

STONEMOR PARTNERS LP  
Form 424B5  
March 20, 2013  
Table of Contents

Filed Pursuant to Rule 424(b)5  
Registration Number 333-170870

**The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to Completion**

**Preliminary Prospectus Supplement dated March 20, 2013**

**PROSPECTUS SUPPLEMENT**

(To prospectus dated December 15, 2010)

**1,200,000 Common Units**

**StoneMor Partners L.P.**

**Representing Limited Partner Interests**

We are selling 1,200,000 common units representing limited partner interests in us pursuant to this prospectus supplement and the accompanying prospectus.

Common units are traded on the New York Stock Exchange under the symbol STON. On March 19, 2013, the last reported sale price of common units on the New York Stock Exchange was \$25.91 per common unit.

**You should consider the risks which we have described in Risk Factors beginning on page S-12 of this prospectus supplement and on page 4 of the accompanying prospectus and in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus before buying common units.**

	<b>Per</b>	
	<b>Common Unit</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

*The underwriters may purchase up to an additional 180,000 common units from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover overallocments, if any.*

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.**

*The underwriters expect to deliver the common units to purchasers on or about \_\_\_\_\_, 2013.*

**RAYMOND JAMES**

**JANNEY MONTGOMERY SCOTT**

The date of this prospectus supplement is \_\_\_\_\_, 2013.

**Table of Contents**

**TABLE OF CONTENTS**

**Prospectus Supplement**

	<b>Page</b>
<u>About This Prospectus Supplement</u>	S-ii
<u>Information Regarding Forward-Looking Statements</u>	S-iii
<u>Summary</u>	S-1
<u>Risk Factors</u>	S-12
<u>Use of Proceeds</u>	S-29
<u>Capitalization</u>	S-30
<u>Price Range of Our Common Units and Distributions</u>	S-31
<u>Selected Historical Consolidated Financial and Operating Data</u>	S-32
<u>Business</u>	S-36
<u>U.S. Federal Income Tax Considerations</u>	S-45
<u>Underwriting</u>	S-48
<u>Legal Matters</u>	S-52
<u>Experts</u>	S-52
<u>Where You Can Find More Information</u>	S-52

**Prospectus**

	<b>Page</b>
<u>Guide To Reading This Prospectus</u>	1
<u>Information Regarding Forward-Looking Statements</u>	2
<u>StoneMor Partners L.P.</u>	3
<u>Risk Factors</u>	4
<u>Use of Proceeds</u>	17
<u>Description of the Common Units</u>	18
<u>Cash Distribution Policy</u>	24
<u>Material U.S. Federal Income Tax Consequences</u>	28
<u>Selling Unitholder</u>	43
<u>Plan of Distribution</u>	45
<u>Legal Matters</u>	47
<u>Experts</u>	47
<u>Where You Can Find More Information</u>	47

**Table of Contents**

**ABOUT THIS PROSPECTUS SUPPLEMENT**

We are providing information to you about this offering of common units in two parts. The first part is this prospectus supplement, which provides the specific details regarding this offering. The second part is the accompanying prospectus, which provides general information. Generally, when we refer to this prospectus, we are referring to both documents combined, as well as to the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. Some of the information in the accompanying prospectus may not apply to this offering. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

Any statement made in this prospectus or in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document that is also incorporated by reference into this prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus. The sections captioned **Where You Can Find More Information** and **Information Regarding Forward-Looking Statements** in the accompanying prospectus are superseded in their entirety by the similarly titled sections included in this prospectus supplement.

You should rely only on the information contained in or incorporated by reference in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information that is different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell common units and seeking offers to buy common units only in jurisdictions where offers and sales are permitted. You should assume that the information appearing in this prospectus, as well as information we previously filed with the Securities and Exchange Commission, or the SEC, and incorporated herein by reference, is accurate only as of their respective dates or other dates which are specified in those documents, regardless of the time of delivery of this prospectus or of any sale of the common units. Our business, financial condition, results of operations and prospects may have changed since those dates.

**Table of Contents**

**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained or incorporated by reference in this prospectus, 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 our other filings with the SEC and elsewhere, are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, intend, project, expect, predict and similar expressions identify the forward-looking statements. These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated or implied, 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 achieving 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 cybersecurity 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

S-iii

**Table of Contents**

various other uncertainties associated with the death care industry and our operations in particular.

Forward-looking statements contained or incorporated by reference in this prospectus present our views only as of the date of the applicable document containing such forward-looking statements. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in **Risk Factors** in this prospectus supplement and the accompanying prospectus and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 15, 2013, or the 2012 Form 10-K, which is incorporated herein by reference. Except as required by federal and state securities laws, 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. See **Where You Can Find More Information**.

S-iv

**Table of Contents**

**SUMMARY**

*This summary highlights information about our business and about this offering contained elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. It does not contain all of the information that you should consider before making an investment decision. You should read this entire prospectus supplement and the accompanying prospectus, as well as the documents incorporated by reference herein and therein in their entirety, including the risk factors and our financial statements and related notes, before making an investment decision. You should carefully consider the information set forth under Risk Factors beginning on page S-12 of this prospectus supplement and page 4 of the accompanying prospectus about important risks that you should consider before buying common units in this offering. Unless we indicate otherwise, the information we present in this prospectus supplement assumes that the underwriters do not exercise their option to purchase additional common units.*

In this prospectus supplement, unless the context otherwise requires, references to we, us or our are to StoneMor Partners L.P., its subsidiaries and its general partner collectively.

**StoneMor Partners L.P.**

We are currently the second largest owner and operator of cemeteries in the United States. As of December 31, 2012, we operated 276 cemeteries in 27 states and Puerto Rico. We own 258 of these cemeteries, and we manage or operate the remaining 18 under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. As of December 31, 2012, we also owned and operated 86 funeral homes in 18 states and Puerto Rico. Forty-one of these funeral homes are located on the grounds of the cemeteries that we own.

We were formed as a Delaware limited partnership in April 2004. Unlike certain of our competitors that are not treated as partnerships for federal income tax purposes, our primary business objective is to increase distributable cash flow over time for our unitholders. We aim to set unitholder distributions at a level that can be sustained over time, while maintaining resources sufficient for the ongoing stability and growth of our business.

We are the only one of the four publicly traded U.S. death care companies that derives a majority of its revenue from cemetery operations rather than funeral home services. In the year ended December 31, 2012, our total revenues were approximately \$242.6 million.

