STONEMOR PARTNERS LP
Form 10-Q
May 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from to .

Commission File Number: 001-32270

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

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

(215) 826-2800

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

The number of the registrant s outstanding common units at May 1, 2012 was 19,370,373.

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Part I Financial Information

Item 1. Financial Statements

StoneMor Partners L.P.

Condensed Consolidated Balance Sheet

(in thousands)

(unaudited)

	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 8,778	$ 12,058
Accounts receivable, net of allowance	49,370	48,837
Prepaid expenses	5,737	4,266
Other current assets	15,120	16,336
Total current assets	79,005	81,497
Long-term accounts receivable, net of allowance	68,634	68,354
Cemetery property	301,605	298,938
Property and equipment, net of accumulated depreciation	73,049	73,777
Merchandise trusts, restricted, at fair value	355,027	344,515
Perpetual care trusts, restricted, at fair value	267,503	254,679
Deferred financing costs, net of accumulated amortization	10,244	8,817
Deferred selling and obtaining costs	70,730	68,542
Deferred tax assets	417	415
Goodwill	36,639	36,439
Other assets	12,108	13,152
Total assets	$ 1,274,961	$ 1,249,125
Liabilities and partners capital		
Current liabilities:		
Accounts payable and accrued liabilities	$ 22,332	$ 26,428
Accrued interest	5,517	1,632
Current portion, long-term debt	2,235	1,487
Total current liabilities	30,084	29,547
Other long-term liabilities	2,265	2,830
Long-term debt	200,891	193,835
Deferred cemetery revenues, net	458,349	441,878
Deferred tax liabilities	17,001	16,968
Merchandise liability	128,220	129,109
Perpetual care trust corpus	267,503	254,679
Total liabilities	1,104,313	1,068,846

Commitments and contingencies		
Partners capital		
General partner	1,783	2,192
Common partners	168,865	178,087
Total partners capital	170,648	180,279
Total liabilities and partners capital	$ 1,274,961	$ 1,249,125

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of Operations

(in thousands, except unit data)

(unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Revenues:		
Cemetery		
Merchandise	$ 27,144	$ 21,435
Services	12,082	10,798
Investment and other	11,424	9,666
Funeral home		
Merchandise	4,018	3,139
Services	4,919	4,193
Total revenues	59,587	49,231
Costs and Expenses:		
Cost of goods sold (exclusive of depreciation shown separately below):		
Perpetual care	1,367	1,325
Merchandise	5,053	3,668
Cemetery expense	12,792	12,086
Selling expense	11,787	9,544
General and administrative expense	7,193	6,427
Corporate overhead (including $198 and $189 in unit-based compensation for the three months ended March 31, 2012 and 2011, respectively)	6,603	5,958
Depreciation and amortization	2,330	2,446
Funeral home expense		
Merchandise	1,423	1,206
Services	3,405	2,546
Other	1,928	1,557
Acquisition related costs	331	933
Total cost and expenses	54,212	47,696
Operating profit	5,375	1,535
Expenses related to refinancing		453
Gain on termination of operating agreement	1,820	
Early extinguishment of debt		4,010
Interest expense	4,966	5,090
Net income (loss) before income taxes	2,229	(8,018)
Income tax expense (benefit)		
State	145	4
Federal	54	(808)
Total income tax expense (benefit)	199	(804)

Net income (loss)	$ 2,030	$ (7,214)
General partner s interest in net income (loss) for the period	$ 41	$ (144)
Limited partners interest in net income (loss) for the period	$ 1,989	$ (7,070)
Net income (loss) per limited partner unit (basic and diluted)	$ .10	$ (.40)
Weighted average number of limited partners units outstanding (basic)	19,369	17,709
Weighted average number of limited partners units outstanding (diluted)	20,391	17,709
Distributions declared per unit	$ .585	$ .585

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of

Partners Capital

(in thousands)

(unaudited)

	Partners Capital		
	Common Unit Holders	General Partner	Total
Balance, December 31, 2011	$ 178,087	$ 2,192	$ 180,279
Compensation related to UARs	119		119
Net income	1,989	41	2,030
Cash distribution	(11,330)	(450)	(11,780)
Balance, March 31, 2012	$ 168,865	$ 1,783	$ 170,648

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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StoneMor Partners L.P.

