STONEMOR PARTNERS LP
Form 10-Q
August 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from to .

Commission File Number: 000-50910

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark 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	x
Non-accelerated filer	¨ (Do not check if 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 x

The number of the registrant s outstanding common units at August 9, 2011 was 19,350,957.

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Part I Financial Information

Item 1. Financial Statements

StoneMor Partners L.P.

Condensed Consolidated Balance Sheets

(in thousands)

(unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 12,734	$ 7,535
Accounts receivable, net of allowance	48,238	45,149
Prepaid expenses	4,489	3,783
Other current assets	10,507	9,002
Total current assets	75,968	65,469
Long-term accounts receivable, net of allowance	64,130	60,061
Cemetery property	287,601	283,460
Property and equipment, net of accumulated depreciation	66,789	66,249
Merchandise trusts, restricted, at fair value	332,117	318,318
Perpetual care trusts, restricted, at fair value	255,649	249,690
Deferred financing costs, net of accumulated amortization	9,339	9,801
Deferred selling and obtaining costs	64,685	59,422
Deferred tax assets	547	605
Goodwill	18,545	18,153
Other assets	13,680	14,364
Total assets	$ 1,189,050	$ 1,145,592
Liabilities and partners capital		
Current liabilities:		
Accounts payable and accrued liabilities	$ 17,140	$ 23,444
Accrued interest	1,268	2,034
Current portion, long-term debt	1,511	1,386
Total current liabilities	19,919	26,864
Other long-term liabilities	3,048	3,687
Long-term debt	158,242	219,008
Deferred cemetery revenues, net	413,028	386,465
Deferred tax liabilities	16,928	18,331
Merchandise liability	115,508	113,356
Perpetual care trust corpus	255,649	249,690
Total liabilities	982,322	1,017,401

Commitments and Contingencies		
Partners capital		
General partner	3,142	1,809
Common partners	203,586	126,382
Total partners capital	206,728	128,191
Total liabilities and partners capital	$ 1,189,050	$ 1,145,592

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of Operations

(in thousands, except unit data)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Revenues:				
Cemetery				
Merchandise	$ 31,104	$ 24,028	$ 52,539	$ 42,826
Services	11,604	10,038	22,402	18,025
Investment and other	10,036	8,898	19,702	16,905
Funeral home				
Merchandise	2,957	2,362	6,096	4,862
Services	4,406	3,411	8,599	6,789
Total revenues	60,107	48,737	109,338	89,407
Costs and Expenses:				
Cost of goods sold (exclusive of depreciation shown separately below):				
Perpetual care	1,399	1,270	2,724	2,357
Merchandise	5,817	4,055	9,485	7,368
Cemetery expense	15,462	12,086	27,548	21,333
Selling expense	12,187	9,467	21,731	17,083
General and administrative expense	7,031	6,161	13,458	11,759
Corporate overhead (including $191 and $177 in unit-based compensation for the three months ended June 30, 2011 and 2010, and $381 and $353 for the six months ended June 30, 2011 and 2010, respectively)	5,986	5,605	11,944	10,694
Depreciation and amortization	2,042	1,929	4,488	3,739
Funeral home expense				
Merchandise	1,009	953	2,215	1,866
Services	2,803	2,247	5,349	4,335
Other	1,886	1,442	3,443	2,872
Acquisition related costs	1,025	1,666	1,958	2,656
Total cost and expenses	56,647	46,881	104,343	86,062
Operating profit	3,460	1,856	4,995	3,345
Expenses related to refinancing			453	
Gain on acquisitions				7,093
Early extinguishment of debt			4,010	
Increase in fair value of interest rate swaps		1,568		3,239
Interest expense	4,352	5,239	9,442	10,097
Income (loss) before income taxes	(892)	(1,815)	(8,910)	3,580
Income tax expense (benefit)				
State	(902)	26	(898)	54

Federal	(805)	(381)	(1,613)	(909)
Total income tax expense (benefit)	(1,707)	(355)	(2,511)	(855)
Net income (loss)	$ 815	$ (1,460)	$ (6,399)	$ 4,435
General partner s interest in net income (loss) for the period	$ 16	$ (29)	$ (128)	$ 89
Limited partners interest in net income (loss) for the period	$ 799	$ (1,431)	$ (6,271)	$ 4,346
Net income (loss) per limited partner unit (basic and diluted)	$ .04	$ (.11)	$ (.34)	$ .32
Weighted average number of limited partners units outstanding (basic and diluted)	19,341	13,537	18,529	13,448
Distributions declared per unit	$ .585	$ .555	$ 1.170	$ 1.110

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of

Partners Capital

(in thousands)

(unaudited)

	Partners Capital		
	Common Unit Holders	**General Partner**	**Total**
Balance, December 31, 2010	$ 126,382	$ 1,809	$ 128,191
Issuance of common units	264		264
Proceeds from public offering	103,207		103,207
General partner contribution		2,246	2,246
Compensation related to UARs	275		275
Net Income	(6,271)	(128)	(6,399)
Cash distribution	(20,271)	(785)	(21,056)
Balance, June 30, 2011	$ 203,586	$ 3,142	$ 206,728

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of Cash Flows

(in thousands)

(unaudited)

