

STONEMOR PARTNERS LP  
Form 10-Q  
November 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from            to            .

Commission File Number: 000-50910

**STONEMOR PARTNERS L.P.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**311 Veterans Highway, Suite B**  
**Levittown, Pennsylvania**  
(Address of principal executive offices)

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

**19056**  
(Zip Code)

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

**Not Applicable**

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of the registrant's outstanding common units at November 9, 2011 was 19,366,971.

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**Table of Contents****Part I Financial Information****Item 1. Financial Statements****StoneMor Partners L.P.****Condensed Consolidated Balance Sheets**

(in thousands)

(unaudited)

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| <b>Assets</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents                                 | \$ 20,135             | \$ 7,535             |
| Accounts receivable, net of allowance                     | 47,741                | 45,149               |
| Prepaid expenses  | 4,951                 | 3,783                |
| Other current assets                                      | 15,027                | 9,002                |
| <b>Total current assets</b>                               | <b>87,854</b>         | <b>65,469</b>        |
| Long-term accounts receivable, net of allowance           | 63,516                | 60,061               |
| Cemetery property   | 295,004               | 283,460              |
| Property and equipment, net of accumulated depreciation   | 70,712                | 66,249               |
| Merchandise trusts, restricted, at fair value             | 306,403               | 318,318              |
| Perpetual care trusts, restricted, at fair value          | 235,359               | 249,690              |
| Deferred financing costs, net of accumulated amortization | 9,059                 | 9,801                |
| Deferred selling and obtaining costs                      | 65,819                | 59,422               |
| Deferred tax assets                                       | 566                   | 605                  |
| Goodwill  | 22,671                | 18,153               |
| Other assets  | 13,490                | 14,364               |
| <b>Total assets</b>                                       | <b>\$ 1,170,453</b>   | <b>\$ 1,145,592</b>  |
| <b>Liabilities and partners capital</b>                   |                       |                      |
| Current liabilities:                                      |                       |                      |
| Accounts payable and accrued liabilities                  | \$ 20,454             | \$ 23,444            |
| Accrued interest  | 5,410                 | 2,034                |
| Current portion, long-term debt                           | 1,743                 | 1,386                |
| <b>Total current liabilities</b>                          | <b>27,607</b>         | <b>26,864</b>        |
| Other long-term liabilities                               | 2,955                 | 3,687                |
| Long-term debt  | 173,816               | 219,008              |
| Deferred cemetery revenues, net                           | 400,002               | 386,465              |
| Deferred tax liabilities                                  | 17,667                | 18,331               |
| Merchandise liability                                     | 118,194               | 113,356              |
| Perpetual care trust corpus                               | 235,359               | 249,690              |
| <b>Total liabilities</b>                                  | <b>975,600</b>        | <b>1,017,401</b>     |

Commitments and Contingencies

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| <b>Partners' capital</b>                |              |              |
|---|--------------|--------------|
| General partner                         | 2,688        | 1,809        |
| Common partners                         | 192,165      | 126,382      |
| Total partners' capital                 | 194,853      | 128,191      |
| Total liabilities and partners' capital | \$ 1,170,453 | \$ 1,145,592 |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****StoneMor Partners L.P.****Condensed Consolidated Statement of Operations**

(in thousands, except unit data)

(unaudited)