Condensed Consolidated Statement of Cash Flows

(in thousands)

(unaudited)

	For the three months ended March 31, 2012	2011
Operating activities:		
Net income (loss)	$ 2,030	$ (7,214)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cost of lots sold	1,833	1,478
Depreciation and amortization	2,330	2,446
Unit-based compensation	198	189
Accretion of debt discounts	436	383
Gain on termination of operating agreement	(1,820)	
Write-off of deferred financing fees		453
Fees paid related to early extinguishment of debt		4,010
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(1,374)	(2,835)
Allowance for doubtful accounts	1,363	671
Merchandise trust fund	(2,690)	(8,612)
Prepaid expenses	(1,471)	671
Other current assets	1,181	(110)
Other assets	(1,828)	197
Accounts payable and accrued and other liabilities	1,277	(2,510)
Deferred selling and obtaining costs	(2,188)	(3,279)
Deferred cemetery revenue	11,618	16,319
Deferred taxes (net)	31	(880)
Merchandise liability	(2,736)	(739)
Net cash provided by operating activities	8,190	638
Investing activities:		
Cash paid for cemetery property	(1,217)	(706)
Purchase of subsidiaries	(1,652)	(1,700)
Cash paid for property and equipment	(898)	(1,759)
Net cash used in investing activities	(3,767)	(4,165)
Financing activities:		
Cash distribution	(11,780)	(9,293)
Additional borrowings on long-term debt	7,350	4,300
Repayments of long-term debt	(1,286)	(73,317)
Proceeds from public offering		103,564
Proceeds from general partner contribution		2,242
Fees paid related to early extinguishment of debt		(4,010)
Cost of financing activities	(1,987)	
Net cash provided by (used in) financing activities	(7,703)	23,486

Net increase (decrease) in cash and cash equivalents		(3,280)		19,959
Cash and cash equivalents - Beginning of period		12,058		7,535
Cash and cash equivalents - End of period	$	8,778	$	27,494
Supplemental disclosure of cash flow information				
Cash paid during the period for interest	$	623	$	1,472
Cash paid during the period for income taxes	$	103	$	87
Non-cash investing and financing activities				
Acquisition of assets by financing	$	28	$	

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

Nature of Operations

StoneMor Partners L.P. (StoneMor , the Company or the Partnership) is a provider of funeral and cemetery products and services in the death care industry in the United States. Through its subsidiaries, StoneMor offers a complete range of funeral merchandise and services, along with cemetery property, merchandise and services, both at the time of need and on a pre-need basis. As of March 31, 2012, the Partnership operated 271 cemeteries, 253 of which are owned, in 26 states and Puerto Rico and owned and operated 69 funeral homes in 18 states and Puerto Rico.

Basis of Presentation

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

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of each of the Company s subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The Company operates 18 cemeteries under long-term operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated in accordance with the provisions of Accounting Standards Codification (ASC) 810.

The Company operates 2 cemeteries under long-term operating agreements that do not qualify as acquisitions for accounting purposes. As a result, the Company did not consolidate all of the existing assets and liabilities related to these cemeteries. The Company has consolidated the existing assets and liabilities of each of these cemeteries merchandise and perpetual care trusts as variable interest entities since the Company controls and receives the benefits and absorbs any losses from operating these trusts. Under these long-term operating agreements, which are subject to certain termination provisions, the Company is the exclusive operator of these cemeteries. The Company earns revenues related to sales of merchandise, services, and interment rights and incurs expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, the Company will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Company has also recognized the existing merchandise liabilities that it assumed as part of these agreements.

Use of Estimates

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

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2. LONG-TERM ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

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

	As of March 31, 2012	As of December 31, 2011
	(in thousands)	
Customer receivables	$ 153,352	$ 151,500
Unearned finance income	(17,264)	(16,727)
Allowance for contract cancellations	(18,084)	(17,582)
	118,004	117,191
Less: current portion, net of allowance	49,370	48,837
Long-term portion, net of allowance	$ 68,634	$ 68,354

Activity in the allowance for contract cancellations is as follows:

	For the three months ended March 31, 2012	For the three months ended March 31, 2011
	(in thousands)	
Balance - Beginning of period	$ 17,582	$ 15,832
Provision for cancellations	4,671	4,250
Charge-offs - net	(4,169)	(3,580)
Balance - End of period	$ 18,084	$ 16,502