	For the six months ended June 30, 2011	2010
Operating activities:		
Net income (loss)	$ (6,399)	$ 4,435
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activity:		
Cost of lots sold	3,281	2,932
Depreciation and amortization	4,488	3,739
Unit-based compensation	381	353
Accretion of debt discounts	625	166
Change in fair value of interest rate swaps		(3,239)
Write-off of deferred financing fees	453	
Gain on acquisitions		(7,093)
Fees paid related to early extinguishment of debt	4,010	
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(9,430)	(14,930)
Allowance for doubtful accounts	2,473	1,481
Merchandise trust fund	(11,217)	(3,981)
Prepaid expenses	(331)	54
Other current assets	(1,505)	(2,767)
Other assets	198	236
Accounts payable and accrued and other liabilities	(7,549)	640
Deferred selling and obtaining costs	(5,263)	(5,977)
Deferred cemetery revenue	25,358	26,388
Deferred taxes (net)	(1,745)	(996)
Merchandise liability	(954)	1,054
Net cash provided by (used in) operating activities	(3,126)	2,495
Investing activities:		
Cash paid for cemetery property	(2,270)	(811)
Purchase of subsidiaries	(3,850)	(36,962)
Cash paid for property and equipment	(3,204)	(2,657)
Net cash used in investing activities	(9,324)	(40,430)
Financing activities:		
Cash distribution	(21,056)	(15,410)
Additional borrowings on long-term debt	12,300	53,889
Repayments of long-term debt	(73,924)	(684)
Proceeds from public offering	103,207	
Proceeds from general partner contribution	2,246	186
Fees paid related to early extinguishment of debt	(4,010)	
Cost of financing activities	(1,114)	(75)
Net cash provided by financing activities	17,649	37,906

Net increase (decrease) in cash and cash equivalents		5,199		(29)
Cash and cash equivalents - Beginning of period		7,535		13,479
Cash and cash equivalents - End of period	$	12,734	$	13,450
Supplemental disclosure of cash flow information				
Cash paid during the period for interest	$	9,552	$	10,380
Cash paid during the period for income taxes	$	1,710	$	1,530
Non-cash investing and financing activities				
Acquisition of assets by financing	$	143	$	
Issuance of limited partner units for cemetery acquisition	$	264	$	5,785
Acquisition of asset by assumption of directly related liability	$		$	2,532

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

Nature of Operations

StoneMor Partners L.P. (StoneMor , the Company or the Partnership) is a provider of funeral and cemetery products and services in the death care industry in the United States. Through its subsidiaries, StoneMor offers a complete range of funeral merchandise and services, along with cemetery property, merchandise and services, both at the time of need and on a pre-need basis. As of June 30, 2011, the Partnership operated 263 cemeteries, 242 of which are owned, in 25 states and Puerto Rico and owned and operated 62 funeral homes in 17 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). The unaudited condensed consolidated financial statements also include the effects of retrospective adjustments resulting from the Company s 2010 acquisitions (see Note 13). All interim financial data is unaudited. However, in the opinion of management, the interim financial data as of June 30, 2011 and for the three and six months ended June 30, 2011 and 2010 include 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, 2010 condensed consolidated balance sheet data was derived from audited financial statements in the Company s 2010 Annual Report on Form 10-K (2010 Form 10-K) and has been adjusted to include the effects of retrospective adjustments resulting from the Company s 2010 acquisitions, but does not include all disclosures required by accounting principles generally accepted in the United States of America, which are presented in the Company s 2010 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 operations of 15 of the 21 managed cemeteries that the Company operates under long-term operating or management contracts are also consolidated. There are 6 cemeteries that the Company began operating under long-term operating agreements that did not qualify as acquisitions for accounting purposes. The Company has consolidated the existing merchandise and perpetual care trusts related to these cemeteries as variable interest entities as the Company controls and benefits from the operations of the trusts. The results of operations of these 6 cemeteries are included in our statement of operations from the date the Company began operating the properties.

Total revenues derived from the cemeteries under long-term operating or management contracts totaled approximately $9.8 million and $17.9 million for the three and six months ended June 30, 2011 from 21 cemetery properties, as compared to $8.7 million and $15.6 million from 18 cemetery properties during the same periods last year.

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 sheets.

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2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

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

	As of June 30, 2011	As of December 31, 2010
	(in thousands)	
Customer receivables	$ 146,476	$ 135,530
Unearned finance income	(15,918)	(14,488)
Allowance for contract cancellations	(18,190)	(15,832)
	112,368	105,210
Less: current portion, net of allowance	48,238	45,149
Long-term portion, net of allowance	$ 64,130	$ 60,061

Activity in the allowance for contract cancellations is as follows:

	For the six months ended June 30, 2011	2010
	(in thousands)	
Balance - Beginning of period	$ 15,832	$ 13,865
Provision for cancellations	9,211	7,455
Charge-offs - net	(6,853)	(4,729)
Balance - End of period	$ 18,190	$ 16,591

3. CEMETERY PROPERTY

Cemetery property consists of the following:

	As of June 30, 2011	As of December 31, 2010
	(in thousands)	
Developed land	$ 62,478	$ 61,849
Undeveloped land	160,092	159,386
Mausoleum crypts and lawn crypts	65,031	62,225
Total	$ 287,601	$ 283,460

4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	As of	
	June 30, 2011	December 31, 2010
	(in thousands)	
Building and improvements	$ 65,671	$ 67,247
Furniture and equipment	36,946	31,947
	102,617	99,194
Less: accumulated depreciation	(35,828)	(32,945)
Property and equipment - net	$ 66,789	$ 66,249

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Depreciation expense was $1.5 million and $2.9 million for the three and six months ended June 30, 2011, respectively, as compared to $1.1 million and $2.2 million during the same periods last year.

5. MERCHANDISE TRUSTS

At June 30, 2011, the Company s merchandise trusts consisted of the following types of assets:

- Money Market Funds that invest in low risk short term securities;
- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;
- Equity investments that are currently paying dividends or distributions. These investments include Real Estate Investment Trusts (REIT s), Master Limited Partnerships and global equity securities;
- Fixed maturity debt securities issued by various corporate entities;
- Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies;
- Fixed maturity debt securities issued by U.S. states and local government agencies; and
- Assets acquired related to the June 22, 2011 acquisition of three cemeteries and four funeral homes from SCI Missouri (see Note 13). According to the terms of the agreement, SCI Missouri was required to liquidate the holdings of the related trusts upon closing and forward the proceeds to us as soon as practicable. As of June 30, 2011, we had not as of yet 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 Accounting Standards Codification (ASC). Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. At June 30, 2011, approximately 94.4% of these assets were Level 1 investments while approximately 5.6% were Level 2 assets. 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 such merchandise, the Company may be required to fund this shortfall.

