188,948 |
| Amortization of cemetery property | \$ 1,753 | \$ 1,140 | \$ 394 | \$ | \$ | \$ (329) | \$ 2,958 |
| Long lived asset additions | \$ 3,871 | \$ 752 | \$ 3,277 | \$ 2,040 | \$ 304 | \$ | \$ 10,244 |
| Goodwill | \$ 629 | \$ | \$ 11,949 | \$ 5,897 | \$ | \$ | \$ 18,475 |

Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units.

Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. Revenues and associated expenses are not deferred in accordance with SAB No. 104 therefore, the deferral of these revenues and expenses is provided in the adjustment column to reconcile the Company's managerial financial statements to those prepared in accordance with GAAP. Pre-need sales revenues included within the sales category consist primarily of the sale of burial lots, burial vaults, mausoleum crypts, grave markers and memorials, and caskets. Management accounting practices included in the Southeast, Northeast, and Western Regions reflect these pre-need sales when contracts are signed by the customer and accepted by the Company. Pre-need sales reflected in the consolidated financial statements, prepared in accordance with GAAP, recognize revenues for the sale of burial lots and mausoleum crypts when the product is constructed and at least 10% of the sales price is collected. With respect to the other products, the consolidated financial statements prepared under GAAP recognize sales revenues when the criteria for delivery under SAB No. 104 are met. These criteria include, among other things, purchase of the product, delivery and installation of the product in the ground, and transfer of title to the customer. In each case, costs are accrued in connection with the recognition of revenues; therefore, the consolidated financial statements reflect Deferred Cemetery Revenue, Net and Deferred Selling and Obtaining Costs on the balance sheet, whereas the Company's management accounting practices exclude these items.

15. FAIR VALUE MEASUREMENTS

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

The Fair Value Measurements and Disclosures topic of the ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This topic also establishes a fair value hierarchy that gives the highest priority to observable inputs and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy defined by this topic are described below.

Level 1: Quoted market prices available in active markets for identical assets or liabilities. The Company includes short-term investments, consisting primarily of money market funds, U.S. Government debt securities and publicly traded equity securities and mutual funds in its level 1 investments.

Table of Contents

Level 2: Quoted prices in active markets for similar assets; quoted prices in non-active markets for identical or similar assets; inputs other than quoted prices that are observable. The Company includes U.S. state and municipal, corporate and other fixed income debt securities in its level 2 investments.

Level 3: Any and all pricing inputs that are generally unobservable and not corroborated by market data.

The following table allocates the Company's assets measured at fair value as of June 30, 2012 and December 31, 2011.

Table of Contents**As of June 30, 2012****Merchandise Trust**

| Description | Level 1 | Level 2 (in thousands) | Total |
|---|------------|---------------------------|------------|
| Assets | | | |
| Short-term investments | \$ 30,910 | \$ | \$ 30,910 |
| Fixed maturities: | | | |
| U.S. government and federal agency | | | |
| U.S. state and local government agency | | 23 | 23 |
| Corporate debt securities | | 7,923 | 7,923 |
| Other debt securities | | | |
| Total fixed maturity investments | | 7,946 | 7,946 |
| Mutual funds - debt securities | 90,404 | | 90,404 |
| Mutual funds - equity securities - real estate sector | 35,451 | | 35,451 |
| Mutual funds - equity securities - energy sector | 5,361 | | 5,361 |
| Mutual funds - equity securities - MLP s | 26,866 | | 26,866 |
| Mutual funds - equity securities - other | 69,242 | | 69,242 |
| Equity securities | | | |
| Preferred REIT s | 1,763 | | 1,763 |
| Master limited partnerships | 39,719 | | 39,719 |
| Global equity securities | 22,424 | | 22,424 |
| Other invested assets | | 8,499 | 8,499 |
| Total | \$ 322,140 | \$ 16,445 | \$ 338,585 |

Perpetual Care Trust

| Description | Level 1 | Level 2 (in thousands) | Total |
|---|-----------|---------------------------|-----------|
| Assets | | | |
| Short-term investments | \$ 15,831 | \$ | \$ 15,831 |
| Fixed maturities: | | | |
| U.S. government and federal agency | 512 | | 512 |
| U.S. state and local government agency | | 147 | 147 |
| Corporate debt securities | | 23,181 | 23,181 |
| Other debt securities | | 371 | 371 |
| Total fixed maturity investments | 512 | 23,699 | 24,211 |
| Mutual funds - debt securities | 105,209 | | 105,209 |
| Mutual funds - equity securities - real estate sector | 38,085 | | 38,085 |
| Mutual funds - equity securities - energy sector | 11,956 | | 11,956 |

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

| | | | |
|--|-------------------|------------------|-------------------|
| Mutual funds - equity securities - MLP s | 29,964 | | 29,964 |
| Mutual funds - equity securities - other | 13,059 | | 13,059 |
| Equity securities | | | |
| Preferred REIT s | 778 | | 778 |
| Master limited partnerships | 26,649 | | 26,649 |
| Global equity securities | 701 | | 701 |
| Other invested assets | | | |
| Total | \$ 242,744 | \$ 23,699 | \$ 266,443 |

Table of Contents

As of December 31, 2011

Merchandise Trust

| Description | Level 1 | Level 2 (in thousands) | Total |
|---|------------|---------------------------|------------|
| Assets | | | |
| 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 | | 9,765 | 9,765 |
| Other debt securities | | 1,100 | 1,100 |
| Total fixed maturity investments | | 10,888 | 10,888 |
| Mutual funds - debt securities | 67,421 | | 67,421 |
| Mutual funds - equity securities - real estate sector | 22,847 | | 22,847 |
| Mutual funds - equity securities - energy sector | 28,057 | | 28,057 |
| Mutual funds - equity securities - MLP s | 20,308 | | 20,308 |
| Mutual funds - equity securities - other | 70,076 | | 70,076 |
| Equity securities | | | |
| Preferred REIT s | 9,001 | | 9,001 |
| Master limited partnerships | 41,469 | | 41,469 |
| Global equity securities | 21,882 | | 21,882 |
| Other invested assets | | 7,360 | 7,360 |
| Total | \$ 319,373 | \$ 18,248 | \$ 337,621 |

Perpetual Care Trust

| Description | Level 1 | Level 2 (in thousands) | Total |
|---|-----------|---------------------------|-----------|
| Assets | | | |
| Short-term investments | \$ 22,607 | \$ | \$ 22,607 |
| Fixed maturities: | | | |
| U.S. government and federal agency | 513 | | 513 |
| U.S. state and local government agency | | 147 | 147 |
| Corporate debt securities | | 22,154 | 22,154 |
| Other debt securities | | 371 | 371 |
| Total fixed maturity investments | 513 | 22,672 | 23,185 |
| Mutual funds - debt securities | 60,806 | | 60,806 |
| Mutual funds - equity securities - real estate sector | 24,580 | | 24,580 |
| Mutual funds - equity securities - energy sector | 20,069 | | 20,069 |

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

| | | | |
|--|-------------------|------------------|-------------------|
| Mutual funds - equity securities - MLP s | 13,515 | | 13,515 |
| Mutual funds - equity securities - other | 41,334 | | 41,334 |
| Equity securities | | | |
| Preferred REIT s | 19,720 | | 19,720 |
| Master limited partnerships | 27,998 | | 27,998 |
| Global equity securities | 695 | | 695 |
| Other invested assets | | 170 | 170 |
| Total | \$ 231,837 | \$ 22,842 | \$ 254,679 |

All level 2 assets are priced utilizing independent pricing services. There were no level 3 assets.