|   | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2011                                | 2010      | 2011                               | 2010      |
| <b>Revenues:</b>  |                                     |           |                                    |           |
| Cemetery  |                                     |           |                                    |           |
| Merchandise   | \$ 28,738                           | \$ 25,750 | \$ 81,277                          | \$ 68,576 |
| Services  | 13,295                              | 11,537    | 35,697                             | 29,562    |
| Investment and other  | 10,793                              | 8,335     | 30,495                             | 25,240    |
| Funeral home  |                                     |           |                                    |           |
| Merchandise   | 3,041                               | 2,516     | 9,137                              | 7,378     |
| Services  | 4,458                               | 3,992     | 13,057                             | 10,781    |
| Total revenues  | 60,325                              | 52,130    | 169,663                            | 141,537   |
| <b>Costs and Expenses:</b>  |                                     |           |                                    |           |
| Cost of goods sold (exclusive of depreciation shown separately below):  |                                     |           |                                    |           |
| Perpetual care  | 1,373                               | 1,370     | 4,097                              | 3,727     |
| Merchandise   | 5,787                               | 5,098     | 15,272                             | 12,466    |
| Cemetery expense  | 15,312                              | 13,506    | 42,860                             | 34,839    |
| Selling expense   | 12,192                              | 10,298    | 33,923                             | 27,381    |
| General and administrative expense  | 7,111                               | 6,327     | 20,569                             | 18,086    |
| Corporate overhead (including \$195 and \$190 in unit-based compensation for the three months ended September 30, 2011 and 2010, and \$576 and \$543 for the nine months ended September 30, 2011 and 2010, respectively) | 5,628                               | 5,360     | 17,572                             | 16,054    |
| Depreciation and amortization   | 1,886                               | 2,466     | 6,374                              | 6,205     |
| Funeral home expense  |                                     |           |                                    |           |
| Merchandise   | 982                                 | 967       | 3,197                              | 2,833     |
| Services  | 3,107                               | 2,549     | 8,456                              | 6,884     |
| Other   | 1,779                               | 1,509     | 5,222                              | 4,381     |
| Acquisition related costs   | 1,189                               | 1,963     | 3,147                              | 4,619     |
| Total cost and expenses   | 56,346                              | 51,413    | 160,689                            | 137,475   |
| Operating profit  | 3,979                               | 717       | 8,974                              | 4,062     |
| Expenses related to refinancing   |                                     |           | 453                                |           |
| Gain on acquisitions  |                                     | 59        |                                    | 7,152     |
| Early extinguishment of debt  |                                     |           | 4,010                              |           |
| Increase in fair value of interest rate swaps   |                                     | 1,398     |                                    | 4,637     |
| Interest expense  | 4,824                               | 5,902     | 14,266                             | 15,999    |
| Loss before income taxes  | (845)                               | (3,728)   | (9,755)                            | (148)     |
| Income tax expense (benefit)  |                                     |           |                                    |           |
| State   | 69                                  | (20)      | (829)                              | 34        |
| Federal   | (691)                               | (1,807)   | (2,304)                            | (2,716)   |
| Total income tax expense (benefit)  | (622)                               | (1,827)   | (3,133)                            | (2,682)   |

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|  |          |            |            |          |
|--|----------|------------|------------|----------|
| <b>Net income (loss)</b>   | \$ (223) | \$ (1,901) | \$ (6,622) | \$ 2,534 |
| General partner's interest in net income (loss) for the period                     | \$ (4)   | \$ (38)    | \$ (132)   | \$ 51    |
| Limited partners' interest in net income (loss) for the period                     | \$ (219) | \$ (1,863) | \$ (6,490) | \$ 2,483 |
| Net income (loss) per limited partner unit (basic and diluted)                     | \$ (.01) | \$ (.13)   | \$ (.35)   | \$ .18   |
| Weighted average number of limited partners' units outstanding (basic and diluted) | 19,353   | 13,995     | 18,807     | 13,649   |
| Distributions declared per unit  | \$ .585  | \$ .565    | \$ 1.755   | \$ 1.675 |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

|                               | <b>Partners Capital</b>        |                            |              |
|-------------------------------|--------------------------------|----------------------------|--------------|
|                               | <b>Common<br/>Unit Holders</b> | <b>General<br/>Partner</b> | <b>Total</b> |
| Balance, December 31, 2010    | \$ 126,382                     | \$ 1,809                   | \$ 128,191   |
| Issuance of common units      | 264                            |                            | 264          |
| Proceeds from public offering | 103,207                        |                            | 103,207      |
| General partner contribution  |                                | 2,246                      | 2,246        |
| Compensation related to UARs  | 394                            |                            | 394          |
| Net loss                      | (6,490)                        | (132)                      | (6,622)      |
| Cash distribution             | (31,592)                       | (1,235)                    | (32,827)     |
| Balance, September 30, 2011   | \$ 192,165                     | \$ 2,688                   | \$ 194,853   |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.



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

|  | <b>For the nine months ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2011</b>  | <b>2010</b> |
| <b>Operating activities:</b>   |  |             |
| Net income (loss)  | \$ (6,622)   | \$ 2,534    |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |  |             |
| Cost of lots sold  | 5,004  | 4,414       |
| Depreciation and amortization  | 6,374  | 6,205       |
| Unit-based compensation  | 576  | 543         |
| Accretion of debt discounts  | 950  | 252         |
| Change in fair value of interest rate swaps  |  | (4,637)     |
| Write-off of deferred financing fees   | 453  |             |
| Gain on acquisitions   |  | (7,152)     |
| Fees paid related to early extinguishment of debt  | 4,010  |             |
| Changes in assets and liabilities that provided (used) cash:                             |  |             |
| Accounts receivable  | (5,509)  | (12,014)    |
| Allowance for doubtful accounts  | 3,597  | 2,731       |
| Merchandise trust fund   | (11,681)   | (1,500)     |
| Prepaid expenses   | 586  | (468)       |
| Other current assets   | (6,024)  | (2,041)     |
| Other assets   | 244  | 519         |
| Accounts payable and accrued and other liabilities                                       | (1,290)  | (224)       |
| Deferred selling and obtaining costs   | (6,398)  | (7,755)     |
| Deferred cemetery revenue  | 31,560   | 31,728      |
| Deferred taxes (net)   | (2,476)  | (2,883)     |
| Merchandise liability  | (2,285)  | (495)       |
| Net cash provided by operating activities  | 11,069   | 9,757       |
| <b>Investing activities:</b>   |  |             |
| Cash paid for cemetery property  | (4,258)  | (1,841)     |
| Purchase of subsidiaries   | (10,300)   | (38,462)    |
| Cash paid for management agreements  |  | (346)       |
| Cash paid for property and equipment   | (4,601)  | (4,139)     |
| Net cash used in investing activities  | (19,159)   | (44,788)    |
| <b>Financing activities:</b>   |  |             |
| Cash distribution  | (32,827)   | (23,341)    |
| Additional borrowings on long-term debt  | 27,800   | 63,636      |
| Repayments of long-term debt   | (74,490)   | (40,928)    |
| Proceeds from public offering  | 103,207  | 39,502      |
| Proceeds from general partner contribution   | 2,246  | 1,031       |
| Fees paid related to early extinguishment of debt  | (4,010)  |             |
| Cost of financing activities   | (1,236)  | (390)       |