The Company has included $6.7 million and $6.4 million of investments held in trust by the West Virginia Funeral Directors Association at June 30, 2011 and December 31, 2010, respectively, in its merchandise trust assets. As required by law, the Company deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recorded at their account value, which approximates fair value.

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The cost and market value associated with the assets held in merchandise trusts at June 30, 2011 and December 31, 2010 were as follows:

As of June 30, 2011	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 25,748	$	$	$ 25,748
Fixed maturities:				
U.S. Government and federal agency				
U.S. State and local government agency	23			23
Corporate debt securities	10,357	42	(181)	10,218
Other debt securities	2,461			2,461
Total fixed maturities	12,841	42	(181)	12,702
Mutual funds - debt securities	67,590	2,280	(504)	69,366
Mutual funds - equity securities	140,473	3,582	(3,434)	140,621
Equity securities	65,361	4,946	(1,307)	69,000
Other invested assets	6,287		(907)	5,380
Total managed investments	$ 318,300	$ 10,850	$ (6,333)	$ 322,817
Assets acquired via acquisition	2,622			2,622
West Virginia Trust Receivable	6,678			6,678
Total	$ 327,600	$ 10,850	$ (6,333)	$ 332,117

As of December 31, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 40,723	$	$	$ 40,723
Fixed maturities:				
U.S. Government and federal agency				
U.S. State and local government agency	23			23
Corporate debt securities	9,973	119	(152)	9,940
Other debt securities	1,503	35		1,538
Total fixed maturities	11,499	154	(152)	11,501
Mutual funds - debt securities	49,717	3,087	(286)	52,518
Mutual funds - equity securities	124,177	6,444	(3,956)	126,665
Equity securities	69,462	6,708	(909)	75,261
Other invested assets	4,991	217		5,208
Total managed investments	$ 300,569	$ 16,610	$ (5,303)	$ 311,876

West Virginia Trust Receivable	6,442			6,442
Total	$ 307,011	$ 16,610	$ (5,303)	$ 318,318

The contractual maturities of debt securities as of June 30, 2011 are as follows:

As of June 30, 2011	**Less than 1 year**	**1 year through 5 years**	**6 years through 10 years**	**More than 10 years**
		(in thousands)		
U.S. Government and federal agency	$	$	$	$
U.S. State and local government agency	23			
Corporate debt securities		9,209	1,009	
Other debt securities	2,461			
Total fixed maturities	$ 2,484	$ 9,209	$ 1,009	$

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An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at June 30, 2011 and December 31, 2010 is presented below:

As of June 30, 2011	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	7,595	153	319	28	7,914	181
Other debt securities						
Total fixed maturities	7,595	153	319	28	7,914	181
Mutual funds - debt securities	39,267	261	1,979	243	41,246	504
Mutual funds - equity securities			59,503	3,434	59,503	3,434
Equity securities	12,467	754	4,698	553	17,165	1,307
Other invested assets	1,909	907			1,909	907
Total	$ 61,238	$ 2,075	$ 66,499	$ 4,258	$ 127,737	$ 6,333

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

A reconciliation of the Company s merchandise trust activities for the six months ended June 30, 2011 is presented below:

Fair Value @ 12/31/2010	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 6/30/2011

(in thousands)

$318,318	28,361	(17,628)	5,146	7,163	15	(1,203)	(1,265)	(6,790)	$ 332,117

The Company made net deposits into the trusts of approximately $10.7 million during the six months ended June 30, 2011. During the six months ended June 30, 2011, purchases and sales of securities available for sale included in trust investments were approximately $195.4 million and $186.0 million, respectively. Contributions included $3.5 million of assets that were acquired through acquisitions during the six months ended June 30, 2011.

Other-than-temporary Impairments of Trust Assets

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 basis of this asset to its 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.

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During the three and six months ended June 30, 2010, the Company determined that there was a single security with an aggregate cost basis of approximately $0.3 million and an aggregate fair value of less than $0.1 million, resulting in an impairment of approximately $0.2 million, wherein such impairment is considered to be other-than-temporary. Accordingly, the Company has adjusted the cost basis of this asset to its 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, 2011, 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 REIT s, Master Limited Partnerships, and global equity securities;

Fixed maturity debt securities issued by various corporate entities;

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

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

Assets acquired related to the June 22, 2011 acquisition of three cemeteries and four funeral homes from SCI Missouri (see Note 13). According to the terms of the agreement, SCI Missouri was required to liquidate the holdings of the related trusts upon closing and forward the proceeds to us as soon as practicable. As of June 30, 2011, we had not as of yet 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. At June 30, 2011, approximately 90.7% of these assets were Level 1 investments while approximately 9.3% were Level 2 assets. There were no Level 3 assets.