3. CEMETERY PROPERTY

Cemetery property consists of the following:

	As of March 31, 2012	As of December 31, 2011
	(in thousands)	
Developed land	$ 66,780	$ 64,266
Undeveloped land	165,647	164,723
Mausoleum crypts and lawn crypts	69,178	69,949
Total	$ 301,605	$ 298,938

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4. PROPERTY AND EQUIPMENT

Major classes of property and equipment follow:

	As of March 31, 2012	As of December 31, 2011
	(in thousands)	
Building and improvements	$ 74,882	$ 75,076
Furniture and equipment	38,038	36,863
	112,920	111,939
Less: accumulated depreciation	(39,871)	(38,162)
Property and equipment - net	$ 73,049	$ 73,777

Depreciation expense was $1.8 million and $1.4 million during the three months ended March 31, 2012 and 2011, respectively.

5. MERCHANDISE TRUSTS

At March 31, 2012, the Company s merchandise trusts consisted of the following types of assets:

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

Publicly traded mutual funds that invest in underlying debt securities;

Publicly traded mutual funds that invest in underlying equity securities;

Equity investments that are currently paying dividends or distributions. These investments include Real Estate Investment Trusts (REIT s), Master Limited Partnerships and global equity securities;

Fixed maturity debt securities issued by various corporate entities;

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

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

All of these investments are classified as Available for Sale as defined by the Investments in Debt and Equity topic of the ASC. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. See Note 15 for further details. There were no Level 3 assets.

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

The Company has included $7.2 million and $6.9 million of investments held in trust by the West Virginia Funeral Directors Association at March 31, 2012 and December 31, 2011, respectively, in its merchandise trust assets. As required by law, the Company deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recorded at their account value, which approximates fair value.

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

As of March 31, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 33,340	$	$	$ 33,340
Fixed maturities:				
U.S. Government and federal agency				
U.S. State and local government agency	23			23
Corporate debt securities	10,414	110	(403)	10,121
Other debt securities	1,100			1,100
Total fixed maturities	11,537	110	(403)	11,244
Mutual funds - debt securities	93,447	1,353	(1,314)	93,486
Mutual funds - equity securities	127,481	5,325	(5,662)	127,144
Equity securities	73,823	4,005	(2,836)	74,992
Other invested assets	7,054	542		7,596
Total managed investments	$ 346,682	$ 11,335	$ (10,215)	$ 347,802
West Virginia Trust Receivable	7,225			7,225
Total	$ 353,907	$ 11,335	$ (10,215)	$ 355,027

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

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

The contractual maturities of debt securities as of March 31, 2012 are as follows:

As of March 31, 2012	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		
U.S. Government and federal agency	$	$	$	$
U.S. State and local government agency	23			
Corporate debt securities		8,945	1,176	
Other debt securities	1,100			
Total fixed maturities	$ 1,123	$ 8,945	$ 1,176	$

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

As of March 31, 2012	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	1,799	102	4,299	301	6,098	403
Other debt securities						
Total fixed maturities	1,799	102	4,299	301	6,098	403
Mutual funds - debt securites	29,666	482	36,687	832	66,353	1,314
Mutual funds - equity securites	11,049	1,301	61,383	4,361	72,432	5,662
Equity securities	21,862	1,283	9,158	1,553	31,020	2,836
Other invested assets						
Total	$ 64,376	$ 3,168	$ 111,527	$ 7,047	$ 175,903	$ 10,215

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

A reconciliation of the Company s merchandise trust activities for the three months ended March 31, 2012 is presented below:

Fair Value @ 12/31/2011	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair	Fair Value @ 3/31/2012

								Value	
				(in thousands)					
$ 344,515	13,516	(19,037)	3,977	88	3,388	64	(541)	9,057	$ 355,027

The Company made net distributions from the trusts of approximately $5.5 million during the three months ended March 31, 2012. During the three months ended March 31, 2012, purchases and sales of securities available for sale included in trust investments were approximately $104.6 million and $103.9 million, respectively. Distributions included $5.8 million of assets that were divested as a result of the termination of an operating agreement during the three months ended March 31, 2012.