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|  |           |           |
|--|-----------|-----------|
| Net cash provided by financing activities                        | 20,690    | 39,510    |
| <b>Net increase in cash and cash equivalents</b>                 | 12,600    | 4,479     |
| <b>Cash and cash equivalents - Beginning of period</b>           | 7,535     | 13,479    |
| <b>Cash and cash equivalents - End of period</b>                 | \$ 20,135 | \$ 17,958 |
| <b>Supplemental disclosure of cash flow information</b>          |           |           |
| Cash paid during the period for interest                         | \$ 9,897  | \$ 12,060 |
| Cash paid during the period for income taxes                     | \$ 2,242  | \$ 961    |
| <b>Non-cash investing and financing activities</b>               |           |           |
| Acquisition of assets by financing                               | \$ 237    | \$        |
| Issuance of limited partner units for cemetery acquisition       | \$ 264    | \$ 5,785  |
| Acquisition of asset by assumption of directly related liability | \$        | \$ 2,532  |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Nature of Operations**

StoneMor Partners L.P. ( StoneMor , the Company or the Partnership ) is a provider of funeral and cemetery products and services in the death care industry in the United States. Through its subsidiaries, StoneMor offers a complete range of funeral merchandise and services, along with cemetery property, merchandise and services, both at the time of need and on a pre-need basis. As of September 30, 2011, the Partnership operated 269 cemeteries, 248 of which are owned, in 25 states and Puerto Rico and owned and operated 66 funeral homes in 17 states and Puerto Rico.

**Basis of Presentation**

The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). The unaudited condensed consolidated financial statements also include the effects of retroactive adjustments resulting from the Company s 2010 acquisitions (see Note 13). All interim financial data is unaudited. However, in the opinion of management, the interim financial data as of September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010 include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year. The December 31, 2010 condensed consolidated balance sheet data was derived from audited financial statements in the Company s 2010 Annual Report on Form 10-K ( 2010 Form 10-K ) and has been adjusted to include the effects of retrospective adjustments resulting from the Company s 2010 acquisitions, but does not include all disclosures required by GAAP, which are presented in the Company s 2010 Form 10-K.

**Principles of Consolidation**

The unaudited condensed consolidated financial statements include the accounts of each of the Company s subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The Company operates 21 cemeteries under long-term operating or management contracts. The operations of 15 of these managed cemeteries have been consolidated in accordance with the provisions of Accounting Standards Codification (ASC) 810.

The 3 cemeteries that the Company began operating under a long-term operating agreement in the third quarter of 2010 and 3 other cemeteries the Company operates under long-term operating agreements do not qualify as acquisitions for accounting purposes. As a result, the Company did not consolidate all of the existing assets and liabilities related to these cemeteries. The Company has consolidated the existing assets and liabilities of each of these cemeteries merchandise and perpetual care trusts as variable interest entities since the Company controls and receives the benefits and absorbs any losses from operating these trusts. Under these long-term operating agreements, which are subject to certain termination provisions, the Company is the exclusive operator of these cemeteries. The Company earns revenues related to sales of merchandise, services, and interment rights and incurs expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, the Company will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Company has also recognized the existing merchandise liabilities that it assumed as part of these agreements. See Note 13 for further details on the 3 cemeteries the Company began operating under a long-term operating agreement in the third quarter of 2010.

Total revenues derived from the 21 cemeteries operated under long-term operating or management contracts totaled approximately \$10.0 million and \$27.9 million for the three and nine months ended September 30, 2011, as compared to \$8.7 million and \$24.3 million from these cemetery properties during the same periods last year.