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The cost and market value associated with the assets held in perpetual care trusts at June 30, 2011 and December 31, 2010 were as follows:

As of June 30, 2011	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 14,583	$	$	$ 14,583
Fixed maturities:				
U.S. Government and federal agency	515	98		613
U.S. State and local government agency	67	81		148
Corporate debt securities	22,883	311	(291)	22,903
Other debt securities	371			371
Total fixed maturities	23,836	490	(291)	24,035
Mutual funds - debt securities	60,163	2,556	(343)	62,376
Mutual funds - equity securities	104,174	4,487	(1,619)	107,042
Equity Securities	37,859	8,459	(45)	46,273
Other invested assets	111	34		145
Total managed investments	$ 240,726	$ 16,026	$ (2,298)	$ 254,454
Assets acquired via acquisition	1,195			1,195
Total	$ 241,921	$ 16,026	$ (2,298)	$ 255,649

As of December 31, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 20,583	$	$	$ 20,583
Fixed maturities:				
U.S. Government and federal agency	515	85		600
U.S. State and local government agency	67	81		148
Corporate debt securities	22,047	879	(234)	22,692
Other debt securities	509		(1)	508
Total fixed maturities	23,138	1,045	(235)	23,948
Mutual funds - debt securities	52,809	2,865	(525)	55,149
Mutual funds - equity securities	88,871	5,787	(2,878)	91,780
Equity Securities	48,054	9,379	(181)	57,252
Other invested assets	887	91		978
Total	$ 234,342	$ 19,167	$ (3,819)	$ 249,690

The contractual maturities of debt securities as of June 30, 2011 are as follows:

As of June 30, 2011	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$ 101	$ 392	$ 120	$
U.S. State and local government agency	148			
Corporate debt securities	153	20,189	2,561	
Other debt securities	371			
Total fixed maturities	$ 773	$ 20,581	$ 2,681	$

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An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at June 30, 2011 and December 31, 2010 held in perpetual care trusts is presented below:

As of June 30, 2011	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	14,905	288	219	3	15,124	291
Other debt securities						
Total fixed maturities	14,905	288	219	3	15,124	291
Mutual funds - debt securities	2,837	118	1,340	225	4,177	343
Mutual funds - equity securities			49,817	1,619	49,817	1,619
Equity securities	1,545	41	483	4	2,028	45
Other invested assets						
Total	$ 19,287	$ 447	$ 51,859	$ 1,851	$ 71,146	$ 2,298

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

A reconciliation of the Company s perpetual care trust activities for the six months ended June 30, 2011 is presented below:

Fair Value @ 12/31/2010	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 6/30/2011
				(in thousands)					
$249,690	5,262	(5,895)	7,526	2,222	26	(604)	(958)	(1,620)	$ 255,649

The Company made net withdrawals out of the trusts of approximately $0.6 million during the six months ended June 30, 2011. During the six months ended June 30, 2011, purchases and sales of securities available for sale included in trust investments were approximately $104.7 million and $101.8 million, respectively. Contributions included $1.5 million of assets that were acquired through acquisitions during the six months ended June 30, 2011.

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Other-than-temporary Impairments of Trust Assets

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.

During the three and six months ended June 30, 2010, the Company determined that there were no other than temporary impairments to the investment portfolio in the Perpetual Care Trusts due to credit losses.

7. DERIVATIVE INSTRUMENTS

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

The Interest Rate Swaps did not qualify for hedge accounting. Accordingly, the fair value of the Interest Rate Swaps were reported on the Company s balance sheet and periodic changes in the fair value of the Interest Rate Swaps were recorded in earnings. At June 30, 2010, the Company recorded an asset of approximately $0.6 million, which represents the fair value of the Interest Rate Swaps. The Company recorded a gain on the fair value of interest rate swaps of approximately $1.6 million and $3.2 million during the three and six months ended June 30, 2010, respectively. The Interest Rate Swaps were terminated in October of 2010.

8. LONG-TERM DEBT

The Company had the following outstanding debt:

	As of June 30, 2011	As of December 31, 2010
	(in thousands)	
Insurance premium financing	$ 227	$ 215
Vehicle financing	1,259	1,365
Acquisition Credit Facility, due January 2016		15,000
Revolving Credit Facility, due January 2016	8,000	18,500
Note payable - Greenlawn acquisition	1,400	1,400
Note payable - Nelms acquisition (net of discount)	787	866
Note payable - Acquisition non-competes	1,494	1,646
10.25% Senior Notes, due 2017	150,000	150,000
Class B Senior Secured Notes, due 2012 (interest rate-12.50%)		17,500
Class C Senior Secured Notes, due 2012 (interest rate-12.50%)		17,500
Total	163,167	223,992
Less current portion	1,511	1,386
Less unamortized bond discount	3,414	3,598
Long-term portion	$ 158,242	$ 219,008

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 2010 Form 10-K.

10.25% Senior Notes due 2017

Purchase Agreement

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

Indenture

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

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

The Indenture requires the Company, the Issuers and/or the Note Guarantors, as applicable, to comply with various covenants including, but not limited to, covenants that, subject to certain exceptions, limit the Company s and its subsidiaries ability to (i) incur additional indebtedness; (ii) make certain dividends, distributions, redemptions or investments; (iii) enter into certain transactions with affiliates; (iv) create, incur, assume or permit to exist certain liens against their assets; (v) make certain sales of their assets; and (vi) engage in certain mergers, consolidations or sales of all or substantially all of their assets. The Indenture also contains various affirmative covenants regarding, among other things, delivery of certain reports filed with the SEC and materials required pursuant to Rule 144A under the Securities Act to holders of the Senior Notes and joinder of future subsidiaries as Note Guarantors under the Indenture. The Company was in compliance with all financial covenants at June 30, 2011.

Note Purchase Agreement

On August 15, 2007, the Company entered into, along with the General Partner and certain of the Company s subsidiaries, (collectively, the Note Issuers) the Amended and Restated Note Purchase Agreement (the NPA) with Prudential Investment Management Inc., The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company, certain affiliates of Prudential Investment Management Inc., iStar Financial Inc., SFT I, Inc., and certain affiliates of iStar Financial Inc. (collectively, the Note Purchasers). The NPA was amended seven times prior to January 28, 2011 to amend borrowing levels, interest rates and covenants. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the NPA, as amended.