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

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





## **Table of Contents**

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. We market our products and services through an experienced staff of commissioned sales representatives. We had 824 of these representatives on staff as of December 31, 2012. Our sales of real property, including burial lots (with and without installed vaults), lawn and mausoleum crypts and cremation niches, generate qualifying income sufficient for us to be treated as a partnership for federal income tax purposes.

In 2012, we performed 45,128 burials and sold 29,829 interment rights (net of cancellations). Based on our sales of interment spaces in 2012, our cemeteries have an aggregated weighted average estimated remaining sales life of 246 years as of December 31, 2012. We do not believe that there has been any material change to the weighted average estimated remaining sales life of our cemeteries since December 31, 2012.

As of December 31, 2012, our cemetery properties were located in Alabama, California, Colorado, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Mississippi, Missouri, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Virginia, Washington and West Virginia. In 2012, our cemetery operations accounted for approximately 85.3% of our total revenues.

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

As of December 31, 2012, our funeral homes were located in Alabama, Arkansas, California, Florida, Illinois, Indiana, Kansas, Maryland, Mississippi, Missouri, Ohio, Oregon, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Virginia, Washington and West Virginia. In 2012, our funeral home revenues accounted for approximately 14.7% of our total revenues. Our funeral home operations are conducted through various wholly-owned subsidiaries that are treated as corporations for U.S. federal income tax purposes.

### **Competitive Strengths**

We believe that the following competitive strengths contribute to our position as a leading cemetery operator:

***Long-lived and Geographically Diverse Cemeteries.*** We have a large portfolio of cemetery properties, which will enable us to offer cemetery products and services in the markets we serve for many years. Because we operate cemeteries in 27 states and Puerto Rico, we have not historically been materially affected by localized economic downturns or changes in laws regulating cemetery operations in any one state. Our portfolio consists of 276 cemetery properties with a total of approximately 12,309 acres as of December 31, 2012. Our cemeteries have an aggregated weighted average estimated remaining sales life of 246 years based upon interment spaces sold in 2012. In addition, we increase capacity in our cemeteries by building mausoleum crypts and lawn crypts as the number of unsold lots decreases.

***Highly Trained and Professional Sales Force.*** Our highly trained and professional sales force is the key to our success in executing our pre-need sales strategy. We had 824 commissioned sales representatives and 134 full-time sales support and telemarketing employees as of December 31, 2012.

## **Table of Contents**

***Ability to Successfully Execute and Integrate Acquisitions.*** Our acquisitions have been based on targeted guidelines that include projected cash flow and profitability, location, heritage and reputation, physical size, market value and volume of pre-need business. We believe our targeted approach, combined with our management team's industry contacts and experience will allow us to continue to maintain a competitive advantage in executing and integrating acquisitions. Since going public in September 2004, we have successfully acquired and integrated 144 cemeteries and 85 funeral homes into our operations as of March 18, 2013. With the completion of this offering, we expect to have the ability to fund additional acquisition opportunities should they arise. As of March 18, 2013, after giving effect to this offering of common units and the application of the net proceeds therefrom as set forth in Use of Proceeds, based on an assumed public offering price of \$25.91 per common unit, the last reported sales price of the common units on the New York Stock Exchange on March 19, 2013, we would have had \$95.0 million of borrowings outstanding under our credit facility and approximately \$45.0 million of available borrowing capacity. We expect to continue to see businesses become available for purchase that meet our acquisition criteria.

***Diversified Product Mix.*** Our mix of pre-need cemetery merchandise and services and at-need cemetery and funeral home merchandise and services represents a diversified product mix that allows us to provide customers with a comprehensive product offering. These products and services provide us with a presence in the major segments of the death care industry.

***Operating Efficiencies Attributable to Our Size.*** Due to our size, we are able to generate economies of scale and operating efficiencies. These include shared best practices in the area of pre-need marketing, lower purchasing costs for cemetery and funeral home merchandise through volume purchasing, lower operating expenses through centralized administrative functions, shared maintenance equipment and personnel and more effective strategic and financial planning. As a result, we are able to compete favorably in the areas we serve and to potentially improve the profitability of cemetery operations we acquire.

***Oversight and Management of Trust Assets to Preserve Capital and Generate Income.*** While our business model calls for us to release funds from our merchandise trusts on an accelerated basis upon pre-need delivery and performance, at any point in time we will have a significant amount of invested assets. We have employed an investment strategy that focuses on a balanced approach to preserving capital while generating returns in excess of current inflation rates. We invest the funds held in merchandise trusts and perpetual care trusts in investments in intermediate term, investment grade, fixed income securities, high-yield fixed income securities, real estate investment trusts, master limited partnerships and, to a lesser extent, other types of equity securities and cash. The funds that are held in trusts are managed by third-party professional investment managers within specified investment guidelines adopted by the Trust and Compliance Committee of the board of directors of our general partner and standards imposed by state law. Our merchandise trusts had an aggregate market value of approximately \$376.0 million as of December 31, 2012. Our perpetual care trusts had an aggregate market value of approximately \$282.3 million as of December 31, 2012.

***Experienced Management Team.*** We believe that we have one of the most experienced management teams in the death care industry, led by Lawrence Miller, our President and Chief Executive Officer, and Timothy Yost, our Chief Financial Officer, who have extensive senior-level experience in managing large death care companies. Our 9 senior officers have an average industry experience of over 28 years.

## **Table of Contents**

### **Business Strategies**

Our primary business objective is to increase distributable cash flow over time for our unitholders. We attempt to achieve this objective by employing the following core strategies:

***Develop and Maintain a Diversified Revenue Stream.*** Our business model is constructed so that sales revenues are generated from pre-need sales of cemetery merchandise and services as well as at-need sales of cemetery merchandise and services and at-need or pre-need sales of funeral home merchandise and services. This diverse revenue stream should prove to be more stable over economic cycles than a more concentrated revenue stream.

Sales of pre-need merchandise and services allow us to focus on sales to new customers and sales of additional merchandise to existing customers in order to establish a loyal customer base. These sales tend to generate additional pre-need sales and at-need sales to close family members of our pre-need customers. We have developed a sales force and marketing platform dedicated to this revenue stream. This marketing platform is built around direct response marketing programs and relationship marketing. This has improved the quality of our company-generated sales leads which in turn has led to improved sales from these sources. We have also established an inside sales department to create an additional avenue for customers to purchase our products and services. The inside sales representatives work hand-in-hand with their counterparts in the field, and their joint efforts have helped to increase the amount of sales per customer.

Sales of at-need cemetery merchandise and services and funeral home merchandise and services are a complement to our pre-need sales program. From a strategic standpoint, they also provide us with a revenue stream that is less sensitive to changes in economic cycles and requires less significant upfront sales and marketing resources as compared to sales of pre-need services.