**New Accounting Pronouncements**

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



**Table of Contents****Use of Estimates**

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

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

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

|   | September 30,<br>2011 | As of<br>December 31,<br>2010 |
|---|-----------------------|-------------------------------|
|   | (in thousands)        |                               |
| Customer receivables                    | \$ 146,842            | \$ 135,530                    |
| Unearned finance income                 | (16,269)              | (14,488)                      |
| Allowance for contract cancellations    | (19,316)              | (15,832)                      |
|   | 111,257               | 105,210                       |
| Less: current portion, net of allowance | 47,741                | 45,149                        |
| Long-term portion, net of allowance     | \$ 63,516             | \$ 60,061                     |

Activity in the allowance for contract cancellations is as follows:

|                               | For the nine months ended<br>September 30, |           |
|-------------------------------|--|-----------|
|                               | 2011                                       | 2010      |
|                               | (in thousands)                             |           |
| Balance - Beginning of period | \$ 15,832                                  | \$ 13,865 |
| Provision for cancellations   | 13,799                                     | 11,447    |
| Charge-offs - net             | (10,315)                                   | (7,854)   |
| Balance - End of period       | \$ 19,316                                  | \$ 17,458 |

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Cemetery property consists of the following:

|                                  | September 30,<br>2011 | As of<br>December 31,<br>2010 |
|----------------------------------|-----------------------|-------------------------------|
|                                  | (in thousands)        |                               |
| Developed land                   | \$ 63,313             | \$ 61,849                     |
| Undeveloped land                 | 163,949               | 159,386                       |
| Mausoleum crypts and lawn crypts | 67,742                | 62,225                        |
| Total                            | \$ 295,004            | \$ 283,460                    |

**4. PROPERTY AND EQUIPMENT**

Major classes of property and equipment follow:

|                                | September 30,<br>2011 | As of<br>December 31,<br>2010 |
|--------------------------------|-----------------------|-------------------------------|
|                                | (in thousands)        |                               |
| Building and improvements      | \$ 71,617             | \$ 67,247                     |
| Furniture and equipment        | 36,279                | 31,947                        |
|                                | 107,896               | 99,194                        |
| Less: accumulated depreciation | (37,184)              | (32,945)                      |
| Property and equipment - net   | \$ 70,712             | \$ 66,249                     |

Depreciation expense was \$1.4 million and \$4.3 million for the three and nine months ended September 30, 2011, respectively, as compared to \$1.7 million and \$3.9 million during the same periods last year.

**5. MERCHANDISE TRUSTS**

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

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

Publicly traded mutual funds that invest in underlying debt securities;

Publicly traded mutual funds that invest in underlying equity securities;

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

Fixed maturity debt securities issued by various corporate entities;

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

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

Assets acquired related to the June 22, 2011 acquisition of three cemeteries and four funeral homes from SCI Missouri (see Note 13). According to the terms of the agreement, SCI Missouri was required to liquidate the holdings of the related trusts upon closing and forward the proceeds to us as soon as practicable. As of September 30, 2011, the Company had not received these amounts.

Accordingly, these assets are shown in a single line item in the disclosures below as Assets acquired via acquisition and the cost basis and fair value of such assets are based upon preliminary estimates that the Company is required to make in accordance with Accounting Topic 805.

All of these investments are classified as Available for Sale as defined by the Investments in Debt and Equity topic of the ASC. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. At September 30, 2011, approximately 94.3% of the total managed investments were Level 1 investments while approximately 5.7% were Level 2 assets. There were no Level 3 assets.

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

The Company has included \$6.5 million and \$6.4 million of investments held in trust by the West Virginia Funeral Directors Association at September 30, 2011 and December 31, 2010, respectively, in its merchandise trust assets. As required by law, the Company deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recorded at their account value, which approximates fair value.

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

| As of September 30, 2011               | Cost              | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value     |
|--|-------------------|------------------------------|-------------------------------|-------------------|
|  |                   | (in thousands)               |                               |                   |
| Short-term investments                 | \$ 27,242         | \$                           | \$                            | \$ 27,242         |
| Fixed maturities:                      |                   |                              |                               |                   |
| U.S. Government and federal agency     |                   |                              |                               |                   |
| U.S. State and local government agency | 23                |                              |                               | 23                |
| Corporate debt securities              | 10,357            |                              | (1,020)                       | 9,337             |
| Other debt securities                  | 2,461             |                              |                               | 2,461             |
| <b>Total fixed maturities</b>          | <b>12,841</b>     |                              | <b>(1,020)</b>                | <b>11,821</b>     |
| Mutual funds - debt securities         | 66,684            | 1,948                        | (2,673)                       | 65,959            |
| Mutual funds - equity securities       | 140,021           | 83                           | (15,581)                      | 124,523           |
| Equity securities                      | 66,631            | 1,572                        | (5,604)                       | 62,599            |
| Other invested assets                  | 6,039             |                              | (927)                         | 5,112             |
| <b>Total managed investments</b>       | <b>\$ 319,458</b> | <b>\$ 3,603</b>              | <b>\$ (25,805)</b>            | <b>\$ 297,256</b> |
| Assets acquired via acquisition        | 2,622             |                              |                               | 2,622             |
| West Virginia Trust Receivable         | 6,525             |                              |                               | 6,525             |
| <b>Total</b>                           | <b>\$ 328,605</b> | <b>\$ 3,603</b>              | <b>\$ (25,805)</b>            | <b>\$ 306,403</b> |