Other-than-temporary Impairments of Trust Assets

During the three months ended March 31, 2012 and 2011, the Company determined that there were no other than temporary impairments to the investment portfolio in the merchandise trusts.

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6. PERPETUAL CARE TRUSTS

At March 31, 2012, the Company s perpetual care trusts consisted of the following types of assets:

- Money Market Funds that invest in low risk short term securities;
- Publicly traded mutual funds that invest in underlying debt securities;
- Publicly traded mutual funds that invest in underlying equity securities;
- Equity investments that are currently paying dividends or distributions. These investments include REIT s, Master Limited Partnerships;
- Fixed maturity debt securities issued by various corporate entities;
- Fixed maturity debt securities issued by the U.S. Government and U.S. Government agencies; and
- Fixed maturity debt securities issued by U.S. states and local agencies.

All of these investments are classified as Available for Sale as defined by the Investments in Debt and Equity topic of the ASC. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. See Note 15 for further details. There were no Level 3 assets.

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

As of March 31, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term investments	$ 24,901	$	$	$ 24,901
Fixed maturities:				
U.S. Government and federal agency	408	109		517
U.S. State and local government agency	66	81		147
Corporate debt securities	22,981	481	(638)	22,824
Other debt securities	371			371
Total fixed maturities	23,826	671	(638)	23,859
Mutual funds - debt securities	107,898	948	(431)	108,415
Mutual funds - equity securities	57,489	4,832	(1,674)	60,647
Equity Securities	40,035	9,203	(41)	49,197
Other invested assets	219	265		484
Total	$ 254,368	$ 15,919	$ (2,784)	$ 267,503

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

The contractual maturities of debt securities as of March 31, 2012 are as follows:

As of March 31, 2012	Less than 1 year	1 year through 5 years	6 years through 10 years	More than 10 years
		(in thousands)		

U.S. Government and federal agency	$	$ 517	$	$
U.S. State and local government agency	147			
Corporate debt securities	127	19,815	2,882	
Other debt securities	371			
Total fixed maturities	$ 645	$ 20,332	$ 2,882	$

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

As of March 31, 2012	Less than 12 months Fair Value	Unrealized Losses	12 Months or more Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
			(in thousands)			
Fixed maturities:						
U.S. Government and federal agency	$	$	$	$	$	$
U.S. State and local government agency						
Corporate debt securities	3,886	227	7,761	411	11,647	638
Other debt securities						
Total fixed maturities	3,886	227	7,761	411	11,647	638
Mutual funds - debt securites	105	1	3,966	430	4,071	431
Mutual funds - equity securites	8,528	1,674			8,528	1,674
Equity securities	2,430	39	269	2	2,699	41
Other invested assets						
Total	$ 14,949	$ 1,941	$ 11,996	$ 843	$ 26,945	$ 2,784

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

A reconciliation of the Company s perpetual care trust activities for the three months ended March 31, 2012 is presented below:

Fair Value @ 12/31/2011	Contributions	Distributions	Interest/ Dividends	Capital Gain Distributions	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Fair Value	Fair Value @ 3/31/2012

(in thousands)

$ 254,679	1,956	(3,293)	3,718	9	(353)	(96)	(434)	11,317	$ 267,503

The Company made net distributions from the trusts of approximately $1.3 million during the three months ended March 31, 2012. During the three months ended March 31, 2012, purchases and sales of securities available for sale included in trust investments were approximately $155.3 million and $156.1 million, respectively.

Other-than-temporary Impairments of Trust Assets

During the three months ended March 31, 2012 and 2011, the Company determined that there were no other than temporary impairments to the investment portfolio in the perpetual care trusts.

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7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in acquisitions.

A rollforward of goodwill by reportable segment is as follows:

	Cemeteries			Funeral	
	Southeast	Northeast	West	Homes	Total
			(in thousands)		
Balance as of December 31, 2011	$ 7,271	$	$ 11,948	$ 17,220	$ 36,439
Goodwill acquired from acquisitions during the three months ended March 31, 2012	200				200
Balance as of March 31, 2012	$ 7,471	$	$ 11,948	$ 17,220	$ 36,639