On January 28, 2011, and in connection with the Company s February 2011 follow on public offering of common units, the Company entered into the Eighth Amendment to the Amended and Restated Credit Agreement. This amendment included the Lenders consent to the use of a portion of the proceeds from the public offering of common units to redeem in full the outstanding $17.5 million of 12.5% Series B and $17.5 million of 12.5% Series C Senior Secured Notes due August 2012 and to pay an aggregate make-whole premium of $4.0 million related thereto, which represented the Company s final obligations outstanding under the NPA. The make-whole premium has been classified as early extinguishment of debt on the unaudited condensed consolidated statement of operations.

Acquisition Credit Facility and Revolving Credit Facility

On April 29, 2011, the Company entered into the Second Amended and Restated Credit Agreement (the Credit Agreement) among the Operating Company as the Borrower, each of the subsidiaries of the Operating Company as additional Borrowers, the General Partner and the Company as Guarantors, the Lenders identified therein, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer. The terms of the Credit Agreement are substantially the same as the terms of the prior agreement which was entered into on August 15, 2007 and amended eight times prior to entering into the Credit Agreement. The primary purpose of entering into the Credit Agreement was to consolidate the amendments to the prior agreement and to update outdated references. The current terms of the Credit Agreement are set forth below. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the Credit Agreement.

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

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

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

The maturity date of the Credit Facility is January 29, 2016. The Company s maximum Consolidated Leverage Ratio, which is the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA, is 3.65 to 1.0 for all Measurement Periods ending after December 31, 2010. In addition, the Company will not be permitted to have Maintenance Capital Expenditures, as defined in the Credit Agreement, for any Measurement Period ending in 2011, 2012 and 2013 exceeding $4.6 million, $5.2 million and $5.8 million, respectively, or $6.5 million for any Measurement Period ending in 2014 or thereafter. The Company will also not permit:

- Consolidated EBITDA for any Measurement Period to be less than the sum of (i) $52 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after February 9, 2011; or

- Consolidated Fixed Charge Coverage Ratio to be less than 1.15x for any Measurement Period ending in 2011, or 1.20x for any Measurement Period thereafter.

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

The Credit Agreement requires the Borrowers to pay an unused commitment fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Commitment Fee Rate ranges from 0.5% to 0.75% depending on the Company s 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 the Company to maintain certain financial covenants, including specified financial ratios. A material decrease in revenues could cause the Company to breach certain of its financial covenants, such as the Consolidated Leverage Ratio, Consolidated Fixed Charge Coverage Ratio and the Consolidated EBITDA covenant, under the Credit Agreement. Any such breach could allow the Lenders to accelerate (or create cross-default under) the Company s debt which would have a material adverse effect on the Company s business, financial condition or results of operations. As of June 30, 2011, after giving effect to the First Amendment, the Company was in compliance with all applicable financial covenants.

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

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

Events of Default under the Credit Agreement include, but are not limited to, the following:

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

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

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

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

any insolvency proceedings by a Borrower or Guarantor;

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

any Change in Control.

9. **INCOME TAXES**

As of June 30, 2011, the Company s taxable corporate subsidiaries had a federal net operating loss carryover of approximately $124.9 million, which will begin to expire in 2019 and $170.4 million in state net operating losses which begin to expire this year.

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 carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The provision for income taxes for the three and six months ended June 30, 2011 and 2010 is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2011 and 2010, 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 state jurisdictions. The federal statute of limitations and certain state statutes of limitations are open from 2007 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 unaudited condensed consolidated financial statements over the next twelve months.

The Company recognizes any interest accrued related to unrecognized tax benefits in interest expense and any penalties in operating expenses. The Company has not recorded any material interest or penalties during the three and six months ended June 30, 2011 or 2010. During the three months ended June 30, 2011, the Company recorded an income tax benefit of approximately $0.9 million related to the reversal of uncertain tax positions for which the statute of limitations had expired.

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10. **DEFERRED CEMETERY REVENUES, NET**

At June 30, 2011 and December 31, 2010, deferred cemetery revenues, net, consisted of the following:

	As of	
	June 30, 2011	December 31, 2010
	(in thousands)	
Deferred cemetery revenue	$ 288,724	$ 266,754
Deferred merchandise trust revenue	42,287	28,999
Deferred merchandise trust unrealized gains	4,517	11,307
Deferred pre-acquisition margin	117,940	117,309
Deferred cost of goods sold	(40,440)	(37,904)
Deferred cemetery revenues, net	$ 413,028	$ 386,465
Deferred selling and obtaining costs	$ 64,685	$ 59,422

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.

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, 2011, 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 five years and options to renew at varying terms. Expenses under operating leases were $0.5 million and $1.1 million for the three and six months ended June 30, 2011, respectively, and $0.5 million and $1.0 million for the three and six months ended 2010, respectively.

At June 30, 2011, operating leases will result in future payments in the following approximate amounts:

	(in thousands)
2012	$ 1,612
2013	1,463
2014	915
2015	655
2016	647
Thereafter	1,868
Total	$ 7,160

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.

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Compensation expense recognized related to unit appreciation rights and restricted phantom unit awards for the three and six months ended June 30, 2011 and 2010 are summarized in the table below:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Unit appreciation rights	$ 119	$ 121	$ 239	$ 242
Restricted phantom units	72	56	142	111
Total unit-based compensation expense	$ 191	$ 177	$ 381	$ 353

As of June 30, 2011, there was approximately $1.2 million in non-vested unit appreciation rights outstanding. These unit appreciation rights will be expensed through the first quarter of 2013.

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

On June 22, 2011, the Company issued 9,852 units in connection with an acquisition consummated in the second quarter of 2010. See Note 13.