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



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|                                |            |           |            |            |
|--------------------------------|------------|-----------|------------|------------|
| Other invested assets          | 4,991      | 217       |            | 5,208      |
| Total managed investments      | \$ 300,569 | \$ 16,610 | \$ (5,303) | \$ 311,876 |
| West Virginia Trust Receivable | 6,442      |           |            | 6,442      |
| Total                          | \$ 307,011 | \$ 16,610 | \$ (5,303) | \$ 318,318 |

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

| As of September 30, 2011               | Less than<br>1 year | 1 year through<br>5 years | 6 years through<br>10 years | More than<br>10 years |
|--|---------------------|---------------------------|-----------------------------|-----------------------|
|  | (in thousands)      |                           |                             |                       |
| U.S. Government and federal agency     | \$                  | \$                        | \$                          | \$                    |
| U.S. State and local government agency | 23                  |                           |                             |                       |
| Corporate debt securities              |                     | 8,544                     | 793                         |                       |
| Other debt securities                  | 2,461               |                           |                             |                       |
| <b>Total fixed maturities</b>          | <b>\$ 2,484</b>     | <b>\$ 8,544</b>           | <b>\$ 793</b>               | <b>\$</b>             |

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

| As of September 30, 2011               | Less than 12 months |                      | 12 Months or more |                      | Total             |                      |
|--|---------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
|  | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses |
|  | (in thousands)      |                      |                   |                      |                   |                      |
| Fixed maturities:                      |                     |                      |                   |                      |                   |                      |
| U.S. Government and federal agency     | \$                  | \$                   | \$                | \$                   | \$                | \$                   |
| U.S. State and local government agency |                     |                      |                   |                      |                   |                      |
| Corporate debt securities              | 8,639               | 862                  | 698               | 158                  | 9,337             | 1,020                |
| Other debt securities                  |                     |                      |                   |                      |                   |                      |
| <b>Total fixed maturities</b>          | <b>8,639</b>        | <b>862</b>           | <b>698</b>        | <b>158</b>           | <b>9,337</b>      | <b>1,020</b>         |
| Mutual funds - debt securities         | 47,518              | 2,422                | 2,350             | 251                  | 49,868            | 2,673                |
| Mutual funds - equity securities       | 64,956              | 6,823                | 54,156            | 8,758                | 119,112           | 15,581               |
| Equity securities                      | 35,768              | 4,125                | 4,921             | 1,479                | 40,689            | 5,604                |
| Other invested assets                  | 1,915               | 927                  |                   |                      | 1,915             | 927                  |
| <b>Total</b>                           | <b>\$ 158,796</b>   | <b>\$ 15,159</b>     | <b>\$ 62,125</b>  | <b>\$ 10,646</b>     | <b>\$ 220,921</b> | <b>\$ 25,805</b>     |

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

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|       |           |        |           |          |           |          |
|-------|-----------|--------|-----------|----------|-----------|----------|
| Total | \$ 12,097 | \$ 283 | \$ 67,277 | \$ 5,020 | \$ 79,374 | \$ 5,303 |
|-------|-----------|--------|-----------|----------|-----------|----------|

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A reconciliation of the Company's merchandise trust activities for the nine months ended September 30, 2011 is presented below:

| Fair Value @ 12/31/2010 | Contributions | Distributions | Interest/ Dividends | Capital Gain Distributions | Realized Gain/ Loss | Taxes   | Fees    | Unrealized Change in Fair Value | Fair Value @ 9/30/2011 |
|-------------------------|---------------|---------------|---------------------|----------------------------|---------------------|---------|---------|---------------------------------|------------------------|
| (in thousands)          |               |               |                     |                            |                     |         |         |                                 |                        |
| \$ 318,318              | 36,451        | (29,535)      | 9,257               | 7,166                      | 1,669               | (1,571) | (1,843) | (33,509)                        | \$ 306,403             |

The Company made net deposits into the trusts of approximately \$6.9 million during the nine months ended September 30, 2011. During the nine months ended September 30, 2011, purchases and sales of securities available for sale included in trust investments were approximately \$263.9 million and \$254.8 million, respectively. Contributions included \$4.1 million of assets that were acquired through acquisitions during the nine months ended September 30, 2011.

**Other-than-temporary Impairments of Trust Assets**

During the nine months ended September 30, 2011, the Company determined that there was a single security with an aggregate cost basis of approximately \$0.2 million and an aggregate fair value of approximately \$0.1 million, resulting in an impairment of \$0.1 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of this asset to its current value and offset this change against deferred revenue. This reduction in deferred revenue will be reflected in earnings in future periods as the underlying merchandise is delivered or the underlying service is performed. During the three months ended September 30, 2011, the Company determined that there were no other than temporary impairments to the investment portfolio for merchandise trusts.