16. SUBSEQUENT EVENTS

On July 31, 2012, the Company acquired 9 funeral homes and 4 cemeteries in Florida for \$25.0 million in cash and equity. At this time, the Company does not have the information necessary to assess the fair value of net assets acquired and make a preliminary purchase price allocation.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The words we, us, our, StoneMor, the Partnership, the Company and similar words, when used in a historical context prior to the closing initial public offering of StoneMor Partners L.P. on September 20, 2004, refer to Cornerstone Family Services, Inc. (Cornerstone), (and, after its conversion, CFSI LLC), and its subsidiaries and thereafter refer to StoneMor Partners L.P. and its subsidiaries.

This discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q (including the notes thereto).

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, 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. 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 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, this Quarterly Report on Form 10-Q and our other reports filed with the SEC. 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. Cornerstone had been founded in 1999 by members of our management team and a private equity investment firm 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 272 cemeteries and 71 funeral homes.

Capitalization

On September 20, 2004, we completed our initial public offering. Since that time, we have completed additional follow on public offerings and debt offerings. Our most recent follow on public offering was on February 9, 2011.

Table of Contents

Overview

Cemetery Operations

We are currently the second largest owner and operator of cemeteries in the United States. As of June 30, 2012, we operated 272 cemeteries in 26 states and Puerto Rico. We own 254 of these cemeteries, and we operate the remaining 18 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, as of June 30, 2012, we have treated 16 of these cemeteries as acquisitions for accounting purposes.

We operate 2 cemeteries under long-term operating agreements that do 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.

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. Revenues from cemetery operations accounted for approximately 87.2% and 86.1% of our revenues during the three and six months ended June 30, 2012 as compared to 87.8% and 86.6% during the same periods last year.

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;

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.

Table of Contents

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% for the three and six months ended June 30, 2012 and 2011.

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 into merchandise trusts for products or services that have already been delivered.

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.

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

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.

Table of Contents

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 June 30, 2012, we owned and operated 71 funeral homes. These properties are located in 18 states and Puerto Rico. Thirty-nine of our funeral homes are located on the grounds of cemeteries that we own.

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 12.8% and 13.9% of our revenues during the three and six months ended June 30, 2012 as compared to 12.2% and 13.4% during the same periods last year.

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.

Table of Contents

2012 Developments

Significant business developments for the six months ended June 30, 2012 include the following:

On January 19, 2012, we amended our Credit Agreement. See Liquidity and Capital Resources for further discussion.

Effective March 31, 2012, we and the Archdiocese of Detroit terminated an operating agreement where we had been the exclusive operator of three cemeteries in Michigan. All activity occurring after March 31, 2012 is the responsibility of the Archdiocese and we have no remaining obligations under this agreement. Upon termination, we received payments of approximately \$2.0 million from the Archdiocese, resulting in a gain of \$1.7 million, which is the amount by which the payments from the Archdiocese exceeded the value of the net assets transferred to the Archdiocese.

On April 10, 2012, we entered into a Stock Purchase Agreement with several individuals to purchase all of the stock of Bronswood Cemetery, Inc., an Illinois Corporation. Pursuant to this agreement, we acquired one cemetery in Illinois. In consideration for the net assets acquired, we paid \$0.9 million in cash.

On June 6, 2012, we entered into a Purchase Agreement with several individuals and Lodi Funeral Home, Inc. to purchase certain assets and assume certain liabilities of Lodi Funeral Home, Inc., a California corporation and all of the stock of Lodi All Faiths Cremation, a California corporation. Pursuant to this agreement, we acquired two funeral homes in California. In consideration for the net assets acquired, we paid \$0.85 million in cash and issued \$0.35 million in units.

Current Market Conditions and Economic Developments

In the third quarter of 2011, the markets took a downturn over fears of a European debt crisis. During the fourth quarter of 2011, there was some improvement in the markets and this improvement continued into the first quarter of 2012. However, the markets trended down in the second quarter of 2012. As of June 30, 2012, the ratio of market value to the amortized cost of assets in our merchandise trusts was 98.2%. This is an improvement from December 31, 2011 when the ratio was 97.7%, but is down from March 31, 2012 when the fair value of these assets exceeded their amortized cost by 0.3%. As of June 30, 2012, the market value of the assets in our perpetual care trust exceeded their amortized cost by 2.6%, which is an improvement from December 31, 2011 when the same ratio was 0.7%.

As of June 30, 2012, the majority of our long-term debt consists of \$150.0 million in Senior Notes due in 2017 and \$62.0 million of borrowings on our Credit Facility which expires in 2017. As of June 30, 2012, we had an unused line of \$68.0 million under our Credit Agreement.

The value of pre-need and at-need contracts written has continued to grow and the aggregate values of contracts written were \$66.1 million and \$127.1 million for the three and six months ended June 30, 2012 as compared to \$64.2 million and \$121.1 million during the same periods last year.

Impact 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 trusts, and current expenses incurred. The revenue recognition rules that we must follow for GAAP purposes is not considered.

We have two primary debt covenants that are dependent upon our financial results, the leverage ratio and the consolidated debt service coverage ratio. The leverage ratio relates to the ratio of consolidated debt to the Profitability Measure. Our leverage ratio was 3.25 at June 30, 2012 as opposed to a maximum allowed ratio of 3.65. The consolidated debt service coverage ratio relates to the ratio of Consolidated EBITDA to Consolidated Debt Service. Our consolidated debt service coverage ratio was 3.26 at June 30, 2012 as opposed to a minimum allowed ratio of 2.50.

Table of Contents

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.

Our Corporate segment includes various home office expenses, miscellaneous selling, cemetery and general administrative expenses that are not allocable to other operating segments, certain depreciation and amortization expenses and acquisition related costs.

Critical Accounting Policies and Estimates

The unaudited condensed consolidated financial statements are prepared 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 (see Note 1 to the unaudited condensed consolidated financial statements). Our critical accounting policies are those that are both important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgment. These critical accounting policies are discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2011 Form 10-K. There have been no significant changes to our critical accounting policies since the filing of our 2011 Form 10-K.

Results of Operations Segments

We account for and analyze the results of operations for our 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 14 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

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 the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 for a more detailed discussion of our accounting policies under GAAP.

Table of Contents**Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011****Cemetery Segments****Cemetery Operations Southeast**

In 2011 we made several acquisitions in our Cemetery Operations Southeast segment. Of these acquisitions, 6 occurred during the third quarter of 2011 and 5 occurred during the fourth quarter of 2011. Therefore, the results of operations for these properties have no impact on the three months ended June 30, 2011, but are included in the three months ended June 30, 2012. These additions are contributing the majority 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 three months ended June 30, 2012 to the same period last year:

| | 2012 | Three months ended June 30, 2011 | | Change (%) |
|--------------------------|-----------|-------------------------------------|-------------|------------|
| | | (in thousands) | Change (\$) | |
| | | (non-GAAP) | | |
| Total revenues | \$ 33,067 | \$ 29,043 | \$ 4,024 | 13.9% |
| Total costs and expenses | 23,732 | 21,338 | 2,394 | 11.2% |
| Operating profit | \$ 9,335 | \$ 7,705 | \$ 1,630 | 21.2% |

Revenues

The increase in revenues was related to an overall increase in the value of contracts written, with an increase of \$2.5 million in the value of pre-need contracts and \$0.4 million in the value of at-need contracts. In addition, we had an increase of \$0.7 million in income from our trusts.

Total costs and expenses

The increase in costs and expenses was primarily related to:

A \$0.6 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.

A \$0.5 million increase in selling expenses. This was primarily attributable to an increase of \$0.3 million in commission related expenses and \$0.2 million in advertising costs.

A \$0.7 million increase in cemetery expenses. The increase was primarily due to increases of \$0.2 million in labor costs, \$0.4 million in repair and maintenance costs and \$0.1 million in utility and fuel costs.

A \$0.5 million increase in general and administrative expense primarily due to increases of \$0.2 million in labor costs, \$0.1 million in insurance costs and \$0.2 million in general office costs.

A \$0.1 million increase in depreciation.