***Consistently Review and Improve Operating Efficiencies.*** We have a dedicated senior executive team that actively monitors our operating costs and efficiently executes cost-containment and operational improvement strategies. We believe this team is quick to react to changes in the marketplace and implement both long- and short-term strategies that allow us to meet our primary objective on a continuing basis.

***Purchase Products and Perform Services That Are Subject to Trusting Requirements in Advance of the Time of Need.*** We are required by various state laws to deposit a portion of funds that we receive from our pre-need sales of cemetery merchandise and services into merchandise trusts to ensure that we will have sufficient funds in the future to purchase these products and perform these services. In many cases, we are allowed to release these funds from the trust once we have delivered the product or performed the services. We have instituted a program wherein we deliver certain of these products or perform certain of these services in advance of the time of need, thereby allowing us to release the funds from trust and relieve ourselves of the obligation of trusting any additional funds. This in turn makes cash available to pay operating expenses, pursue investment opportunities, service debt and make distributions.

***Acquire and Integrate Additional Cemeteries and Funeral Homes.*** One of our core strategies is to grow our business through the acquisition of additional properties. We plan to continue to evaluate potential acquisitions and identify properties that we believe complement our existing portfolio.

**Table of Contents**

**Recent Developments**

On February 19, 2013, we amended our credit agreement which increased the total availability under our credit facility by \$10.0 million to \$140.0 million.

On February 19, 2013, certain of our subsidiaries entered into an Asset Purchase and Sale Agreement (the *Seawinds Agreement*) with certain Florida limited liability companies and one individual (the *Seller*). Pursuant to the *Seawinds Agreement*, we acquired six funeral homes in Florida, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, we paid the *Seller* \$9.0 million in cash and issued 159,635 common units, which equates to approximately \$3.6 million worth of units. We also issued an unsecured promissory note in the amount of \$3.0 million that is payable on February 19, 2014 and bears interest at 5%. In addition, we will also pay an aggregate amount of \$1.2 million in six equal annual installments commencing on February 19, 2014 in exchange for a non-compete agreement with the *Seller*.

**Structure and Management**

Our operations are conducted through, and our operating assets are owned by, our direct and indirect subsidiaries. We have one direct subsidiary, StoneMor Operating LLC, a limited liability company that owns equity interests in a number of our subsidiary operating companies.

Our general partner, StoneMor GP LLC, manages our operations and activities. Our general partner does not receive any management fee or other compensation in connection with its management of our business, but is reimbursed for expenses that it incurs on our behalf and holds incentive distribution rights in us. Members of our management hold direct and indirect interests in our general partner.

Our principal executive offices are located at 311 Veterans Highway, Suite B, Levittown, Pennsylvania 19056, and our phone number is (215) 826-2800. Our website is located at <http://www.stonemor.com>. Information on our website is not incorporated by reference into this prospectus supplement and accompanying prospectus and does not constitute a part of this prospectus supplement and accompanying prospectus.

**Table of Contents**

**Organizational Structure**

The following diagram depicts our organizational structure and ownership giving effect to the offering of common units contemplated by this prospectus supplement:

S-6

**Table of Contents**

**The Offering**

Common units offered	1,200,000 common units
Common units outstanding after this offering	20,932,896 common units, or 21,112,896 if the underwriters exercise in full their option to purchase an additional 180,000 common units.
Use of proceeds	We estimate that our net proceeds from this offering will be approximately \$27.9 million after deducting underwriting discounts and offering expenses payable by us (\$32.2 million if the underwriters exercise in full their option to purchase additional common units). These estimated proceeds are based on an assumed public offering price of \$25.91 per common unit, the last reported sales price of the common units on the New York Stock Exchange on March 19, 2013.

We intend to use the net proceeds from this offering of common units to pay down borrowings outstanding under our credit facility.

If the underwriters exercise their option to purchase additional common units in full, we will use the additional net proceeds to pay down borrowings outstanding under our credit facility.

An affiliate of Raymond James & Associates, Inc., or Raymond James, is a lender under our credit agreement and as such will receive a portion of the proceeds of this offering. See Use of Proceeds.

Cash distributions	<p>Within 45 days after the end of each quarter, we distribute our available cash from operations, after we have paid our expenses, funded merchandise and perpetual care trusts and established necessary cash reserves, to unitholders of record on the applicable record date. In general, after giving effect to this offering, we will pay any cash distributions we make each quarter 98.13% to all common units, pro rata, and 1.87% to our general partner, until each common unit has received a distribution of \$0.5125.</p>
--------------------	---

If cash distributions per common unit exceed \$0.5125 in any quarter, our general partner will receive increasing percentages, up to a maximum of 50%, of the cash we distribute in excess of that amount. We refer to these additional distributions as incentive distributions.

On January 25, 2013, we declared a quarterly cash distribution for the quarter ended December 31, 2012 of





**Table of Contents**

\$0.5900 per common unit, or \$2.36 per common unit on an annualized basis, which was paid on February 14, 2013 to unitholders of record at the close of business on February 5, 2013. Subject to the declaration by the board of directors of our general partner of a cash distribution with respect to the first quarter of 2013, purchasers of the common units in this offering will receive their first cash distribution in May 2013. For a discussion of our cash distribution policy, see [Cash Distribution Policy](#) in the accompanying prospectus.

Issuance of additional units

We may issue an unlimited number of limited partner interests of any type without the approval of the unitholders.

Limited voting rights

Our general partner manages and operates us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or its directors on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least  $66\frac{2}{3}\%$  of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. After giving effect to this offering, affiliates of our general partner will own approximately 3.2% of the common units. See [Description of the Common Units Voting Rights](#) in the accompanying prospectus.

Limited call right

If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then-current market price of the common units.

Estimated ratio of taxable income to distributions

We estimate that if you hold the common units that you purchase in this offering through December 31, 2015, you will be allocated, on a cumulative basis, an amount of taxable income for that period that will be 75% or less of the cash distributed to you with respect to that period. Thereafter, we anticipate that the ratio of allocable taxable income to cash distributions to the unitholders will increase. See [U.S. Federal Income Tax Considerations](#) in this prospectus supplement.

Material U.S. federal income tax consequences

For a discussion of other material federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States, see [U.S. Federal Income Tax Considerations](#) in this prospectus supplement and [Material U.S. Federal Income Tax Consequences](#) in the accompanying prospectus.