13. ACQUISITIONS

First Quarter 2011 Acquisition

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.

The table below reflects the Company s preliminary assessment of the fair value of net assets acquired, the purchase price and the resulting goodwill that was made in the first quarter of the year. These amounts will be retrospectively adjusted as additional information is received.

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	Preliminary Assessment (in thousands)
Assets:	
Accounts receivable	$ 97
Cemetery property	1,710
Merchandise trusts, restricted, at fair value	880
Perpetual care trusts, restricted, at fair value	344
Property and equipment	332
Other assets	100
Total assets	3,463
Liabilities:	
Deferred margin	795
Merchandise liabilities	734
Perpetual care trust corpus	344
Total liabilities	1,873
Fair value of net assets acquired	1,590
Consideration paid	1,700
Goodwill from purchase	$ 110

Second Quarter 2011 Acquisition

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 preliminary assessment of the fair value of net assets acquired, the purchase price and the resulting goodwill recorded during the second quarter of the year. These amounts will be retrospectively adjusted as additional information is received.

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		Preliminary Assessment (in thousands)
Assets:		
Accounts receivable	$	104
Cemetery property		880
Merchandise trusts, restricted, at fair value		2,622
Perpetual care trusts, restricted, at fair value		1,195
Property and equipment		1,783
Total assets		6,584
Liabilities:		
Deferred margin		1,420
Merchandise liabilities		1,701
Perpetual care trust corpus		1,195
Deferred income tax liability, net		400
Total liabilities		4,716
Fair value of net assets acquired		1,868
Consideration paid		2,150
Goodwill from purchase	$	282

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

First Quarter 2010 Acquisition

On March 30, 2010, the Operating Company, StoneMor Michigan LLC, a Michigan limited liability company (Buyer LLC) and StoneMor Michigan Subsidiary LLC, a Michigan limited liability company (Buyer NQ Sub and individually and collectively with StoneMor LLC and Buyer LLC, Buyer), each a wholly-owned subsidiary of StoneMor Partners L.P. (the Company), entered into an Asset Purchase and Sale Agreement (the Purchase Agreement) with SCI Funeral Services, LLC, an Iowa limited liability company (Parent), SCI Michigan Funeral Services, Inc., a Michigan corporation (SCI Michigan , and together with Parent, SCI), Hillcrest Memorial Company, a Delaware corporation (Hillcrest), Christian Memorial Cultural Center, Inc., a Michigan corporation (Christian), Sunrise Memorial Gardens Cemetery, Inc., a Michigan corporation (Sunrise), and Flint Memorial Park Association, a Michigan corporation (Flint and individually and collectively with Sunrise, Hillcrest and Christian, Seller).

In connection with the Purchase Agreement, on March 30, 2010, StoneMor LLC and Plymouth Warehouse Facilities LLC, a Delaware limited liability company and a wholly-owned subsidiary of the Company (Plymouth and individually and collectively with StoneMor LLC, Warehouse Buyer), entered into an Asset Purchase and Sale Agreement (the Warehouse Purchase Agreement) with SCI, Hillcrest, Sunrise, Flint, Buyer NQ Sub and Buyer LLC.

Pursuant to the Purchase Agreement, Buyer acquired nine cemeteries in Michigan, including certain related assets (the Acquired Assets), and assumed certain related liabilities (the Assumed Liabilities). In consideration for the transfer of the Acquired Assets and in addition to the assumption of the Assumed Liabilities, Buyer paid Seller approximately $14.1 million (the Closing Purchase Price) in cash.

Pursuant to the Warehouse Purchase Agreement, Warehouse Buyer acquired one warehouse in Michigan from SCI, including certain related assets, and assumed certain related liabilities for $0.5 million in cash, which was deemed part of the $14.1 million consideration paid in connection with the Purchase Agreement.

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The Purchase Agreement and Warehouse Purchase Agreement also include various representations, warranties, covenants, indemnification and other provisions which are customary for transactions of this nature.

In the fourth quarter of 2010, the Company obtained additional information regarding the fair value of the net assets acquired in the Purchase Agreement. This change to the provisional purchase price allocation resulted in a recast of amounts originally reported on Form 10-Q for the first quarter of 2010. The table below reflects the Company s final assessment of these fair values and all amounts have been retrospectively adjusted.

	Final Assessment (in thousands)
Assets:	
Cemetery property	$ 33,761
Accounts receivable	2,651
Merchandise trusts, restricted, at fair value	48,027
Perpetual care trusts, restricted, at fair value	15,084
Property and equipment	5,768
Total assets	105,291
Liabilities:	
Deferred margin	31,094
Merchandise liabilities	30,126
Deferred income tax liability, net	7,879
Perpetual care trust corpus	15,084
Total liabilities	84,183
Fair value of net assets acquired	21,108
Consideration paid	14,015
Gain on bargain purchase	$ 7,093

Second Quarter 2010 Acquisition

On April 29, 2010, the Johnson County Circuit Court of Indiana entered the Order Approving Form of Amended and Restated Purchase Agreement and Authorizing Sale of Equity Interests and Assets (the Indiana Order). The Indiana Order, subject to certain conditions, permitted Lynette Gray, as receiver (the Receiver) of the business and assets of Ansure Mortuaries of Indiana, LLC (Ansure), Memory Gardens Management Corporation (MGMC), Forest Lawn Funeral Home Properties, LLC (Forest Lawn), Gardens of Memory Cemetery LLC (Gardens of Memory), Gill Funeral Home, LLC (Gill), Garden View Funeral Home, LLC (Garden View), Royal Oak Memorial Gardens of Ohio Ltd. (Royal Oak), Heritage Hills Memory Gardens of Ohio Ltd. (Heritage) and Robert E. Nelms (Nelms and collectively with Ansure, MGMC, Forest Lawn, Gardens of Memory, Gill, Garden View, Royal Oak and Heritage, the Original Sellers), to enter into and consummate an Amended and Restated Purchase Agreement (the 2nd Quarter Purchase Agreement) with StoneMor Operating LLC, a Delaware limited liability company (StoneMor LLC), StoneMor Indiana LLC, an Indiana limited liability company (StoneMor Indiana), StoneMor Indiana Subsidiary LLC, an Indiana limited liability company (StoneMor Subsidiary) and Ohio Cemetery Holdings, Inc., an Ohio nonprofit corporation (Ohio Nonprofit, and collectively with