Table of Contents**Cemetery Operations Northeast**

The table below compares the results of operations for our Cemetery Operations Northeast for the three months ended June 30, 2012 to the same period last year:

| | 2012 | Three months ended June 30, 2011 | | Change (%) |
|--------------------------|-----------|-------------------------------------|-------------|------------|
| | | (in thousands) (non-GAAP) | | |
| | | 2011 | Change (\$) | |
| Total revenues | \$ 16,683 | \$ 14,183 | \$ 2,500 | 17.6% |
| Total costs and expenses | 10,866 | 10,289 | 577 | 5.6% |
| Operating profit | \$ 5,817 | \$ 3,894 | \$ 1,923 | 49.4% |

Revenues

The increase in revenues was related to an overall increase in the value of contracts written, with an increase of \$0.3 million in the value of pre-need contracts and \$0.9 million in the value of at-need contracts. In addition, we had an increase of \$1.3 million in income from our trusts.

Total costs and expenses

The increase in costs and expenses was primarily related to:

A \$0.3 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.

A \$0.4 million increase in selling expenses. This was primarily attributable to increases of \$0.2 million in labor costs, \$0.1 million in commission related expenses and \$0.1 million in advertising and telemarketing costs.

A \$0.1 million decrease in cemetery expenses primarily due to a decrease in labor costs.

Cemetery Operations West

Effective March 31, 2012, we terminated our operating agreement with the Archdiocese of Detroit. Therefore, the results of operations for these properties have no impact on the three months ended June 30, 2012, but are included in the three months ended June 30, 2011. The removal of these properties from our results of operations resulted in a \$2.3 million decrease in revenues and \$1.6 million decrease in costs and expenses, which is more than the entire decrease in revenues, and the majority of the decrease in costs and expenses.

Further, in the second quarter of 2011 we made 3 acquisitions and in the second quarter of 2012 we made one acquisition in our Cemetery Operations West segment. The results of operations for these properties have less impact, and in some cases no impact, on the three months ended June 30, 2011, but are included in the three months ended June 30, 2012.

The table below compares the results of operations for our Cemetery Operations West for the three months ended June 30, 2012 to the same period last year:

| | 2012 | Three months ended June 30, 2011 | | Change (%) |
|--|------|-------------------------------------|--|------------|
| | | Change (\$) | | |

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

| | (in thousands) (non-GAAP) | | | |
|--------------------------|------------------------------|-----------|------------|--------|
| Total revenues | \$ 17,665 | \$ 19,187 | \$ (1,522) | -7.9% |
| Total costs and expenses | 11,779 | 14,312 | (2,533) | -17.7% |
| Operating profit | \$ 5,886 | \$ 4,875 | \$ 1,011 | 20.7% |

Table of Contents**Revenues**

The decrease in revenues was driven by a decrease in the value of contracts written as a result of the aforementioned contract termination. There was a decrease of \$1.8 million in the value of pre-need contracts written and a decrease of \$1.4 million in the value of at-need contracts written. This was partially offset by an increase of \$1.5 million in income from our trusts.

Total costs and expenses

The decrease in costs and expenses was driven by reduced expenses as a result of the aforementioned contract termination and primarily related to:

A \$0.3 million decrease in cost of goods sold. This was attributable to the corresponding decrease in the value of contracts written.

A \$0.4 million decrease in selling expense. This was primarily attributable to decreases in labor costs and commission related expenses.

A \$1.3 million decrease in cemetery expenses. The decrease was primarily due to decreases of \$0.7 million in labor costs, \$0.4 million in real estate taxes and \$0.2 million in utility and fuel costs.

A \$0.4 million decrease in general and administrative expenses. The decrease was primarily due to decreases of \$0.2 million in labor costs, \$0.1 million in professional fees, and \$0.1 million in general office costs.

A \$0.2 million decrease in depreciation.

Funeral Home Segment

In 2011 and 2012 we acquired 14 funeral homes. Of these acquisitions, 4 occurred during the second quarter of 2011, 4 occurred during the third quarter of 2011, 4 occurred during the fourth quarter of 2011 and 2 occurred during the second quarter of 2012. Therefore, the results of operations for these properties have no impact on the three months ended June 30, 2011, but are included in the three months ended June 30, 2012. These additions are primarily responsible for the increase to revenues and costs and expenses for this segment.

The table below compares the results of operations for our Funeral Home segment for the three months ended June 30, 2012 to the same period last year:

| | 2012 | 2011 | Three months ended June 30, Change (\$) (in thousands) (non-GAAP) | Change (%) |
|--------------------------|----------|----------|--|------------|
| Total revenues | \$ 8,189 | \$ 7,563 | \$ 626 | 8.3% |
| Total costs and expenses | 7,206 | 5,867 | 1,339 | 22.8% |
| Operating profit | \$ 983 | \$ 1,696 | \$ (713) | -42.0% |

Revenues

The increase in revenues was primarily attributable to a \$0.2 million increase in pre-need revenues, a \$0.2 million increase in at-need revenues and a \$0.2 million increase in other revenues.

Table of Contents**Total costs and expenses**

The increase in costs and expenses was primarily attributable to an increase of \$0.5 million in personnel expenses, \$0.1 in merchandise costs, \$0.1 million in advertising costs and \$0.4 million in depreciation expense, with the remainder attributable to various increases in general and administrative and other expense categories.

Corporate Segment

The table below compares expenses incurred by the Corporate segment for the three months ended June 30, 2012 to the same period last year:

| | 2012 | Three months ended June 30, | | Change (%) |
|---|-----------------|-----------------------------|-----------------|--------------|
| | | 2011 | Change (\$) | |
| | | (in thousands) | | |
| | | (non-GAAP) | | |
| Selling, cemetery and general and administrative expenses | \$ 431 | \$ 97 | \$ 334 | 344.3% |
| Depreciation and amortization | 440 | 483 | (43) | -8.9% |
| Acquisition related costs | 782 | 1,025 | (243) | -23.7% |
| Corporate expenses | | | | |
| Corporate personnel expenses | 3,049 | 2,894 | 155 | 5.4% |
| Other corporate expenses | 4,707 | 3,092 | 1,615 | 52.2% |
| Total corporate overhead | 7,756 | 5,986 | 1,770 | 29.6% |
| Total corporate expenses | \$ 9,409 | \$ 7,591 | \$ 1,818 | 23.9% |

The increase in selling, cemetery and general and administrative expenses allocated to the Corporate segment was primarily attributable to commissions and training. The increase in total corporate overhead was primarily attributable to an increase of \$0.2 million in labor costs, \$1.1 million in professional fees and \$0.5 million in other corporate expenses. Acquisition related costs will vary from period to period depending on the amount of acquisition activity that takes place.

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 recorded in accordance with GAAP 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.

Table of Contents

The table below analyzes results of operations and the changes therein for the three months ended June 30, 2012 as compared to the same period last year. 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:

| | Three months ended June 30, 2012 (in thousands) | | | Three months ended June 30, 2011 (in thousands) | | | Change in GAAP results (\$) | Change in GAAP results (%) |
|------------------------------------|---|---------------------|-----------------|---|---------------------|-----------------|-----------------------------------|----------------------------------|
| | Segment Results (non-GAAP) | GAAP Adjustments | GAAP Results | Segment Results (non-GAAP) | GAAP Adjustments | GAAP Results | | |
| Revenues | | | | | | | | |
| Pre-need cemetery revenues | \$ 33,773 | \$ (8,631) | \$ 25,142 | \$ 32,836 | \$ (6,804) | \$ 26,032 | \$ (890) | -3.4% |
| At-need cemetery revenues | 20,428 | (850) | 19,578 | 20,562 | (1,132) | 19,430 | 148 | 0.8% |
| Investment income from trusts | 10,542 | (4,526) | 6,016 | 6,977 | (1,921) | 5,056 | 960 | 19.0% |
| Interest income | 1,799 | | 1,799 | 1,596 | | 1,596 | 203 | 12.7% |
| Funeral home revenues | 8,189 | (334) | 7,855 | 7,563 | (200) | 7,363 | 492 | 6.7% |
| Other cemetery revenues | 873 | 245 | 1,118 | 443 | 187 | 630 | 488 | 77.5% |
| Total revenues | 75,604 | (14,096) | 61,508 | 69,977 | (9,870) | 60,107 | 1,401 | 2.3% |
| Costs and expenses | | | | | | | | |
| Cost of goods sold | 8,788 | (1,552) | 7,236 | 8,131 | (915) | 7,216 | 20 | 0.3% |
| Cemetery expense | 14,775 | | 14,775 | 15,462 | | 15,462 | (687) | -4.4% |
| Selling expense | 14,778 | (1,655) | 13,123 | 14,022 | (1,835) | 12,187 | 936 | 7.7% |
| General and administrative expense | 7,195 | | 7,195 | 7,031 | | 7,031 | 164 | 2.3% |
| Corporate overhead | 7,756 | | 7,756 | 5,986 | | 5,986 | 1,770 | 29.6% |
| Depreciation and amortization | 2,230 | | 2,230 | 2,042 | | 2,042 | 188 | 9.2% |
| Funeral home expense | 6,688 | (73) | 6,615 | 5,698 | | 5,698 | 917 | 16.1% |
| Acquisition related costs | 782 | | 782 | 1,025 | | 1,025 | (243) | -23.7% |
| Total costs and expenses | 62,992 | (3,280) | 59,712 | 59,397 | (2,750) | 56,647 | 3,065 | 5.4% |
| Operating profit | \$ 12,612 | \$ (10,816) | \$ 1,796 | \$ 10,580 | \$ (7,120) | \$ 3,460 | \$ (1,664) | -48.1% |

Revenues

Pre-need cemetery revenues were \$25.1 million for the three months ended June 30, 2012, a decrease of \$0.9 million, or 3.4%, as compared to \$26.0 million during the same period last year. The decrease was primarily caused by an increase of \$0.9 million in the value of cemetery contracts written which was offset by an increase of \$1.8 million in deferred revenue.

At-need cemetery revenues were \$19.6 million for the three months ended June 30, 2012, an increase of \$0.2 million, or 0.8%, as compared to \$19.4 million during the same period last year. The increase was primarily caused by a decrease of \$0.1 million in the value of cemetery contracts written which was offset by a decrease of \$0.3 million in deferred revenue.

The value of pre-need and at-need contracts was negatively impacted by the termination of our operating agreement with the Archdiocese of Detroit that occurred March 31, 2012. Further, the value of pre-need and at-need contracts was positively impacted by the acquisitions consummated during 2011 and 2012 as the results of operations for these cemeteries are included in the three months ended June 30, 2012, but have little to no impact on the three months ended June 30, 2011.

Investment income from trusts was \$6.0 million for the three months ended June 30, 2012, an increase of \$1.0 million, or 19.0%, as compared to \$5.0 million during the same period last year. On a segment basis, we had an increase of \$3.6 million, which was offset by an adjustment of \$2.6 million.

million related to funds for which we have not met the requirements that allow us to recognize them as revenue.

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Interest income on accounts receivable was \$1.8 million for the three months ended June 30, 2012, an increase of \$0.2 million, or 12.7%, as compared to \$1.6 million during the same period last year.

Revenues for the Funeral Home segment were \$7.9 million for the three months ended June 30, 2012, an increase of \$0.5 million, or 6.7%, compared to \$7.4 million during the same period last year. The majority of the increase was driven by the 10 funeral homes we acquired subsequent to the second quarter of 2011, and was primarily attributable to a \$0.1 million increase in pre-need revenues and a \$0.4 million increase in other revenues.

Other cemetery revenues were \$1.1 million for the three months ended June 30, 2012, an increase of \$0.5 million, or 77.5%, as compared to \$0.6 million during the same period last year.

Costs and Expenses

Cost of goods sold were \$7.2 million during the three months ended June 30, 2012 and 2011. The ratio of cost of goods sold to cemetery revenues increased to 16.2% during the three months ended June 30, 2012 as compared to 15.9% during the same period last year. The change in the ratio primarily relates to changes in product mix.

Cemetery expenses were \$14.8 million during the three months ended June 30, 2012, a decrease of \$0.7 million, or 4.4%, compared to \$15.5 million during the same period last year. The major components of the overall expense decrease were \$0.6 million in labor costs, \$0.4 million in real estate taxes and \$0.1 million in utilities offset by an increase in repairs and

Table of Contents

maintenance of \$0.4 million. 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 27.3% during the three months ended June 30, 2012 as compared to 29.0% during the same period last year.

Selling expenses were \$13.1 million during the three months ended June 30, 2012, an increase of \$0.9 million, or 7.7%, as compared to \$12.2 million during the same period last year. The major components of the overall expense increase were \$0.4 million in commissions, \$0.3 million in telephone and telemarketing costs and a reduction in deferred selling expenses of \$0.2 million. The ratio of selling expenses to cemetery revenues was 29.3% during the three months ended June 30, 2012 as compared to 26.8% during the same period last year. 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 \$7.2 million during the three months ended June 30, 2012, an increase of \$0.2 million, or 2.3%, compared to \$7.0 million during the same period last year. The majority of the increase was primarily due to increases in professional fees and insurance 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 remained fairly consistent at 13.3% and 13.2% during the three months ended June 30, 2012 and 2011, respectively.

Total corporate overhead was \$7.8 million for the three months ended June 30, 2012, an increase of \$1.8 million, or 29.6% compared to \$6.0 million during the same period last year. The increase was primarily attributable to an increase of \$0.2 million in labor costs, \$1.1 million in professional fees and \$0.5 million in other corporate expenses.

Depreciation and amortization was \$2.2 million during the three months ended June 30, 2012, an increase of \$0.2 million, or 9.2%, as compared to \$2.0 million during the period last year. The increase was primarily due to additional depreciation and amortization from recent acquisitions.

Funeral home expenses were \$6.6 million for the three months ended June 30, 2012, an increase of \$0.9 million, or 16.1%, compared to \$5.7 million during the same period last year. The increase was primarily attributable to an increase of \$0.5 million in personnel expenses, \$0.1 million in merchandise costs, and \$0.1 million in advertising costs, with the remainder attributable to various increases in general and administrative and other expense categories.

Acquisition related costs were \$0.8 million for the three months ended June 30, 2012, a decrease of \$0.2 million, or 23.7%, as compared to \$1.0 million during the same period last year. These costs will vary from period to period depending on the amount of acquisition activity that takes place.

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.

Table of Contents

The table below summarizes these items and the changes between the three months ended June 30, 2012 and 2011:

| | 2012 | Three months ended June 30, 2011 | | Change (%) |
|---|----------|-------------------------------------|-------------|------------|
| | | (in thousands) | | |
| | | 2011 | Change (\$) | |
| Gain (loss) on termination of operating agreement | \$ (83) | \$ | \$ (83) | n/a |
| Gain on acquisition | 122 | | 122 | n/a |
| Interest expense | 4,870 | 4,352 | 518 | 11.9% |
| Income tax benefit | \$ (866) | \$ (1,707) | \$ 841 | -49.3% |

Interest expense has increased during the three months ended June 30, 2012 as compared to the same period last year. This increase is caused by increased borrowings on our credit facility, which are offset in part by reduced interest rates. Average amounts outstanding under our credit facility were \$61.5 million and \$3.0 million during the three months ended June 30, 2012 and 2011, respectively. However, amendments that we made to our credit facility have reduced our interest rate and the rate was approximately 2.8% lower during the three months ended June 30, 2012 as opposed to the same period last year.

The gain on acquisition relates to one of our second quarter 2012 acquisitions. Refer to Note 13 of our unaudited condensed consolidated financial statements in Item 1 of the Form 10-Q for a more detailed discussion. The amount recognized under gain on termination of operating agreement relates to an adjustment that reduces a previously recognized gain on an operating agreement terminated in the first quarter of 2012.