**Table of Contents**

	As of and for the Year Ended December 31,		
	2012	2011	2010
	(dollars in thousands, except per unit data)		
Funeral home expense:			
Merchandise	5,200	4,473	4,001
Services	14,574	11,717	9,752
Other	8,951	7,364	6,184
Acquisition related costs	3,123	4,604	5,715
 Total costs and expenses	 228,765	 218,553	 194,025
Operating profit	13,841	9,835	3,267
Other income and expense:			
Gain on sale of funeral homes		92	
Gain on acquisitions	122		7,152
Gain on termination of operating agreement	1,737		
Early extinguishment of debt		4,010	
Increase in fair value of interest rate swap			4,724
Expenses related to refinancing (2)		453	
Interest expense	20,503	19,198	21,973
 Income (loss) before income taxes	 (4,803)	 (13,734)	 (6,830)
Income tax expense (benefit):			
State	420	(701)	(245)
Federal	(2,210)	(3,318)	(5,138)
 Total income tax expense (benefit)	 (1,790)	 (4,019)	 (5,383)
 Net income (loss)	 \$ (3,013)	 \$ (9,715)	 \$ (1,447)
 Net income (loss) per limited partner unit (basic and diluted)	 \$ (0.15)	 \$ (0.50)	 \$ (0.10)
Weighted average number of limited partner units (basic and diluted)	19,445	18,947	14,133
 <b>Balance Sheet Data (at period end):</b>			
Cash and cash equivalents	\$ 7,946	\$ 12,058	\$ 7,535
Accounts receivable, net of allowance	51,895	48,837	45,149
Long-term accounts receivable, net of allowance	71,521	68,419	60,061
Cemetery property	309,980	298,938	283,460
Property and equipment, net	79,740	73,777	66,249
Merchandise trusts, restricted, at fair value	375,973	344,515	318,318
Perpetual care trusts, restricted, at fair value	282,313	254,679	249,690
Total assets (3)	1,343,725	1,248,758	1,145,592
Total debt	254,949	195,322	220,394
Merchandise liability	125,869	128,942	113,356
Total partners' capital	135,182	180,279	128,191

**Table of Contents**

	As of and for the Year Ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
<b>Other Financial Data:</b>			
Net cash provided by operating activities	\$ 31,896	\$ 5,466	\$ 3,106
Net cash used in investing activities	(39,948)	(29,186)	(49,551)
Net cash provided by financing activities	3,940	28,243	40,501
Depreciation and amortization	9,431	8,534	8,845
Cash paid for cemetery property	(7,098)	(7,126)	(2,200)
Cash distributions	(47,454)	(44,605)	(32,443)

	As of and for the Year Ended December 31,		
	2012	2011	2010
<b>Operating Data:</b>			
Interments performed	45,128	45,236	41,556
Interment rights sold (4):			
Lots	26,638	26,403	24,353
Mausoleum crypts (including pre-construction)	2,206	2,518	2,584
Niches	985	1,126	1,071
Net interment rights sold (4)	29,829	30,047	28,008
Number of contracts written	98,297	101,281	92,661
Aggregate contract amount, in thousands (excluding interest)	\$ 251,999	\$ 244,921	\$ 221,895
Average amount per contract (excluding interest)	\$ 2,564	\$ 2,418	\$ 2,395
Number of pre-need contracts written	48,131	49,747	45,193
Aggregate pre-need contract amount, in thousands (excluding interest)	\$ 163,627	\$ 157,410	\$ 143,022
Average amount per pre-need contract (excluding interest)	\$ 3,400	\$ 3,164	\$ 3,165
Number of at-need contracts written	50,166	51,534	47,468
Aggregate at-need contract amount, in thousands (excluding interest)	\$ 88,372	\$ 87,511	\$ 78,873
Average amount per at-need contract (excluding interest)	\$ 1,762	\$ 1,698	\$ 1,662

(1) Includes bonuses of \$1.8 million in 2010 and unit-based compensation of \$916,000, \$773,000 and \$711,000 in the years ended December 31, 2012, 2011 and 2010, respectively.

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

(3) Includes the fair value of assets held in the merchandise and perpetual care trusts. Refer to note 1 of our consolidated financial statements included in the 2012 Form 10-K for a detailed discussion of the consolidation rules for these assets.

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

**Table of Contents**

**RISK FACTORS**

*An investment in our common units is subject to risks and uncertainties. You should carefully consider the risks described below and beginning on page 4 of the accompanying prospectus, as well as in the section titled Risk Factors included in Item 1A of Part I of the 2012 Form 10-K, which is incorporated herein by reference, before making an investment decision. Realization of these risks could materially adversely affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business operations. In such case, you may lose all or part of your original investment.*

**Risk Factors Related to Our Business**

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

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

the volume of our sales;

the prices at which we sell our products and services; and

the level of our operating and general and administrative costs.

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

If we do not generate sufficient cash to continue paying distributions at their current level, the market price of our common units may decline materially. We expect that we will need working capital borrowings of approximately \$22.0 million during the twelve-month period ending December 31, 2013 in order to have sufficient operating surplus to pay distributions at their current level on all of our common units for that period, although the actual amount of working capital borrowings could be materially more or less. These working capital borrowings enable us to finance the build-up in our accounts receivables, and to construct mausoleums and purchase products for our pre-need sales in advance of the time of need which, in turn, allows us to generate available cash for operating surplus over time by accessing the funds held in trust for the products purchased.

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

We have a substantial amount of debt, which requires significant interest and principal payments. As of December 31, 2012, we had approximately \$101.7 million of total debt outstanding on our credit facility that matures in January 2017, which would give us approximately \$28.3 million of available borrowing capacity under our credit facility. As of March 18, 2013, after giving effect to this offering of common units and the application of the net

## Table of Contents

proceeds therefrom as set forth in Use of Proceeds, based on an assumed public offering price of \$25.91 per common unit, the last reported sales price of the common units on the New York Stock Exchange on March 19, 2013, we would have had \$95.0 million of borrowings outstanding under our credit facility and approximately \$45.0 million of available borrowing capacity. Leverage makes us more vulnerable to economic downturns. Because we are obligated to dedicate a portion of our cash flow to service our debt obligations, our cash flow available for operations and for distribution to our unitholders will be reduced. The amount of indebtedness we have could limit our flexibility in planning for, or reacting to, changes in the markets in which we compete, limit our ability to obtain additional financing, if necessary, for working capital expenditures, acquisitions or other purposes, and require us to dedicate more cash flow to service our debt than we desire. Our ability to satisfy our indebtedness as required by the terms of our debt will be dependent on, among other things, the successful execution of our long-term strategic plan. Subject to limitations in our debt obligations, we may incur additional debt in the future, for acquisitions or otherwise, and servicing this debt could further limit our cash flow available for operations and distribution to unitholders.