Other Acquired Intangible Assets

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

	As of March 31, 2012			As of December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Net Intangible Asset
			(in thousands)			
Amortized Intangible Assets:						
Underlying contract value	$ 6,151	$ (487)	$ 5,664	$ 8,484	$ (546)	$ 7,938
Non-compete agreements	3,820	(1,641)	2,179	3,820	(1,413)	2,407
Other intangible assets	205	(70)	135	205	(67)	138
Total Intangible Assets	$ 10,176	$ (2,198)	$ 7,978	$ 12,509	$ (2,026)	$ 10,483

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

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8. LONG-TERM DEBT

The Company had the following outstanding debt:

	As of March 31, 2012	As of December 31, 2011
	(in thousands)	
Insurance premium financing	$ 984	$ 211
Vehicle Financing	1,046	1,147
Acquisition Credit Facility, due January 2017		10,750
Revolving Credit Facility, due January 2017	51,100	33,000
Note Payable - Greenlawn acquisition	1,286	1,321
Note Payable - Nelms acquisition (net of discount)	525	623
Note Payable - acquisition non-competes (net of discounts)	1,304	1,490
10.25% senior notes, due 2017	150,000	150,000
Total	206,245	198,542
Less current portion	2,235	1,487
Less unamortized bond discount	3,119	3,220
Long-term portion	$ 200,891	$ 193,835

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

10.25% Senior Notes due 2017

The Company has outstanding a $150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 (the Senior Notes), with an original issue discount of approximately $4.0 million. The Company pays 10.25% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year. The Senior Notes mature on December 1, 2017.

Credit Facility

On January 19, 2012, the Company entered into the Third Amended and Restated Credit Agreement (the Credit Agreement). The terms of the Credit Agreement are substantially the same as the terms of the prior agreement. Capitalized terms which are not defined in the following description shall have the meaning assigned to such terms in the Credit Agreement.

The Credit Agreement provides for a total Revolving Credit Facility of $130.0 million (the Credit Facility). Previously, the agreement had an Acquisition Credit Facility and a Revolving Credit Facility with different borrowing limits. The proceeds of the Credit Facility may be used to finance working capital requirements, Permitted Acquisitions and the purchase and construction of mausoleums. The maturity date of the Credit Facility is January 19, 2017.

At March 31, 2012, amounts outstanding under the Credit Facility bear interest at a rate of 3.8%. Amounts borrowed may be either Base Rate Loans or Eurodollar Rate Loans and amounts repaid or prepaid during the term may be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.25% to 2.75% and 2.25% to 3.75%, respectively, depending on the Company s Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%. The Eurodollar rate is the British Bankers Association LIBOR Rate.

The Credit Agreement requires the Company to pay an unused Commitment Fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Commitment Fee under the Credit Agreement ranges from 0.375% to 0.75% depending on the Company s Consolidated Leverage Ratio.

The Credit Agreement contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require the Company to maintain certain financial covenants, including specified financial ratios. A material decrease in revenues could cause the Company to breach certain of its financial covenants. Any such breach could allow the Lenders to accelerate the Company s debt which would have a material adverse effect on the Company s business, financial condition or results of operations. The Company s covenants include a Consolidated Leverage Ratio and a Consolidated Debt Service Coverage Ratio. As of March 31, 2012, the Company was in compliance with all applicable financial covenants.

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9. INCOME TAXES

As of March 31, 2012, the Company s taxable corporate subsidiaries had a federal net operating loss carryforwards of approximately $152.8 million, which will begin to expire in 2019 and $184.1 million in state net operating losses, a portion of which expires annually.

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

The Partnership s corporate subsidiaries account for their income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards.

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

The provision for income taxes for the three months ended March 31, 2012 and 2011 is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2012 and 2011, respectively. The Company s effective tax rate differs from its statutory tax rate primarily because the Company s legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

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

10. DEFERRED CEMETERY REVENUES, NET

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

	As of	
	March 31, 2012	**December 31, 2011**
	(in thousands)	
Deferred cemetery revenue	$ 313,249	$ 306,488
Deferred merchandise trust revenue	55,425	50,419
Deferred merchandise trust unrealized gains (losses)	1,120	(7,937)
Deferred pre-acquisition margin	131,083	135,243
Deferred cost of goods sold	(42,528)	(42,335)
Deferred cemetery revenues, net	$ 458,349	$ 441,878
Deferred selling and obtaining costs	$ 70,730	$ 68,542

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

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11. COMMITMENTS AND CONTINGENCIES
Legal

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

Leases

At March 31, 2012, the Company was committed to operating lease payments for premises, automobiles and office equipment under various operating leases with initial terms ranging from one to five years and options to renew at varying terms. Expenses under operating leases were $0.6 million for the three months ended March 31, 2012 and 2011.