During the three and nine months ended September 30, 2010, the Company determined that there were 17 securities, with an aggregate cost basis of approximately \$40.6 million and \$40.9 million, respectively, an aggregate fair value of approximately \$27.5 million and \$27.6 million, respectively, and a resulting impairment of approximately \$13.1 million and \$13.3 million, respectively, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of this asset to its current value and offset this change against deferred revenue. This reduction in deferred revenue will be reflected in earnings in future periods as the underlying merchandise is delivered or the underlying service is performed.

**6. PERPETUAL CARE TRUSTS**

At September 30, 2011, the Company's perpetual care trusts consisted of the following types of assets:

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

Publicly traded mutual funds that invest in underlying debt securities;

Publicly traded mutual funds that invest in underlying equity securities;

Equity investments that are currently paying dividends or distributions. These investments include REITs, Master Limited Partnerships, and global equity securities;

Fixed maturity debt securities issued by various corporate entities;

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

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

Assets acquired related to the August 17, 2011 acquisition of five cemeteries and four funeral homes from SCI Puerto Rico (see Note 13). According to the terms of the agreement, SCI Puerto Rico was required to liquidate the holdings of the related trusts upon closing and forward the proceeds to us as soon as practicable. As of September 30, 2011, the Company had not received these amounts. Accordingly, these assets are shown in a single line item in the disclosures below as "Assets acquired via acquisition" and the cost basis and fair value of such assets are based upon preliminary estimates that the Company is required to make in accordance with Accounting Topic 805.

All of these investments are classified as Available for Sale as defined by the Investments in Debt and Equity topic of the ASC. Accordingly, all of the assets are carried at fair value. All of these investments are considered to be either Level 1 or Level 2 assets as defined by the Fair Value Measurements and Disclosures topic of the ASC. At September 30, 2011, approximately 90.8% of the total managed investments were Level 1 investments while approximately 9.2% were Level 2 assets. There were no Level 3 assets.

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

| <b>As of September 30, 2011</b>        | <b>Cost</b>       | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|--|-------------------|---------------------------------------|--|-----------------------|
|  |                   | <b>(in thousands)</b>                 |  |                       |
| Short-term investments                 | \$ 17,572         | \$                                    | \$                                     | \$ 17,572             |
| Fixed maturities:                      |                   |                                       |  |                       |
| U.S. Government and federal agency     | 408               | 104                                   |  | 512                   |
| U.S. State and local government agency | 67                | 81                                    |  | 148                   |
| Corporate debt securities              | 22,816            | 171                                   | (1,882)                                | 21,105                |
| Other debt securities                  | 371               |                                       |  | 371                   |
| <b>Total fixed maturities</b>          | <b>23,662</b>     | <b>356</b>                            | <b>(1,882)</b>                         | <b>22,136</b>         |
| Mutual funds - debt securities         | 60,451            | 72                                    | (1,875)                                | 58,648                |
| Mutual funds - equity securities       | 103,879           | 1,054                                 | (12,044)                               | 92,889                |
| Equity Securities                      | 37,914            | 6,263                                 | (657)                                  | 43,520                |
| Other invested assets                  | 448               | 122                                   | (570)                                  |                       |
| <b>Total managed investments</b>       | <b>\$ 243,926</b> | <b>\$ 7,867</b>                       | <b>\$ (17,028)</b>                     | <b>\$ 234,765</b>     |
| Assets acquired via acquisition        | 594               |                                       |  | 594                   |
| <b>Total</b>                           | <b>\$ 244,520</b> | <b>\$ 7,867</b>                       | <b>\$ (17,028)</b>                     | <b>\$ 235,359</b>     |
|  |                   |                                       |  |                       |
| <b>As of December 31, 2010</b>         | <b>Cost</b>       | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|  |                   | <b>(in thousands)</b>                 |  |                       |
| Short-term investments                 | \$ 20,583         | \$                                    | \$                                     | \$ 20,583             |
| Fixed maturities:                      |                   |                                       |  |                       |
| U.S. Government and federal agency     | 515               | 85                                    |  | 600                   |
| U.S. State and local government agency | 67                | 81                                    |  | 148                   |
| Corporate debt securities              | 22,047            | 879                                   | (234)                                  | 22,692                |
| Other debt securities                  | 509               |                                       | (1)                                    | 508                   |
| <b>Total fixed maturities</b>          | <b>23,138</b>     | <b>1,045</b>                          | <b>(235)</b>                           | <b>23,948</b>         |
| Mutual funds - debt securities         | 52,809            | 2,865                                 | (525)                                  | 55,149                |
| Mutual funds - equity securities       | 88,871            | 5,787                                 | (2,878)                                | 91,780                |
| Equity Securities                      | 48,054            | 9,379                                 | (181)                                  | 57,252                |
| Other invested assets                  | 887               | 91                                    |  | 978                   |
| <b>Total</b>                           | <b>\$ 234,342</b> | <b>\$ 19,167</b>                      | <b>\$ (3,819)</b>                      | <b>\$ 249,690</b>     |