We had an income tax benefit of \$0.9 million for the three months ended June 30, 2012, as compared to a benefit of \$1.7 million during the same period last year. 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.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011**Cemetery Operations Southeast**

In 2011 we made several acquisitions in our Cemetery Operations Southeast segment. Of these acquisitions, 6 occurred during the third quarter of 2011 and 5 occurred during the fourth quarter of 2011. Therefore, the results of operations for these properties have no impact on the six months ended June 30, 2011, but are included in the six months ended June 30, 2012. These additions are contributing the majority 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 six months ended June 30, 2012 to the same period last year:

| | 2012 | Six months ended June 30, 2011 | | Change (%) |
|--------------------------|-----------|-----------------------------------|-------------|------------|
| | | (in thousands) | | |
| | | 2011 | Change (\$) | |
| | | (non-GAAP) | | |
| Total revenues | \$ 63,475 | \$ 56,146 | \$ 7,329 | 13.1% |
| Total costs and expenses | 44,912 | 39,730 | 5,182 | 13.0% |
| Operating profit | \$ 18,563 | \$ 16,416 | \$ 2,147 | 13.1% |

Revenues

The increase in revenues was related to an overall increase in the value of contracts written, with an increase of \$1.3 million in the value of at-need contracts and \$4.0 million in the value of pre-need contracts. We also had an increase of \$1.1 million in income from our trusts and \$0.5 million in interest on accounts receivable.

Table of Contents**Total costs and expenses**

The increase in costs and expenses 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 \$1.1 million increase in selling expenses. This was primarily attributable to an increase of \$0.4 million in salary and benefit expenses, \$0.6 million in commission related expenses, and \$0.1 million in telephone and telemarketing costs.

A \$1.4 million increase in cemetery expenses. The increase was primarily due to increases of \$0.8 million in labor costs, \$0.5 million in repair and maintenance costs, and \$0.1 million in utility and fuel costs.

A \$1.2 million increase in general and administrative expense primarily due to an increase of \$0.7 million in labor costs, \$0.2 million in insurance costs, \$0.1 million in professional fees and \$0.2 million in general office costs.

A \$0.3 million increase in depreciation.

Cemetery Operations Northeast

The table below compares the results of operations for our Cemetery Operations Northeast for the six months ended June 30, 2012 to the same period last year:

| | 2012 | Six months ended June 30, 2011 | Change (\$) (in thousands) (non-GAAP) | Change (%) |
|--------------------------|-----------|-----------------------------------|---|------------|
| Total revenues | \$ 31,716 | \$ 28,112 | \$ 3,604 | 12.8% |
| Total costs and expenses | 20,491 | 19,519 | 972 | 5.0% |
| Operating profit | \$ 11,225 | \$ 8,593 | \$ 2,632 | 30.6% |

Revenues

The increase in revenues was related to an overall increase in the value of contracts written, with an increase of \$0.6 million in the value of at-need contracts and \$1.0 million in the value of pre-need contracts. In addition, we had an increase of \$2.0 million in income from our trusts.

Total costs and expenses

The increase in costs and expenses was primarily related to:

A \$0.4 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

A \$0.7 million increase in selling expense. This was primarily attributable to an increase of \$0.3 million in labor costs, \$0.2 million in commissions and \$0.1 million in telephone and telemarketing costs.

A \$0.1 million decrease in cemetery expenses primarily attributable to a decrease in labor costs.

Cemetery Operations West

Effective March 31, 2012, we terminated our operating agreement with the Archdiocese of Detroit. Therefore, the results of operations for these properties are only included in the six months ended June 30, 2012 up to that point, but are included in the entire period for the six months ended June 30, 2011. The removal of these properties from our results of operations is responsible for a \$2.2 million decrease in revenues and \$1.4 million decrease in costs and expenses period over period, and therefore is responsible for the majority of the decrease in revenues and costs and expenses.

Table of Contents

Further, in the second quarter of 2011 we made 3 acquisitions and in the second quarter of 2012 we made 1 acquisition in our Cemetery Operations West segment. The results of operations for these properties have less impact, and in some cases no impact, on the six months ended June 30, 2011, but are included in the six months ended June 30, 2012. These acquisitions are increasing revenues and expenses period over period.

The table below compares the results of operations for our Cemetery Operations West for the six months ended June 30, 2012 to the same period last year:

| | 2012 | Six months ended June 30, 2011 | Change (\$) | Change (%) |
|--------------------------|-----------|-----------------------------------|-------------|------------|
| | | (in thousands) | | |
| | | (non-GAAP) | | |
| Total revenues | \$ 35,218 | \$ 38,093 | \$ (2,875) | -7.5% |
| Total costs and expenses | 23,284 | 25,297 | (2,013) | -8.0% |
| Operating profit | \$ 11,934 | \$ 12,796 | \$ (862) | -6.7% |

Revenues

The decrease in revenues was driven by a decrease in the value of contracts written as a result of the aforementioned contract termination. There was a decrease of \$2.1 million in the value of pre-need contracts written and a decrease of \$1.1 million in the value of at-need contracts written, offset by an increase of \$0.1 million in income from our trusts.

Total costs and expenses

The decrease in costs and expenses was driven by reduced expenses as a result of the aforementioned contract termination and primarily related to:

A \$0.2 million decrease in cost of goods sold. This was attributable to the corresponding decrease in the value of contracts written.

A \$0.1 million decrease in selling expense. The decrease was primarily due to decreases of \$0.2 million in commissions and \$0.1 million in labor costs, offset by an increase of \$0.2 million in telephone and telemarketing costs.

A \$1.3 million decrease in cemetery expenses. The decrease was primarily due to decreases of \$0.6 million in labor costs, \$0.2 million in utility costs, \$0.1 million in repair and maintenance costs and \$0.3 million in real estate taxes.

A \$0.2 million decrease in general and administrative expenses. The decrease was primarily due to a decrease of \$0.1 million in labor costs and several other small decreases.

A \$0.1 million decrease in depreciation.

Funeral Home Segment

In 2011 and 2012, we acquired 14 funeral homes. Of these acquisitions, 4 occurred during the second quarter of 2011, 4 occurred during the third quarter of 2011, 4 occurred during the fourth quarter of 2011 and 2 occurred during the second quarter of 2012. Therefore, the results of operations for these properties have no impact on the six months ended June 30, 2011, but are included in the six months ended June 30, 2012.

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

These additions are primarily responsible for the entire increase to revenues and the majority of the increase to costs and expenses for this segment.

Table of Contents

The table below compares the results of operations for our Funeral Home segment for the six months ended June 30, 2012 to the same period last year:

| | 2012 | Six months ended June 30, 2011 | Change (\$) (in thousands) (non-GAAP) | Change (%) |
|--------------------------|-----------|-----------------------------------|---|------------|
| Total revenues | \$ 17,462 | \$ 15,044 | \$ 2,418 | 16.1% |
| Total costs and expenses | 14,625 | 11,574 | 3,051 | 26.4% |
| Operating profit | \$ 2,837 | \$ 3,470 | \$ (633) | -18.2% |

Revenues

The increase in revenues was primarily attributable to a \$1.0 million increase in at-need revenues, a \$0.9 million increase in pre-need revenues and a \$0.5 million increase in other revenues.

Total costs and expenses

The increase in costs and expenses was primarily attributable to an increase of \$1.4 million in personnel expenses, \$0.2 million in facility costs, \$0.4 million in merchandise costs and \$0.6 million in depreciation, with the remainder attributable to increases in other general expense categories.