At March 31, 2012, operating leases will result in future payments in the following approximate amounts:

	(in thousands)
2013	$ 1,670
2014	1,043
2015	694
2016	668
2017	626
Thereafter	1,242
Total	$ 5,943

12. PARTNERS CAPITAL
Unit-Based Compensation

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

Compensation expense recognized related to unit appreciation rights and restricted phantom unit awards for the three months ended March 31, 2012 and 2011 are summarized in the table below:

	Three months ended March 31,	
	2012	2011
	(in thousands)	
Unit appreciation rights	$ 119	$ 119
Restricted phantom units	79	70
Total unit-based compensation expense	$ 198	$ 189

As of March 31, 2012, there was approximately $0.8 million in non-vested unit appreciation rights outstanding. These unit appreciation rights will be expensed through the first quarter of 2014.

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13. ACQUISITIONS

First Quarter 2012 Acquisition

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

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

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

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

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First Quarter 2011 Acquisition

On January 5, 2011, the Operating Company, StoneMor North Carolina LLC, a North Carolina limited liability company and StoneMor North Carolina Subsidiary LLC, a North Carolina limited liability company, each a wholly-owned subsidiary of the Company (collectively the Buyer), entered into an Asset Purchase and Sale Agreement (the 1st Quarter Purchase Agreement) with Heritage Family Services, Inc., a North Carolina corporation and an individual (collectively the Seller).

Pursuant to the 1st Quarter Purchase Agreement, the Buyer acquired three cemeteries in North Carolina, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller $1.7 million in cash.

The table below reflects the Company s final assessment of the fair value of net assets acquired, the purchase price and the resulting goodwill from the purchase.

	Final Assessment
Assets:	
Accounts receivable	$ 97
Cemetery property	1,710
Merchandise trusts, restricted, at fair value	880
Perpetual care trusts, restricted, at fair value	344
Property and equipment	332
Other assets	100
Total assets	3,463
Liabilities:	
Deferred margin	795
Merchandise liabilities	734
Deferred tax liabilities	64
Perpetual care trust corpus	344
Total liabilities	1,937
Fair value of net assets acquired	1,526
Consideration paid	1,700
Goodwill from purchase	$ 174

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

First Quarter 2012 Contract Termination

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

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

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As part of the termination, the Company will receive a payment of approximately $2.1 million from the Archdiocese. Of this payment, 25% is due in April of 2012 and the remainder is due in quarterly installments over the next three years on the first day of July, October, January and April beginning July 1, 2012. The payment is subject to adjustment for expenses incurred by the Archdiocese for the period prior to March 31, 2012. Upon termination, the Company recognized a gain of $1.8 million, which is the amount by which the receivable from the Archdiocese exceeded the value of the net assets transferred to the Archdiocese.

14. SEGMENT INFORMATION

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

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

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

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

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

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Segment information is as follows:

As of and for the three months ended March 31, 2012:

	Southeast	Cemeteries Northeast	West	Funeral Homes (in thousands)	Corporate	Adjustment	Total
Revenues							
Sales	$ 20,880	$ 8,458	$ 10,031	$	$	$ (8,347)	$ 31,022
Service and other	9,528	6,575	7,523			(3,998)	19,628
Funeral home				9,273		(336)	8,937
Total revenues	30,408	15,033	17,554	9,273		(12,681)	59,587
Costs and expenses							
Cost of sales	4,290	1,674	1,664		3	(1,211)	6,420
Cemetery	5,704	3,065	4,023				12,792
Selling	7,025	3,136	3,212		461	(2,047)	11,787
General and administrative	3,623	1,526	2,044				7,193
Corporate overhead					6,603		6,603
Depreciation and amortization	536	224	568	620	382		2,330
Funeral home				6,799		(43)	6,756
Acquisition related costs					331		331
Total costs and expenses	21,178	9,625	11,511	7,419	7,780	(3,301)	54,212
Operating profit	$ 9,230	$ 5,408	$ 6,043	$ 1,854	$ (7,780)	$ (9,380)	$ 5,375
Total assets	$ 487,479	$ 294,230	$ 386,786	$ 79,211	$ 27,255	$	$ 1,274,961
Amortization of cemetery property	$ 979	$ 560	$ 294	$	$	$ 18	$ 1,851
Long lived asset additions	$ 3,963	$ 549	$ 470	$ 59	$ 412	$	$ 5,453
Goodwill	$ 7,471	$	$ 11,948	$ 17,220	$	$	$ 36,639