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

| As of September 30, 2011               | Less than<br>1<br>year | 1 year through<br>5 years | 6 years through<br>10 years | More than<br>10 years |
|--|------------------------|---------------------------|-----------------------------|-----------------------|
|  | (in thousands)         |                           |                             |                       |
| U.S. Government and federal agency     | \$                     | \$ 388                    | \$ 124                      | \$                    |
| U.S. State and local government agency | 148                    |                           |                             |                       |
| Corporate debt securities              | 129                    | 18,770                    | 2,206                       |                       |
| Other debt securities                  | 371                    |                           |                             |                       |
| <b>Total fixed maturities</b>          | <b>\$ 648</b>          | <b>\$ 19,158</b>          | <b>\$ 2,330</b>             | <b>\$</b>             |

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

| As of September 30, 2011               | Less than 12 months |                      | 12 Months or more |                      | Total             |                      |
|--|---------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
|  | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses |
|  | (in thousands)      |                      |                   |                      |                   |                      |
| Fixed maturities:                      |                     |                      |                   |                      |                   |                      |
| U.S. Government and federal agency     | \$                  | \$                   | \$                | \$                   | \$                | \$                   |
| U.S. State and local government agency |                     |                      |                   |                      |                   |                      |
| Corporate debt securities              | 18,482              | 1,718                | 952               | 164                  | 19,434            | 1,882                |
| Other debt securities                  |                     |                      |                   |                      |                   |                      |
| <b>Total fixed maturities</b>          | <b>18,482</b>       | <b>1,718</b>         | <b>952</b>        | <b>164</b>           | <b>19,434</b>     | <b>1,882</b>         |
| Mutual funds - debt securities         | 55,373              | 1,686                | 1,611             | 189                  | 56,984            | 1,875                |
| Mutual funds - equity securities       | 31,308              | 4,436                | 43,413            | 7,608                | 74,721            | 12,044               |
| Equity securities                      | 6,329               | 649                  | 228               | 8                    | 6,557             | 657                  |
| Other invested assets                  |                     | 570                  |                   |                      |                   | 570                  |
| <b>Total</b>                           | <b>\$ 111,492</b>   | <b>\$ 9,059</b>      | <b>\$ 46,204</b>  | <b>\$ 7,969</b>      | <b>\$ 157,696</b> | <b>\$ 17,028</b>     |

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

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|       |           |        |           |          |           |          |
|-------|-----------|--------|-----------|----------|-----------|----------|
| Total | \$ 12,471 | \$ 380 | \$ 52,268 | \$ 3,439 | \$ 64,739 | \$ 3,819 |
|-------|-----------|--------|-----------|----------|-----------|----------|



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

| Fair Value @ 12/31/2010 | Contributions | Distributions | Interest/ Dividends | Capital Gain Distributions (in thousands) | Realized Gain/ Loss | Taxes | Fees    | Unrealized Change in Fair Value | Fair Value @ 9/30/2011 |
|-------------------------|---------------|---------------|---------------------|---|---------------------|-------|---------|---------------------------------|------------------------|
| \$ 249,690              | 7,452         | (8,971)       | 11,690              | 26  | 2,262               | (865) | (1,416) | (24,509)                        | \$ 235,359             |

The Company made net withdrawals out of the trusts of approximately \$1.5 million during the nine months ended September 30, 2011. During the nine months ended September 30, 2011, purchases and sales of securities available for sale included in trust investments were approximately \$116.3 million and \$111.1 million, respectively. Contributions included \$3.0 million of assets that were acquired through acquisitions during the nine months ended September 30, 2011.

**Other-than-temporary Impairments of Trust Assets**

During the nine months ended September 30, 2011, the Company determined that there was a single security with an aggregate cost basis of less than \$0.1 million which was substantially impaired, and such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of this asset to its current value and offset this change against the liability for perpetual care trust corpus. During the three months ended September 30, 2011, the Company determined that there were no other than temporary impairments to the investment portfolio for perpetual care trusts.

During the three and nine months ended September 30, 2010, the Company determined that there were 3 securities, with an aggregate cost basis of approximately \$25.6 million, an aggregate fair value of approximately \$10.8 million and a resulting impairment of approximately \$14.8 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company has adjusted the cost basis of this asset to its current value and offset this change against the liability for perpetual care trust corpus.