Corporate Segment

The table below compares expenses incurred by the Corporate segment for the six months ended June 30, 2012 to the same period last year:

| | 2012 | Six months ended June 30, 2011 | Change (\$) (in thousands) (non-GAAP) | Change (%) |
|---|-----------|-----------------------------------|---|------------|
| Selling, cemetery and general and administrative expenses | \$ 899 | \$ 675 | \$ 224 | 33.2% |
| Depreciation and amortization | 822 | 1,478 | (656) | -44.4% |
| Acquisition related costs | 1,113 | 1,958 | (845) | -43.2% |
| Corporate expenses | | | | |
| Corporate personnel expenses | 6,197 | 5,658 | 539 | 9.5% |
| Other corporate expenses | 8,162 | 6,286 | 1,876 | 29.8% |
| Total corporate overhead | 14,359 | 11,944 | 2,415 | 20.2% |
| Total corporate expenses | \$ 17,193 | \$ 16,055 | \$ 1,138 | 7.1% |

The increase in selling, cemetery and general and administrative expenses allocated to the Corporate segment was primarily attributable to commissions and training. The increase in total corporate overhead was primarily attributable to an increase of \$0.5 million in labor costs, \$1.1 million in professional fees, and \$0.1 million in advertising costs, with the remainder attributable to various corporate expenses. Acquisition related costs will vary from period to period depending on the amount of acquisition activity that takes place.

Reconciliation of Segment Results of Operations to Consolidated Results of Operations

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

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.

Table of Contents

The table below analyzes results of operations and the changes therein for the six months ended June 30, 2012 as compared to the same period last year. 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:

| | Six months ended June 30, 2012 (in thousands) | | | Six months ended June 30, 2011 (in thousands) | | | Change in | |
|------------------------------------|---|---------------------|-----------------|---|---------------------|-----------------|-----------------------------------|-------------------------------------|
| | Segment Results (non-GAAP) | GAAP Adjustments | GAAP Results | Segment Results (non-GAAP) | GAAP Adjustments | GAAP Results | Change in GAAP results (\$) | Change in GAAP results (%) |
| Revenues | | | | | | | | |
| Pre-need cemetery revenues | \$ 63,615 | \$ (15,726) | \$ 47,889 | \$ 60,657 | \$ (17,212) | \$ 43,445 | \$ 4,444 | 10.2% |
| At-need cemetery revenues | 40,860 | (1,978) | 38,882 | 40,207 | (3,460) | 36,747 | 2,135 | 5.8% |
| Investment income from trusts | 20,405 | (8,909) | 11,496 | 17,267 | (7,442) | 9,825 | 1,671 | 17.0% |
| Interest income | 3,737 | | 3,737 | 3,138 | | 3,138 | 599 | 19.1% |
| Funeral home revenues | 17,462 | (670) | 16,792 | 15,044 | (349) | 14,695 | 2,097 | 14.3% |
| Other cemetery revenues | 1,792 | 507 | 2,299 | 1,087 | 401 | 1,488 | 811 | 54.5% |
| Total revenues | 147,871 | (26,776) | 121,095 | 137,400 | (28,062) | 109,338 | 11,757 | 10.8% |
| Costs and expenses | | | | | | | | |
| Cost of goods sold | 16,419 | (2,763) | 13,656 | 15,003 | (2,794) | 12,209 | 1,447 | 11.9% |
| Cemetery expense | 27,567 | | 27,567 | 27,548 | | 27,548 | 19 | 0.1% |
| Selling expense | 28,612 | (3,702) | 24,910 | 26,769 | (5,038) | 21,731 | 3,179 | 14.6% |
| General and administrative expense | 14,388 | | 14,388 | 13,458 | | 13,458 | 930 | 6.9% |
| Corporate overhead | 14,359 | | 14,359 | 11,944 | | 11,944 | 2,415 | 20.2% |
| Depreciation and amortization | 4,560 | | 4,560 | 4,488 | | 4,488 | 72 | 1.6% |
| Funeral home expense | 13,487 | (116) | 13,371 | 11,007 | | 11,007 | 2,364 | 21.5% |
| Acquisition related costs | 1,113 | | 1,113 | 1,958 | | 1,958 | (845) | -43.2% |
| Total costs and expenses | 120,505 | (6,581) | 113,924 | 112,175 | (7,832) | 104,343 | 9,581 | 9.2% |
| Operating profit | \$ 27,366 | \$ (20,195) | \$ 7,171 | \$ 25,225 | \$ (20,230) | \$ 4,995 | \$ 2,176 | 43.6% |

Revenues

Pre-need cemetery revenues were \$47.9 million for the six months ended June 30, 2012, an increase of \$4.4 million, or 10.2%, as compared to \$43.5 million during the same period last year. The increase was primarily caused by an increase of \$3.0 million in the value of cemetery contracts written and a decrease of \$1.5 million in deferred revenue.

At-need cemetery revenues were \$38.9 million for the six months ended June 30, 2012, an increase of \$2.1 million, or 5.8%, as compared to \$36.8 million during the same period last year. The increase was primarily caused by an increase of \$0.7 million in the value of cemetery contracts written and a decrease in deferred revenue of \$1.4 million.

The majority of the increase in the value of pre-need and at-need contracts was primarily driven by our Cemetery Operations - Southeast segment where we acquired 6 cemeteries during the third quarter of 2011 and 5 cemeteries during the fourth quarter of 2011. Therefore, the results of operations for these cemeteries are included in the six months ended June 30, 2012, but have no impact on the six months ended June 30, 2011. In addition, the value of pre-need and at-need contracts was negatively impacted by the termination of our operating agreement

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

with the Archdiocese of Detroit that occurred March 31, 2012.

Investment income from trusts was \$11.5 million for the six months ended June 30, 2012, an increase of \$1.7 million, or 17.0%, as compared to \$9.8 million during the same period last year. On a segment basis, we had an increase of \$3.1 million, which was offset by an adjustment of \$1.4 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 \$3.7 million for the six months ended June 30, 2012, an increase of \$0.6 million, or 19.1%, as compared to \$3.1 million during the same period last year.

Revenues for the Funeral Home segment were \$16.8 million for the six months ended June 30, 2012, an increase of \$2.1 million, or 14.3%, compared to \$14.7 million during the same period last year. The increase was driven by the 10 funeral homes we acquired in 2011 and 2012, and was primarily attributable to a \$0.6 million increase in at-need revenues, a \$0.6 million increase in pre-need revenues and a \$0.9 million increase in other revenues.

Other cemetery revenues were \$2.3 million for the six months ended June 30, 2012, as compared to \$1.5 million during the same period last year.

Table of Contents**Costs and Expenses**

Cost of goods sold were \$13.7 million during the six months ended June 30, 2012, an increase of \$1.5 million, or 11.9%, as compared to \$12.2 million during the same period last year. The ratio of cost of goods sold to cemetery revenues increased slightly to 15.7% during the six months ended June 30, 2012 as compared to 15.2% during the same period last year.

Cemetery expenses were \$27.6 million during the six months ended June 30, 2012 and 2011. Overall expense increases of \$0.1 million in labor costs and \$0.4 million in repairs and maintenance were offset by decreases of \$0.4 million in real estate taxes and \$0.1 million in utilities. 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. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 26.4% during the six months ended June 30, 2012 as compared to 27.3% during the same period last year.

Selling expenses were \$24.9 million during the six months ended June 30, 2012, an increase of \$3.2 million, or 14.6%, as compared to \$21.7 million during the same period last year. The majority of our selling expenses are directly related to sales commissions and bonuses, which would be directly related to changes in the value of pre-need and at-need contracts written. The ratio of selling expenses to cemetery revenues increased to 28.7% during the six months ended June 30, 2012 as compared to 27.1% during the same period last year. The major components of the overall expense increase include \$0.8 million in commissions, \$0.6 million in salaries and benefits and \$0.4 million in telephone and telemarketing expense, as well as a reduction in deferred selling expenses of \$1.3 million.