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StoneMor LLC, StoneMor Indiana and StoneMor Subsidiary, the Buyer), each a wholly-owned subsidiary of the Company. Subject to the receipt of the Indiana Order, the Purchase Agreement was executed by the Buyer and the Receiver on April 2, 2010.

Effective June 21, 2010, certain subsidiaries of the Company entered into Amendment No. 1 to the 2nd Quarter Purchase Agreement (Amendment No. 1) by and among the Buyer, the Original Sellers, Robert Nelms, LLC (Nelms LLC, and collectively with the Original Sellers, the Sellers) and the Receiver, which amended the Purchase Agreement executed by the Buyer and the Receiver. Amendment No. 1 amended the 2nd Quarter Purchase Agreement by: adding certain parties to the Purchase Agreement; modifying certain representations and warranties made by the Original Sellers in the 2nd Quarter Purchase Agreement; and providing that the Buyer will assume certain additional liabilities such as the obligation to pay for all claims incurred under the health benefit plans of the Original Sellers on or before the closing of the transactions contemplated by the Purchase Agreement and Amendment No. 1, but which had not been reported on or prior to the closing.

Effective June 21, 2010, pursuant to the 2nd Quarter Purchase Agreement and Amendment No. 1, the Buyer acquired the stock (the Stock) of certain companies owned by Ansure (the Acquired Companies) and certain assets (the Assets) owned by Nelms, Nelms LLC, Gill, Gardens of Memory, Garden View, Forest Lawn, Heritage, Royal Oak and MGMC, resulting in the acquisition of 8 cemeteries and 5 funeral homes in Indiana, Michigan and Ohio (the Acquisition). The Buyer acquired the Stock and Assets, advanced moneys to pay for trust shortfalls of the cemeteries, paid certain liabilities of the Sellers, which were offset by funds held in a Smith Barney Account acquired by the Buyer in the transaction, and paid certain legal fees of the parties to the transaction and other acquisition costs, for a total consideration, including the offset by the funds held in the Smith Barney Account, of approximately $32.5 million. The Acquisition was financed, in part, by borrowing $22.5 million from the Company s acquisition facility under the Amended and Restated Credit Agreement dated August 15, 2007 among StoneMor LLC, certain of its subsidiaries, the Company, StoneMor GP LLC, Bank of America, N.A., the other lenders party thereto, and Banc of America Securities LLC, as amended.

Settlement Agreement

In connection with the Acquisition, effective June 21, 2010, StoneMor LLC and StoneMor Indiana (collectively, StoneMor) and the Company entered into a Settlement Agreement (the Settlement Agreement) with Chapel Hill Associates, Inc., d/b/a Chapel Hill Memorial Gardens of Grand Rapids, Chapel Hill Funeral Home, Inc., Covington Memorial Funeral Home, Inc., Covington Memorial Gardens, Inc., Forest Lawn Memorial Chapel Inc., Forest Lawn Memory Gardens Inc., Fred W. Meyer, Jr. by James R. Meyer as Special Administrator to the Estate of Fred W. Meyer, Jr. (the F. Meyer Estate), James R. Meyer (J. Meyer), Thomas E. Meyer (T. Meyer), Nancy J. Cade (Cade, and collectively with the F. Meyer Estate, J. Meyer, and T. Meyer, the Meyer Family) and F.T.J. Meyer Associates, LLC (FTJ).

Pursuant to the Settlement Agreement, StoneMor agreed to assume, pay and discharge a portion of Ansure s and Forest Lawn s obligations under: (i) certain notes issued by Ansure in favor of Fred W. Meyer, Jr., J. Meyer, T. Meyer, and Cade (collectively, the Original Meyer Family); and (ii) a note issued by Forest Lawn to FTJ, which was later assigned to the Original Meyer Family.

StoneMor agreed to assume approximately $7.1 million of Ansure s and Forest Lawn s obligations under the notes they issued, with the remaining principal, interest and fees due under such notes forgiven by the Meyer Family. In connection with the assumption of these obligations, at Closing, StoneMor issued promissory notes to each member of the Meyer Family (the Closing Notes) and additional promissory notes payable in installments to certain members of the Meyer Family (the Installment Notes). The Closing Notes were issued effective June 21, 2010 in the aggregate principal amount of approximately $5.8 million, were unsecured subordinated obligations of StoneMor, bore no interest and were payable on demand at the Closing. The Closing Notes were paid at closing by: (i) the issuance by the Company of 293,947 unregistered common units representing limited partnership interests of the Company (the Units) valued at approximately $5.6 million pursuant to the terms of the Settlement Agreement; and (ii) a cash payment of approximately $0.2 million.

The Installment Notes were issued effective June 21, 2010 and mature April 1, 2014. The Installment Notes are to be paid over a 4 year period and do not have a stated rate of interest. The Company has recorded the Installment Notes at their fair market value of approximately $2.6 million. The face amounts of the Installment Notes were discounted approximately $0.7 million, and the discount will be amortized to interest expense over the life of the Installment Notes. The Installment Notes bear 10.25% interest per annum on the portion of the outstanding balance after the maturity date or while there exists any uncured event of default or the exercise by the Company of any remedies following the occurrence and during the continuance of any event of default. In addition, if StoneMor voluntarily files for bankruptcy or is involved in an involuntary bankruptcy proceeding, the entire principal balance of the Installment Notes will automatically become due and payable.