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

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

enter into a new line of business;

enter into any agreement of merger or acquisition;

sell, transfer, assign or convey assets;

grant certain liens;

incur or guarantee additional indebtedness;

make certain loans, advances and investments;

declare and pay dividends and distributions;

enter into transactions with affiliates; and

make voluntary payments or modifications of indebtedness.

In addition, our secured debt obligations contain covenants requiring us to maintain certain financial ratios and tests. These restrictions may also limit our ability to obtain future financings. Our ability to comply with the covenants and restrictions contained in our senior notes and senior secured debt obligations may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions continue to deteriorate, our ability to comply with these covenants may be impaired. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Long-Term Debt in the 2012 Form 10-K. If we violate any of the restrictions, covenants, ratios or tests in our debt obligations, the lenders will be able to accelerate the maturity of all borrowings thereunder and demand repayment of amounts outstanding, and our lenders' commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our obligations or any new indebtedness could have similar or greater restrictions.



## **Table of Contents**

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

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

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

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

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

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

There were no identified material weaknesses in our internal control over financial reporting as of December 31, 2012 and 2011. However, if we were to have additional material weaknesses and if we fail to maintain adequate disclosure controls and procedures, current unitholders and potential investors could lose confidence in our financial reporting, which would harm our business prospects and the trading price of our common units.



## **Table of Contents**

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

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

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

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

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

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

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

***The cemetery and funeral home industry continues to be competitive.***

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

## **Table of Contents**

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

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

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

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

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

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

A primary component of our business strategy is to grow through acquisitions of cemeteries and, to a lesser extent, funeral homes. We cannot assure you that we will be able to identify and acquire cemeteries on terms favorable to us or at all. We may face competition from other death care companies in making acquisitions. Historically, we have funded a significant portion of our acquisitions through borrowings. Our ability to make acquisitions in the future may be limited by our inability to secure adequate financing, restrictions under our existing or future debt agreements, competition from third parties or a lack of suitable properties. As of December 31, 2012, we had approximately \$28.3 million of available borrowing capacity under our revised credit facility. As of March 18, 2013, after giving effect to this offering of common units and the application of the net proceeds therefrom as set forth in Use of Proceeds, based on an assumed public offering price of \$25.91 per common unit, the last reported sales price of the common units on the New York Stock Exchange on March 19, 2013, we would have had approximately \$45.0 million of available borrowing capacity under our revised credit facility.

In addition, if we complete acquisitions, we may encounter various associated risks, including the possible inability to integrate an acquired business into our operations, diversion of management's attention and unanticipated problems or liabilities, some or all of which could have a material adverse effect on our operations and financial performance. Also, when we acquire cemeteries that do not have an existing pre-need sales program or a significant amount of pre-need

## **Table of Contents**

products and services that have been sold but not yet purchased or performed, the operation of the cemetery and implementation of a pre-need sales program after acquisition may require significant amounts of working capital. This may make it more difficult for us to make acquisitions.

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

We and other death care companies that focus on traditional methods of interment face competition from the increasing number of cremations in the United States. Industry studies indicate that the percentage of cremations has steadily increased and that cremations represented approximately 41% of the United States death care market in 2010. This percentage of cremations is expected to continue to increase. Because the products and services associated with a cremation, such as niches and urns, produce lower revenues than the products and services associated with a traditional interment, a continuing trend toward cremations may reduce our revenues.

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

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

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

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

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

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

## **Table of Contents**

increase in the death benefit. Failure to collect such proceeds could have a material adverse effect on our financial condition, results of operations, or cash flows.

### **Regulatory and Legal Risks**

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

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

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

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

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

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

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

## **Table of Contents**

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

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

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

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

*Litigation or legal proceedings could expose us to significant liabilities and damage our reputation.*

From time to time, we are party to various claims and legal proceedings, including, but not limited to, employment, cemetery or burial practices, and other litigation. We are currently a defendant in an action alleging violations of the Fair Labor Standards Act and wage payment violations, and the court is in the process of considering plaintiffs' motion to certify a nationwide class. Generally, plaintiffs in class action litigation may seek to recover amounts which may be indeterminable for some period of time although potentially large. We establish reserves in legal matters when appropriate based upon assessments and estimates in accordance with our accounting policies and the practices described below.

For each of our outstanding legal matters, we evaluate the merits of the case, our exposure to the matter, possible legal or settlement strategies, and the likelihood of an unfavorable outcome. We base our assessments, estimates and disclosures on the information available to us at the time. Actual outcomes or losses may differ materially from assessments and estimates. Costs to defend litigation claims and legal proceedings and the cost of actual settlements, judgments or resolutions of these claims and legal proceedings may negatively affect our business and financial performance. We hold insurance policies that may reduce cash outflows with respect to an adverse outcome of certain litigation matters. However, our insurance policies exclude coverage for claims under the Fair Labor Standards Act. Any adverse publicity resulting from allegations made in litigation claims or legal proceedings may also adversely affect our reputation, which in turn could adversely affect our results of operations.

## **Table of Contents**

### **Risk Factors Related to an Investment in Us**

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

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

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

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

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

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

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

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

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

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

## **Table of Contents**

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

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

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

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

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

We may issue an unlimited number of limited partner interests of any type without the approval of the unitholders.

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

your proportionate ownership interest in us will decrease;

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

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

the market price of the common units may decline; and

the ratio of taxable income to distributions may increase.

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

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

**Table of Contents**

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

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

provide for the proper conduct of our business;

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

provide funds for distributions to its unitholders and general partner for any one or more of the next four calendar quarters. These reserves will affect the amount of cash available for distribution to you.

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

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

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

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



## Table of Contents

### Tax Risks to Common Unitholders

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

The anticipated after-tax economic benefit of an investment in our common units depends largely on our being treated as a partnership for federal income tax purposes. Despite the fact that we are a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. Although we do not believe based upon our current operations that we are so treated, if our view is incorrect or if there is a change in our business (or a change in current law) we could be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity. The IRS is currently auditing our federal income tax return for the year ended December 31, 2010. The scope of this federal income tax audit includes an audit of our qualifying income. In order to be treated as a partnership for federal income tax purposes, at least 90% of our gross income must be qualifying income. An IRS formal notice of commencement of the audit will be provided to unitholders if the audit is not concluded on or before March 30, 2013. IRS procedures require that we forward the notice no later than April 29, 2013 to specific unitholders (generally unitholders with less than a 1% profits interest in us) that held units during our taxable year ended December 31, 2010, and the IRS will provide notice to all other unitholders that held units during our taxable year ended December 31, 2010.