General and administrative expenses were \$14.4 million during the six months ended June 30, 2012, an increase of \$0.9 million, or 6.9%, compared to \$13.5 million during the same period last year. The majority of the increase was due to increases of \$0.6 million in labor costs, \$0.3 million in insurance costs and \$0.2 million in professional fees offset by decreases to other general expenses. 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. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues increased slightly to 13.8% during the six months ended June 30, 2012 compared to 13.3% during the same period last year.

Total corporate overhead was \$14.4 million during the six months ended June 30, 2012, an increase of \$2.4 million, or 20.2%, compared to \$12.0 million during the same period last year. The increase was primarily attributable to an increase of \$0.5 million in labor costs, \$1.1 million in professional fees, and \$0.1 million in advertising costs, with the remainder attributable to general office costs.

Depreciation and amortization was \$4.6 million during the six months ended June 30, 2012, an increase of \$0.1 million, or 1.6%, as compared to \$4.5 million during the period last year. The increase was primarily due to additional depreciation and amortization from recent acquisitions.

Funeral home expenses were \$13.4 million for the six months ended June 30, 2012, an increase of \$2.4 million, or 21.5%, as compared to \$11.0 million during the same period last year. The increase was primarily attributable to an increase of \$1.4 million in labor costs, \$0.4 million in merchandise costs, \$0.2 million in facility costs and \$0.1 million in advertising costs, with the remainder attributable to various increases in general and administrative and other expense.

Acquisition related costs were \$1.1 million for the six months ended June 30, 2012, a decrease of \$0.8 million, or 43.2%, as compared to \$1.9 million during the same period last year. These costs will vary from period to period depending on the amount of acquisition activity that takes place.

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.

Table of Contents

The table below summarizes these items and the changes between the six months ended June 30, 2012 and 2011:

| | 2012 | Six months ended June 30, 2011 | Change (\$) (in thousands) | Change (%) |
|---|----------|-----------------------------------|-------------------------------|------------|
| Expenses related to refinancing | \$ | \$ 453 | \$ (453) | -100.0% |
| Early extinguishment of debt | | 4,010 | (4,010) | -100.0% |
| Gain (loss) on termination of operating agreement | 1,737 | | 1,737 | n/a |
| Gain on acquisition | 122 | | 122 | n/a |
| Interest expense | 9,836 | 9,442 | 394 | 4.2% |
| Income tax benefit | \$ (667) | \$ (2,511) | \$ 1,844 | -73.4% |

During the six months ended June 30, 2011, we incurred \$0.5 million of expenses when we amended our credit facilities in January of 2011 and incurred an early extinguishment of debt charge of \$4.0 million related 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.

During the six months ended June 30, 2012, we recognized a gain of \$1.7 million related to the termination of an operating agreement.

The gain on acquisition relates to one of our second quarter 2012 acquisitions. Refer to Note 13 of our unaudited condensed consolidated financial statements in Item 1 of the Form 10-Q for a more detailed discussion.

Interest expense has increased during the six months ended June 30, 2012 as compared to the same period last year. This increase is caused by increased borrowings on our credit facility, which are offset in part by a change in our debt mix and reduced interest rates. Average amounts outstanding under our credit facility were \$54.7 million and \$8.9 million during the six months ended June 30, 2012 and 2011, respectively. However, amendments that we made to our credit facility have reduced our interest rate and the rate was approximately 2.8% lower at June 30, 2012 as opposed to the same period last year. In addition, we had \$35.0 million of Senior Secured Notes which bore interest at 12.5% outstanding at the beginning of 2011. The Senior Secured Notes were repaid in February of 2011.

We had an income tax benefit of \$0.7 million for the six months ended June 30, 2012, as compared to a benefit of \$2.5 million during the same period last year. 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.

Table of Contents**Supplemental data**

The following table presents supplemental operating data for the periods presented:

| | Three months ended June 30, 2012 | Three months ended June 30, 2011 | Six months ended June 30, 2012 | Six months ended June 30, 2011 |
|---|---|---|--------------------------------------|--------------------------------------|
| Operating Data: | | | | |
| Interments performed | 11,127 | 11,096 | 22,928 | 22,780 |
| Interment rights sold: | | | | |
| Lots | 7,627 | 8,373 | 13,857 | 14,278 |
| Mausoleum crypts (including pre-construction) | 624 | 940 | 1,201 | 1,548 |
| Niches | 245 | 320 | 519 | 582 |
| Total interment rights sold | 8,496 | 9,633 | 15,577 | 16,408 |
| Number of contracts written | 25,834 | 27,152 | 50,240 | 51,139 |
| Aggregate contract amount, in thousands (excluding interest) | \$ 66,070 | \$ 64,232 | \$ 127,094 | \$ 121,135 |
| Average amount per contract (excluding interest) | \$ 2,557 | \$ 2,366 | \$ 2,530 | \$ 2,369 |
| Number of pre-need contracts written | 12,930 | 13,653 | 24,516 | 25,215 |
| Aggregate pre-need contract amount, in thousands (excluding interest) | \$ 43,292 | \$ 41,790 | \$ 81,978 | \$ 77,200 |
| Average amount per pre-need contract (excluding interest) | \$ 3,348 | \$ 3,061 | \$ 3,344 | \$ 3,062 |
| Number of at-need contracts written | 12,904 | 13,499 | 25,724 | 25,924 |
| Aggregate at-need contract amount, in thousands | \$ 22,778 | \$ 22,442 | \$ 45,116 | \$ 43,935 |
| Average amount per at-need contract | \$ 1,765 | \$ 1,663 | \$ 1,754 | \$ 1,696 |

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 facility, 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.

Long-term Debt

10.25% Senior Notes due 2017

We have outstanding \$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. We 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. The Senior Notes mature on December 1, 2017. As of June 30, 2012, we were in compliance with all applicable covenants included in the Indenture governing the Senior Notes.

Table of Contents**Credit Facility**

On January 19, 2012, we entered into the Third Amended and Restated Credit Agreement (the "Credit Agreement"). The terms of the Credit Agreement are substantially the same as the terms of the prior agreement which was amended numerous times prior to entering into the Credit Agreement. 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 a total Revolving Credit Facility of \$130.0 million (the "Credit Facility"). Previously, the agreement had an Acquisition Credit Facility and a Revolving Credit Facility with different borrowing limits. The proceeds of the Credit Facility may be used to finance working capital requirements, Permitted Acquisitions and the purchase and construction of mausoleums. The maturity date of the Credit Facility is January 19, 2017.

At June 30, 2012, amounts outstanding under the Credit Facility bear interest at a rate of 3.7%. Amounts borrowed may be either Base Rate Loans or Eurodollar Rate Loans and amounts 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 our 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 Credit Agreement requires us to pay an unused Commitment Fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the outstanding amounts under the Credit Facility. The Commitment Fee Rate under the Credit Agreement ranges from 0.375% to 0.75% depending on our Consolidated Leverage Ratio.

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 financial covenants. Any such breach could allow the Lenders to accelerate our debt which would have a material adverse effect on our business, financial condition or results of operations. As of June 30, 2012 we were in compliance with all applicable covenants under the Credit Agreement.

Amounts outstanding under our credit facility fluctuated during the six months ended June 30, 2012 and 2011. At the beginning of 2012, we had \$43.8 million outstanding on our credit facilities. These amounts were combined into one facility in January of 2012. We borrowed an additional \$7.3 million and \$10.9 million during the first and second quarters of 2012, respectively, and have outstanding borrowings of \$62.0 million on our Credit Facility at June 30, 2012. At the beginning of 2011, we had \$33.5 million outstanding on our credit facilities which we repaid 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. The average amounts borrowed under our credit facilities were \$54.7 million and \$8.9 million for the six months ended June 30, 2012 and 2011, respectively.

For a more detailed description of our long-term debt agreements, see our 2011 Form 10-K.