J. Meyer, T. Meyer and Cade each entered into an Amended and Restated Agreement-Not-To-Compete with StoneMor, which amended the non-compete agreements each previously entered into with Ansure. In consideration for entering into an Amended and Restated Agreement-Not-To-Compete, StoneMor agreed to pay an aggregate of approximately $2.3 million to J. Meyer, T. Meyer, and Cade, with approximately $0.3 million paid at Closing, and the remainder to be paid in installments over 4 years.

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The Settlement Agreement also provides that, if the annual distributions paid by the Company to its unitholders are less than $2.20, StoneMor will pay additional cash consideration to the Meyer Family annually for four years pursuant to a formula contained in the Settlement Agreement. StoneMor may also pay up to approximately $2.4 million to the Meyer Family from the proceeds of the Misappropriation Claims, subject to certain minimum thresholds before payments are required.

In addition, StoneMor provided an assignment from the Receiver to the Meyer Family of the Eminent Domain Claim, as defined in the Settlement Agreement, and the proceeds thereto, at closing. The Meyer Family agreed to assign its rights under the Fraud Claims, as defined in the Settlement Agreement, to StoneMor.

All obligations of StoneMor, the Company, and the Acquired Companies under the Settlement Agreement and other transaction documents are subordinate and junior to the obligations of StoneMor, the Company, and the Acquired Companies under any Senior Debt, as defined in the Settlement Agreement.

The Settlement Agreement also includes various representations, warranties, covenants, mutual releases, indemnification and other provisions, which are customary for a transaction of this nature.

Unregistered Sale of Securities

In connection with the Acquisition, StoneMor GP LLC, the general partner of the Company (StoneMor GP), entered into a Non-Competition Agreement (Non-Competition Agreement) dated as of June 21, 2010 with Ronald P. Robertson, pursuant to which Mr. Robertson agreed not to compete with StoneMor GP and the companies under its management and control. In consideration for Mr. Robertson s covenant not to compete and as a partial payment of the Closing Notes to the Meyer Family pursuant to the Settlement Agreement, effective June 21, 2010, the Company issued 303,800 Units.

Pursuant to the Non-Competition Agreement, the Company is obligated to issue additional Units which were initially valued at a fair value of $0.5 million based on a unit price of $20.30 just prior to the date of acquisition. As a result, the Company issued 9,852 units in June of 2011, resulting in a charge to partners capital of approximately $0.3 million. The Company is also obligated to issue an additional 9,852 units and 4,926 units in June of 2012 and June of 2013, respectively.

The table below reflects the Company s final assessment of the fair value of net assets received, the purchase price and the resulting goodwill from the purchase and displays the adjustment made from the adjusted values reported at December 31, 2010. The Company obtained additional information in the second quarter of 2011 and has retrospectively adjusted these preliminary values as noted below.

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	Preliminary Assessment	Adjustments (in thousands)	Final Assessment
Assets:			
Cemetery land	$ 21,686	$	$ 21,686
Cemetery and funeral home property	9,039		9,039
Accounts receivable	2,138		2,138
Merchandise trusts, restricted, at fair value	17,142	1,806	18,948
Perpetual care trusts, restricted, at fair value	3,349	733	4,082
Other assets	4,369	422	4,791
Total assets	57,723	2,961	60,684
Liabilities:			
Deferred margin	15,939		15,939
Merchandise liabilities	15,543		15,543
Deferred income tax liability, net	9,426	302	9,728
Perpetual care trust corpus	3,349	733	4,082
Total liabilities	44,257	1,035	45,292
Fair value of net assets acquired	13,466	1,926	15,392
Paid at closing - purchase price	10,417		10,417
Paid at closing - units	5,785	110	5,895
Paid at closing - liabilities incurred	$ 3,648	$	$ 3,648
Goodwill from purchase	$ 18,914	$ (1,816)	$ 17,098
Total purchase price	19,850	110	19,960
Paid at closing - trust underfunding	12,530		12,530
Total paid at closing	32,380	110	32,490

If the acquisitions from the first and second quarters of 2010 had been consummated on January 1, 2010, on a pro forma basis, for the three and six months ended June 30, 2010, consolidated revenues would have been $51.7 million and $96.9 million, respectively, consolidated net income (loss) would have been $(2.1) million and $3.2 million, respectively and net income per unit (basic and diluted) would not have changed.

The accounting for other acquisitions made in the third and fourth quarters of 2010 has still not been finalized and is subject to further adjustment during 2011. During the second quarter of 2011, the Company obtained additional information related to acquisitions made in the third and fourth quarters of 2010. These adjustments resulted in changes to amounts reported on the balance sheet at December 31, 2010 as follows; an increase to goodwill of $0.1 million, a decrease to long-term accounts receivable of $0.2 million and a decrease to deferred revenues of $0.1 million.

14. SEGMENT 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.

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.

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

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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, 2011 and 2010 is as follows:

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

	Cemeteries			Funeral			
	Southeast	Northeast	West	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
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	$ 435,317	$ 287,396	$ 382,303	$ 51,945	$ 32,089	$	$ 1,189,050
Amortization of cemetery property	$ 1,000	$ 591	$ 215	$	$	$ (231)	$ 1,575
Long lived asset additions	$ 932	$ 488	$ 2,014	$ 1,995	$ 192	$	$ 5,621
Goodwill	$ 565	$	$ 11,586	$ 6,394	$	$	$ 18,545

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

	Cemeteries			Funeral	
	Southeast	Northeast	West	Homes	Corporate