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

In connection with each public offering of our common units, including our initial public offering, outside counsel reviewed the various categories of our gross income and opined that we would be classified as a partnership for federal income tax purposes. We are fully cooperating with the IRS in the audit process. Although no assurance can be given, we do not anticipate any change in our status as a partnership for federal income tax purposes or any change in prior period taxable income.

Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. For example, members of Congress have recently considered substantive changes to the existing federal income tax laws that would affect the tax treatment of certain publicly traded partnerships. In addition, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to

## **Table of Contents**

entity-level taxation through the imposition of state income, franchise and other forms of taxation. If any of these states were to impose a tax on us, the cash available for distribution to you would be reduced. We are unable to predict whether any of these changes, or other proposals, will ultimately be enacted. Any such changes could negatively impact the value of an investment in our units.

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

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

Current law may change to cause us to be treated as a corporation for U.S. federal income tax purposes or otherwise subjecting us to entity-level taxation. Specifically, the present U.S. federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial changes or differing interpretations at any time. For example, from time to time, members of Congress propose and consider substantive changes to the existing U.S. federal income tax laws that affect publicly traded partnerships. We are unable to predict whether any of these changes or other proposals will be reintroduced or will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units. Any modification to U.S. federal income tax laws may be applied retroactively and could make it more difficult or impossible for us to meet the qualifying income requirement to be treated as a partnership for U.S. federal income tax purposes.

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

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

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

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

## **Table of Contents**

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

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

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

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

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

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

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

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

---

**Table of Contents**

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

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

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

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

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

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

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

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

We will be considered to have terminated our partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a

## **Table of Contents**

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

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

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

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

Because there are no specific rules governing the U.S. federal income tax consequence of loaning a partnership interest, a unitholder whose units are the subject of a securities loan may be considered as having disposed of the loaned units. In that case, you may no longer be treated for tax purposes as a partner with respect to those units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those units could be fully taxable as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units.

**Table of Contents**

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

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

**Table of Contents**

**USE OF PROCEEDS**

We estimate that we will receive net proceeds of approximately \$27.9 million from this offering after deducting underwriting discounts and offering expenses (\$32.2 million if the underwriters exercise in full their option to purchase additional common units). These estimated proceeds are based on an assumed public offering price of \$25.91 per common unit, the last reported sales price of the common units on the New York Stock Exchange on March 19, 2013. We intend to use the net proceeds from this offering to pay down borrowings outstanding under our credit facility.

If the underwriters exercise their option to purchase additional common units in full, we will use the additional net proceeds to pay down borrowings outstanding under our credit facility.

Amounts to be paid down under our credit facility were incurred for acquisitions and general partnership purposes, including for working capital needs and to fund our capital expenditure program.

Our credit facility will mature on January 19, 2017, and the interest rates on amounts outstanding under our credit facility for the year ended December 31, 2012 ranged from approximately 3.6% to 4.1%. On February 19, 2013, we amended our credit agreement to increase the total availability under our credit facility by \$10.0 million to a maximum total borrowing capacity of \$140.0 million. As of December 31, 2012 and March 18, 2013, we had approximately \$101.7 million and \$122.9 million, respectively, of borrowings outstanding under our credit facility. See Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2012 Form 10-K, which is incorporated by reference into this prospectus supplement.

An affiliate of Raymond James is a lender under our credit agreement and as such will receive a portion of the proceeds from this offering. See Underwriting FINRA Conduct Rules.

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization as of December 31, 2012:

on an actual basis; and

on an as adjusted basis to reflect the use of the net proceeds of this offering in the manner described in Use of Proceeds, based on an assumed public offering price of \$25.91 per common unit, the last reported sales price of the common units on the New York Stock Exchange on March 19, 2013.

This table should be read in conjunction with the audited historical consolidated financial statements and accompanying notes thereto for the year ended December 31, 2012 included in the 2012 Form 10-K, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. The table below does not reflect the issuance of up to 180,000 common units that the underwriters may purchase to cover overallocments, if any. If the underwriters exercise their option to purchase additional common units in full, we will use the additional net proceeds to pay down borrowings outstanding under our credit facility.

	<b>As of December 31, 2012</b>	
	<b>Actual</b>	<b>As Adjusted(1)</b>
	<b>(in thousands)</b>	
Cash and cash equivalents	\$ 7,946	\$ 7,946
Long-term debt, including current portion:		
10.25% Senior notes due 2017	\$ 150,000	\$ 150,000
Credit facility (2)	101,700	73,770
Notes payable – acquisition debt	1,465	1,465
Note payable – acquisition non-competes	3,830	3,830
Other debt	1,298	1,298
Total long-term debt, including current portion	\$ 258,293	\$ 230,363
Partners' capital:		
Common units	134,796	162,726
General partner interest	386	386
Total partners' capital	135,182	163,112
Total capitalization	\$ 393,475	\$ 393,475

- (1) A \$1.00 increase (decrease) in the assumed public offering price of \$25.91 per common unit (the last reported sale price of common units on the New York Stock Exchange on March 19, 2013) would decrease (increase) amounts outstanding under our credit facility by approximately \$1.1 million and would increase (decrease) total partners' capital by approximately \$1.1 million, assuming that the number of common units offered by us remains the same, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us. We may also increase or decrease the number of common units we are offering. An increase of 100,000 common units offered by us, to a total of 1,300,000 common units, together with a concurrent \$1.00 increase in the assumed offering price of \$25.91 per common unit, would decrease amounts outstanding under our credit facility by approximately \$3.6 million and would increase total partners' capital by approximately \$3.6 million. Similarly, a decrease of 100,000 common units offered by us, to a total of 1,100,000 common units, together with a concurrent \$1.00 decrease in the assumed public offering price of \$25.91 per common unit, would increase amounts outstanding under our credit facility by approximately \$3.4 million and would decrease total partners' capital by approximately \$3.4 million. The information discussed above is illustrative only and will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

(2)



## Edgar Filing: STONEMOR PARTNERS LP - Form 424B5

On February 19, 2013, we amended our credit agreement, which increased the total availability under our credit facility by \$10 million to a maximum total borrowing capacity of \$140.0 million. As of March 18, 2013, we had approximately \$122.9 million of borrowings outstanding under our credit facility. As of March 18, 2013, after giving effect to this offering of common units and the application of the net proceeds therefrom as set forth in Use of Proceeds, based on an assumed public offering price of \$25.91 per common unit, the last reported sales price of the common units on the New York Stock Exchange on March 19, 2013, we would have had \$95.0 million of borrowings outstanding under our credit facility.