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As of and for the three months ended March 31, 2011:

	Southeast	Cemeteries Northeast	West	Funeral Homes (in thousands)	Corporate	Adjustment	Total
Revenues							
Sales	$ 18,743	$ 7,969	$ 10,091	$	$ 2	$ (12,277)	$ 24,528
Service and other	8,360	5,962	8,815			(5,766)	17,371
Funeral home				7,480		(148)	7,332
Total revenues	27,103	13,931	18,906	7,480	2	(18,191)	49,231
Costs and expenses							
Cost of sales	3,718	1,600	1,554			(1,879)	4,993
Cemetery	4,951	3,070	4,065				12,086
Selling	6,416	2,818	2,931		583	(3,204)	9,544
General and administrative	2,976	1,527	1,927		(3)		6,427
Corporate overhead					5,958		5,958
Depreciation and amortization	331	214	509	397	995		2,446
Funeral home				5,309			5,309
Acquisition related costs					933		933
Total costs and expenses	18,392	9,229	10,986	5,706	8,466	(5,083)	47,696
Operating profit	$ 8,711	$ 4,702	$ 7,920	$ 1,774	$ (8,464)	$ (13,108)	$ 1,535
Total assets	$ 429,736	$ 290,298	$ 377,936	$ 48,354	$ 45,712	$	$ 1,192,036
Amortization of cemetery property	$ 753	$ 549	$ 179	$	$	$ (98)	$ 1,383
Long lived asset additions	$ 2,940	$ 263	$ 1,263	$ 46	$ 112	$	$ 4,624
Goodwill	$ 629	$	$ 11,801	$ 5,897	$	$	$ 18,327

Results of individual business units are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to accounting principles generally accepted in the United States of America; therefore, the financial results of individual business units are not necessarily comparable with similar information for any other company. The management accounting process uses assumptions and allocations to measure performance of the business units. Methodologies are refined from time to time as management accounting practices are enhanced and businesses change. Revenues and associated expenses are not deferred in accordance with SAB No. 104 therefore, the deferral of these revenues and expenses is provided in the adjustment column to reconcile the Company s managerial financial statements to those prepared in accordance with GAAP. Pre-need sales revenues included within the sales category consist primarily of the sale of burial lots, burial vaults, mausoleum crypts, grave markers and memorials, and caskets. Management accounting practices included in the Southeast, Northeast, and Western Regions reflect these pre-need sales when contracts are signed by the customer and accepted by the Company. Pre-need sales reflected in the consolidated financial statements, prepared in accordance with GAAP, recognize revenues for the sale of burial lots and mausoleum crypts when the product is constructed and at least 10% of the sales price is collected. With respect to the other products, the consolidated financial statements prepared under GAAP recognize sales revenues when the criteria for delivery under SAB No. 104 are met. These criteria include, among other things, purchase of the product, delivery and installation of the product in the ground, and transfer of title to the customer. In each case, costs are accrued in connection with the recognition of revenues; therefore, the consolidated financial statements reflect Deferred Cemetery Revenue, Net and Deferred Selling and Obtaining Costs on the balance sheet, whereas the Company s management accounting practices exclude these items.

15. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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As of March 31, 2012

Merchandise Trust

Description	Level 1	Level 2 (in thousands)	Total
Assets			
Short-term investments	$ 33,340	$	$ 33,340
Fixed maturities:			
U.S. government and federal agency			
U.S. state and local government agency		23	23
Corporate debt securities		10,121	10,121
Other debt securities		1,100	1,100
Total fixed maturity investments		11,244	11,244
Mutual funds - debt securities	93,486		93,486
Mutual funds - equity securities - real estate sector	26,503		26,503
Mutual funds - equity securities - energy sector	6,265		6,265
Mutual funds - equity securities - MLP s	21,057		