Cash Flow from Operating Activities

Cash flows provided by operating activities were \$14.2 million during the six months ended June 30, 2012, an increase of \$17.3 million compared to cash flows used in operating activities of \$3.1 million during the same period last year. The increase is primarily due to a decrease in cash used for payables of \$7.9 million, a decrease of cash inflows into the merchandise trusts of \$9.3 million, a decrease in interest paid of \$0.5 million and a decrease in acquisition related costs of \$0.8 million, combined with increased cash flows of \$2.1 million from our accounts receivable and the use of \$3.5 million more in cash to satisfy merchandise liabilities.

Cash Flow from Investing Activities

Net cash used in investing activities was \$8.9 million during the six months ended June 30, 2012 as compared to \$9.3 million during the same period last year. Cash flows used for investing activities during the six months ended June 30, 2012 were \$3.4 million paid for the acquisition of 1 cemetery and 2 funeral homes and the execution of a revised operating agreement and \$5.4 million for other capital expenditures. Cash flows used for investing activities during the six months ended June 30, 2011 were \$3.8 million for the acquisition of six cemetery properties and four funeral homes and \$5.5 million for other capital expenditures.

Cash Flow from Financing Activities

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Cash flows used in financing activities were \$9.6 million during the six months ended June 30, 2012 as compared to cash provided by financing activities of \$17.6 million during the same period last year. Cash flows used in financing activities for the six months ended June 30, 2012 were cash distributions to unit holders of \$23.6 million and financing costs related to our amended credit facility of \$1.8 million, offset by net borrowings of \$15.8 million. Cash flows provided by financing activities

Table of Contents

for the six months ended June 30, 2011 were \$103.2 million of proceeds from our public offering and contribution from our general partner of \$2.2 million offset by net repayments of long-term debt of \$61.6 million, cash distributions to unit holders of \$21.1 million, the payment of a \$4.0 million make-whole premium related to the pay-off of \$35.0 million in Senior Secured Notes and cost of financing activities of \$1.1 million.

Capital Expenditures

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

| | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------------|--------------------------------|------------------------|------------------------------|------------------------|
| | 2012 (in thousands) | 2011 (in thousands) | 2012 (in thousands) | 2011 (in thousands) |
| Maintenance capital expenditures | \$ 937 | \$ 1,445 | \$ 1,835 | \$ 3,204 |
| Expansion capital expenditures | 4,157 | 3,714 | 7,026 | 6,120 |
| Total capital expenditures | \$ 5,094 | \$ 5,159 | \$ 8,861 | \$ 9,324 |

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.

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.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The information presented below should be read in conjunction with the notes to our unaudited condensed consolidated financial statements included under Part I Item 1 Financial Statements in this Quarterly Report on Form 10-Q.

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 debt and 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 June 30, 2012, the fair value of fixed-income securities in our merchandise trusts represented 2.3% of the fair value of total trust assets while the

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

fair value of fixed-income securities in our perpetual care trusts represented 9.0% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was \$7.9 million and \$24.2 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2012. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately \$79,000 and \$242,000 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.

Table of Contents

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 June 30, 2012, the fair value of money market and short-term investments in our merchandise trusts represented 8.9% 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 5.9% of the fair value of total trust assets. The aggregate quoted fair value of these money market and short-term investments was \$30.9 million and \$15.8 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2012. Each 1% change in interest rates on these money market and short-term investments would result in changes of approximately \$309,000 and \$158,000 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 both individual equity securities as well as closed and open ended mutual funds. As of June 30, 2012, the fair value of marketable individual equity securities in our merchandise trusts represented 18.5% of the fair value of total trust assets while the fair value of marketable individual equity securities in our perpetual care trusts represented 10.4% of total trust assets. The aggregate quoted fair market value of these marketable individual equity securities was \$63.9 million and \$28.1 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2012, based on final quoted sales prices. Each 10% change in the average market prices of the individual equity securities would result in a change of approximately \$6.4 million and \$2.8 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively. As of June 30, 2012, the fair value of marketable closed and open ended mutual funds in our merchandise trusts represented 65.7% 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 73.6% of total trust assets. The aggregate quoted fair market value of these closed and open ended mutual funds was \$227.3 million and \$198.2 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2012, 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 \$22.7 million and \$19.8 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;

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

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

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.

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 unaudited condensed consolidated financial statements for a breakdown of the assets held in our merchandise trusts and perpetual care trusts by asset class.

Table of Contents

Debt Instruments

Our Credit Facility bears interest at a floating rate, based on LIBOR, which is adjusted quarterly. This subjects us to increases in interest expense resulting from movements in interest rates. As of June 30, 2012, we had \$62.0 million of borrowings outstanding under our Credit Facility. After borrowings, our unused line of credit under the Credit Facility is \$68.0 million. The interest rate on amounts outstanding under the Credit Facility was approximately 3.7% at June 30, 2012.

Item 4. Controls and Procedures **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Disclosure Committee and management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon, and as of the date of this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in our reports under the Securities Exchange Act of 1934 as amended is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. 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 adverse effect on our consolidated financial position, results of operations 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 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and in other reports filed with the SEC which could materially affect our business, financial condition or future results.

The risks described in the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and in other reports filed with the SEC are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described in our

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and in other reports filed with the SEC.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 6, 2012, certain subsidiaries of the Company acquired the stock of Lodi All Faiths Cremation, a California corporation, and certain assets and liabilities of Lodi Funeral Home, Inc., a California corporation. In consideration for obtaining an option to purchase real property owned by Samuel D. Salas Properties, a California general partnership, on which Lodi Funeral Home, Inc. operates a funeral home and related business, the Company issued 13,720 units to the partnership. See Note 13 to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of this acquisition.

The Company offered and issued the units in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder. The Company relied on this exemption from registration based in part on representations made by the investor in the Purchase Agreement.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Table of Contents**Item 6. Exhibits**

| Exhibit Number | Description |
|---------------------------|---|
| 10.1 | Employment Agreement, effective April 1, 2012, by and between StoneMor GP LLC and William Shane (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 2, 2012). |
| 10.2 | Form of the Unit Appreciation Rights Agreement under the StoneMor Partners L.P. Long-Term Incentive Plan, dated as of April 2, 2012. |
| 31.1 | Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors. |
| 31.2 | Certification pursuant to Exchange Act Rule 13a-14(a) of Timothy K. Yost, Chief Financial Officer and Secretary. |
| 32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors (furnished herewith). |
| 32.2 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Timothy K. Yost, Chief Financial Officer and Secretary (furnished herewith). |
| 101 | Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2012, and December 31, 2011; (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011; (iii) Condensed Consolidated Statement of Partners' Capital; (iv) Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2012 and 2011; and (v) Notes to the Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 401 of Regulation S-T that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of StoneMor Partners, L.P. |

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STONEMOR PARTNERS L.P.

By: StoneMor GP LLC
its general partner

August 7, 2012

/s/ Lawrence Miller
Lawrence Miller
Chief Executive Officer, President and Chairman of the Board of
Directors (Principal Executive Officer)

August 7, 2012

/s/ Timothy K. Yost
Timothy K. Yost
Chief Financial Officer and Secretary (Principal Financial Officer)

Table of Contents

Exhibit Index

| Exhibit Number | Description |
|-----------------------|---|
| 10.1 | Employment Agreement, effective April 1, 2012, by and between StoneMor GP LLC and William Shane (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 2, 2012). |
| 10.2 | Form of the Unit Appreciation Rights Agreement under the StoneMor Partners L.P. Long-Term Incentive Plan, dated as of April 2, 2012. |
| 31.1 | Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors. |
| 31.2 | Certification pursuant to Exchange Act Rule 13a-14(a) of Timothy K. Yost, Chief Financial Officer and Secretary. |
| 32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors (furnished herewith). |
| 32.2 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Timothy K. Yost, Chief Financial Officer and Secretary (furnished herewith). |
| 101 | Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2012, and December 31, 2011; (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011; (iii) Condensed Consolidated Statement of Partners' Capital; (iv) Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2012 and 2011; and (v) Notes to the Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 401 of Regulation S-T that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of StoneMor Partners, L.P. |

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.