S-30

**Table of Contents****PRICE RANGE OF OUR COMMON UNITS AND DISTRIBUTIONS**

As of March 18, 2013, we had 19,732,896 common units outstanding, held by 57 holders of record. Our common units are traded on the New York Stock Exchange under the symbol STON.

The following table sets forth, for the periods indicated, the high and low sales prices for our common units based on the daily composite listing of common unit transactions for the NASDAQ Global Select Market prior to December 23, 2011 and for the New York Stock Exchange starting from December 23, 2011 and quarterly declared cash distributions per unit. The last reported sales price of our common units on the New York Stock Exchange on March 19, 2013 was \$25.91 per common unit.

	Price Ranges		Cash Distributions Per Common Unit (1)
	High	Low	
<b>Year ending December 31, 2013</b>			
First Quarter (through March 19, 2013)	\$ 26.99	\$ 21.51	n/a(2)
<b>Year ended December 31, 2012</b>			
Fourth Quarter	\$ 24.51	\$ 20.10	\$ 0.5900(3)
Third Quarter	28.68	20.63	0.5850
Second Quarter	26.70	23.91	0.5850
First Quarter	26.65	22.07	0.5850
<b>Year ended December 31, 2011</b>			
Fourth Quarter	\$ 29.32	\$ 20.55	\$ 0.5850
Third Quarter	29.50	25.59	0.5850
Second Quarter	28.30	23.10	0.5850
First Quarter	33.51	24.58	0.5750

- (1) Distributions are declared and paid within 45 days of the close of each quarter.
- (2) Subject to the declaration by the board of directors of our general partner of a cash distribution with respect to the first quarter of 2013, purchasers of the common units in this offering will receive their first cash distribution in May 2013.
- (3) On January 25, 2013, we declared a quarterly cash distribution for the quarter ended December 31, 2012 of \$0.5900 per common unit, or \$2.36 per common unit on an annualized basis, which was paid on February 14, 2013 to unitholders of record at the close of business on February 5, 2013.

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA**

The following tables present our selected historical consolidated financial and operating data for the periods and as of the dates indicated. Our selected historical consolidated financial data as of and for the years ended December 31, 2012, 2011 and 2010 are derived from our audited consolidated financial statements included in the 2012 Form 10-K, which is incorporated by reference into this prospectus supplement and the accompanying prospectus. Our selected historical consolidated financial data for each of the years ended December 31, 2009 and 2008 have been derived from our audited consolidated financial statements for such years, which have not been incorporated by reference into this prospectus supplement.

The following tables should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited historical consolidated financial statements and accompanying notes thereto included in the 2012 Form 10-K, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	2012	As of and for the Year Ended December 31,			2008
		2011	2010	2009	
		(dollars in thousands)			
<b>Statement of Operations Data:</b>					
Cemetery revenues:					
Merchandise	\$ 114,025	\$ 108,088	\$ 94,898	\$ 87,836	\$ 90,968
Services	46,094	46,995	40,951	36,947	36,894
Investment and Other	46,808	42,901	35,897	33,055	31,623
Funeral home revenues:					
Merchandise	15,551	12,810	10,435	9,701	9,249
Services	20,128	17,594	15,111	13,664	14,714
Total revenues	242,606	228,388	197,292	181,203	183,448

S-32

**Table of Contents**

	2012	As of and for the Year Ended December 31,			2008
		2011	2010	2009	
		(dollars in thousands, except per unit data)			
Cost of goods sold (exclusive of depreciation shown separately below):					
Perpetual care	5,715	5,727	5,094	4,727	4,326
Merchandise	22,386	20,388	18,435	17,067	18,556
Cemetery expense	55,410	57,145	48,784	41,246	41,651
Selling expense	46,878	45,291	38,245	34,123	34,806
General and administrative expense	28,928	29,544	24,591	22,498	21,372
Overhead (1)	28,169	23,766	24,379	22,370	21,293
Depreciation and amortization	9,431	8,534	8,845	6,528	5,029
Funeral home expense:					
Merchandise	5,200	4,473	4,001	3,716	3,684
Services	14,574	11,717	9,752	9,275	9,073
Other	8,951	7,364	6,184	6,015	6,308
Acquisition related costs	3,123	4,604	5,715	1,072	
Total costs and expenses	228,765	218,553	194,025	168,637	166,098
Operating profit	13,841	9,835	3,267	12,566	17,350
Other income and expense:					
Gain on sale of funeral homes		92		434	
Gain on acquisitions	122		7,152		
Gain on termination of operating agreement	1,737				
Early extinguishment of debt		4,010			
Increase (decrease) in fair value of interest rate swap			4,724	(2,681)	
Expenses related to refinancing (2)		453		2,242	
Interest expense	20,503	19,198	21,973	14,410	12,714
Income (loss) before income taxes	(4,803)	(13,734)	(6,830)	(6,333)	4,636
Income tax expense (benefit):					
State	420	(701)	(245)	808	304
Federal	(2,210)	(3,318)	(5,138)	(2,753)	(224)
Total income tax expense (benefit)	(1,790)	(4,019)	(5,383)	(1,945)	80
Net income (loss)	\$ (3,013)	\$ (9,715)	\$ (1,447)	\$ (4,388)	\$ 4,556
Net income per limited partner unit (basic and diluted)	(0.15)	(0.50)	(0.10)	(0.36)	0.38
Weighted average number of limited partner units (basic and diluted)	19,445	18,947	14,133	12,034	11,809

**Table of Contents**

	2012	As of and for the Year Ended December 31,			2008
		2011	2010	2009	
		(dollars in thousands)			
<b>Balance Sheet Data (at period end):</b>					
Cash and cash equivalents	\$ 7,946	\$ 12,058	\$ 7,535	\$ 13,479	\$ 7,068
Accounts receivable, net of allowance	51,895	48,837	45,149	37,273	33,090
Long-term accounts receivable, net of allowance	71,521	68,419	60,061	47,794	42,309
Cemetery property	309,980	298,938	283,460	228,048	228,499
Property and equipment, net	79,740	73,777	66,249	47,636	49,615
Merchandise trusts, restricted, at fair value	375,973	344,515	318,318	203,829	161,605
Perpetual care trusts, restricted, at fair value	282,313	254,679	249,690	196,276	152,797
Total assets (3)	1,343,725	1,248,758	1,145,592	855,301	738,240
Total debt	254,949	195,322	220,394	183,199	160,934
Merchandise liability	125,869	128,942	113,356	65,894	75,977
Total partners' capital	135,182	180,279	128,191	111,937	119,389
<b>Other Financial Data:</b>					
Net cash provided by operating activities	\$ 31,896	\$ 5,466	\$ 3,106	\$ 14,729	\$ 21,144
Net cash used in investing activities	(39,948)	(29,186)	(49,551)	(12,180)	(17,046)
Net cash provided by (used in) financing activities	3,940	28,243	40,501	3,862	(10,830)
Depreciation and amortization	9,431	8,534	8,845	6,528	5,029
Cash paid for cemetery property	(7,098)	(7,126)	(2,200)	(4,770)	(4,376)
Cash distributions	(47,454)	(44,605)	(32,443)	(27,253)	(25,658)

S-34

**Table of Contents**

	As of and for the Year Ended December 31,				
	2012	2011	2010	2009	2008
<b>Operating Data:</b>					
Interments performed	45,128	45,236	41,556	37,782	38,863
Interment rights sold (4):					
Lots	26,638	26,403	24,353	22,637	22,552
Mausoleum crypts (including pre-construction)	2,206	2,518	2,584	2,316	1,881
Niches	985	1,126	1,071	889	864
Net interment rights sold (4)	29,829	30,047	28,008	25,842	25,297
Number of contracts written	98,297	101,281	92,661	83,043	80,144
Aggregate contract amount, in thousands (excluding interest)	\$ 251,999	\$ 244,921	\$ 221,895	\$ 197,787	\$ 187,093
Average amount per contract (excluding interest)	\$ 2,564	\$ 2,418	\$ 2,395	\$ 2,382	\$ 2,334
Number of pre-need contracts written	48,131	49,747	45,193	39,043	35,599
Aggregate pre-need contract amount, in thousands (excluding interest)	\$ 163,627	\$ 157,410	\$ 143,022	\$ 124,997	\$ 115,024
Average amount per pre-need contract (excluding interest)	\$ 3,400	\$ 3,164	\$ 3,165	\$ 3,202	\$ 3,231
Number of at-need contracts written	50,166	51,534	47,468	44,000	44,545
Aggregate at-need contract amount, in thousands (excluding interest)	\$ 88,372	\$ 87,511	\$ 78,873	\$ 72,790	\$ 72,068
Average amount per at-need contract (excluding interest)	\$ 1,762	\$ 1,698	\$ 1,662	\$ 1,654	\$ 1,618

(1) Includes bonuses of \$1.8 million in 2010 and unit-based compensation of \$916,000, \$773,000, \$711,000, \$1.6 million and \$2.3 million in the years ended December 31, 2012, 2011, 2010, 2009 and 2008, respectively.

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

(3) Includes the fair value of assets held in the merchandise and perpetual care trusts. Refer to note 1 of our consolidated financial statements included in the 2012 Form 10-K for a detailed discussion of the consolidation rules for these assets.

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

**Table of Contents****BUSINESS****Overview**

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

We are currently the second largest owner and operator of cemeteries in the United States. As of December 31, 2012, we operated 276 cemeteries in 27 states and Puerto Rico. We own 258 of these cemeteries, and we manage or operate the remaining 18 under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. As of December 31, 2012, we also owned and operated 86 funeral homes in 18 states and Puerto Rico. Forty-one of these funeral homes are located on the grounds of the cemeteries that we own.

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

<b>Interment Rights</b>	<b>Merchandise</b>	<b>Services</b>
burial lots	burial vaults	installation of burial vaults
lawn crypts	caskets	installation of caskets
mausoleum crypts	grave markers and grave marker bases	installation of other cemetery merchandise
cremation niches	memorials	other service items

**perpetual care rights**

We sell these products and services both at the time of death, which we refer to as at-need, and prior to the time of death, which we refer to as pre-need. Our sales of real property, including burial lots (with and without installed vaults), lawn and mausoleum crypts and cremation niches, generate qualifying income sufficient for us to be treated as a partnership for federal income tax purposes. In 2012, we performed 45,128 burials and sold 29,829 interment rights (net of cancellations). Based on our sales of interment spaces in 2012, our cemeteries have an aggregated weighted average remaining sales life of 246 years.

Our cemetery properties are located in Alabama, California, Colorado, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Mississippi, Missouri, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Virginia, Washington and West Virginia. One cemetery in Hawaii that we acquired in December 2007 is still awaiting regulatory approval and has not yet been conveyed to us. Our cemetery operations accounted for approximately 85.3%, 86.7% and 87.1% of our revenues in 2012, 2011 and 2010, respectively.





## **Table of Contents**

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

Our funeral homes are located in Alabama, Arkansas, California, Florida, Illinois, Indiana, Kansas, Maryland, Mississippi, Missouri, Ohio, Oregon, Pennsylvania, Puerto Rico, South Carolina, Tennessee, Virginia, Washington and West Virginia. Our funeral home revenues accounted for approximately 14.7%, 13.3% and 12.9% of our revenues in 2012, 2011 and 2010, respectively. Our funeral home operations are conducted through various wholly-owned subsidiaries that are treated as corporations for U.S. federal income tax purposes.

### **Operations**

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

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

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

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

## **Table of Contents**

***Managed Cemeteries.*** As of December 31, 2012, we provided services to 18 cemeteries under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. These nonprofit cemeteries are organized as such either because state law requires cemetery properties to be owned by nonprofit entities, such as in New Jersey, or because they were originally established as nonprofit entities. We have voting rights, along with member owners of burial spaces, in the five New Jersey nonprofit cemeteries as a result of owning all of their outstanding certificates of indebtedness or interest. To obtain the benefit of professional management services, the remaining 13 nonprofit cemeteries have entered into agreements with us. The agreements under which we operate these 18 nonprofit cemeteries generally have terms ranging from 3 to 40 years (but some are subject to early termination rights and obligations) and provide us with management or operating fees that approximate what we would earn if we owned those cemeteries and held them in for-profit entities.

***Funeral Home Operations.*** As of December 31, 2012, we owned, operated and/or managed 86 funeral homes, 41 of which are located on the grounds of cemetery properties that we own. Our funeral homes offer a range of services to meet a family's funeral needs, including family consultation, the removal and preparation of remains, provision of caskets and related funeral merchandise, the use of funeral home facilities for visitation, worship and funeral services and transportation services. Funeral home operations primarily generate revenues from at-need sales. Our funeral home segment has continued to grow and has become a larger part of our total revenues in each of the last three years.

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

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

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

## **Sales Contracts**

Pre-need products and services are typically sol