**7. DERIVATIVE INSTRUMENTS**

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

The Interest Rate Swaps did not qualify for hedge accounting. Accordingly, the fair value of the Interest Rate Swaps were reported on the Company's balance sheet and periodic changes in the fair value of the Interest Rate Swaps were recorded in earnings. At September 30, 2010, the Company recorded an asset of approximately \$2.0 million, which represents the fair value of the Interest Rate Swaps. The Company recorded a gain on the fair value of interest rate swaps of approximately \$1.4 million and \$4.6 million during the three and nine months ended September 30, 2010, respectively. The Interest Rate Swaps were terminated in October of 2010.

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

The Company had the following outstanding debt:

|   | September 30,<br>2011 | As of<br>December 31,<br>2010 |
|---|-----------------------|-------------------------------|
|   | (in thousands)        |                               |
| Insurance premium financing                                   | \$ 452                | \$ 215                        |
| Vehicle financing   | 1,222                 | 1,365                         |
| Acquisition Credit Facility, due January 2016                 | 5,500                 | 15,000                        |
| Revolving Credit Facility, due January 2016                   | 18,000                | 18,500                        |
| Note payable - Greenlawn acquisition                          | 1,355                 | 1,400                         |
| Note payable - Nelms acquisition (net of discount)            | 706                   | 866                           |
| Note payable - Acquisition non-competes                       | 1,642                 | 1,646                         |
| 10.25% Senior Notes, due 2017                                 | 150,000               | 150,000                       |
| Class B Senior Secured Notes, due 2012 (interest rate-12.50%) |                       | 17,500                        |
| Class C Senior Secured Notes, due 2012 (interest rate-12.50%) |                       | 17,500                        |
| <b>Total</b>  | <b>178,877</b>        | <b>223,992</b>                |
| Less current portion  | 1,743                 | 1,386                         |
| Less unamortized bond discount                                | 3,318                 | 3,598                         |
| <br>Long-term portion   | <br>\$ 173,816        | <br>\$ 219,008                |

This note includes a summary of material terms of the Company's senior notes, senior secured notes, credit facilities and other debt obligations. For a more detailed description of the Company's long-term debt agreements, see the Company's 2010 Form 10-K.

**10.25% Senior Notes due 2017***Purchase Agreement*

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

*Indenture*

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

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

The Indenture requires the Company, the Issuers and/or the Note Guarantors, as applicable, to comply with various covenants including, but not limited to, covenants that, subject to certain exceptions, limit the Company's and its subsidiaries' ability to (i) incur additional indebtedness; (ii) make certain dividends, distributions, redemptions or investments; (iii) enter into certain transactions with affiliates; (iv) create, incur,

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assume or permit to exist certain liens against their assets; (v) make certain sales of their assets; and (vi) engage in certain mergers, consolidations or sales of all or substantially all of their assets. The Indenture also contains various affirmative covenants regarding, among other things, delivery of certain reports filed with the SEC and materials required pursuant to Rule 144A under the Securities Act to holders of the Senior Notes and joinder of future subsidiaries as Note Guarantors under the Indenture. The Company was in compliance with all financial covenants at September 30, 2011.

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### **Note Purchase Agreement**

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

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

### **Acquisition Credit Facility and Revolving Credit Facility**

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

The Credit Agreement provides for both an acquisition credit facility (the Acquisition Credit Facility) of \$65.0 million and a revolving credit facility (the Revolving Credit Facility) and, together with the Acquisition Credit Facility, the Credit Facility) of \$55.0 million. At September 30, 2011, amounts outstanding under the Credit Facility bear interest at a rate of 5.75%. Amounts borrowed may be either Base Rate Loans or Eurodollar Rate Loans and once repaid or prepaid, amounts under the Acquisition Credit Facility may not be reborrowed. Depending on the type of loan, borrowings bear interest at the Base Rate or Eurodollar Rate, plus applicable margins ranging from 1.75% to 2.75% and 2.75% to 3.75%, respectively, depending on the Company's Consolidated Leverage Ratio. The Base Rate is the highest of the Prime Rate, the Federal Funds Rate plus 0.50%, or the Eurodollar Rate plus 1.0%. The Eurodollar Rate is:

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

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

The maturity date of the Credit Facility is January 29, 2016. The Company's maximum Consolidated Leverage Ratio, which is the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA, is 3.65 to 1.0 for all Measurement Periods ending after December 31, 2010. In addition, the Company will not be permitted to have Maintenance Capital Expenditures, as defined in the Credit Agreement, for any Measurement Period ending in 2011, 2012 and 2013 exceeding \$4.6 million, \$5.2 million and \$5.8 million, respectively, or \$6.5 million for any Measurement Period ending in 2014 or thereafter. The Company will also not permit Consolidated EBITDA for any Measurement Period to be less than the sum of (i) \$52 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after February 9, 2011.

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

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

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

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The Credit Agreement requires the Borrowers to pay an unused commitment fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Commitment Fee Rate ranges from 0.5% to 0.75% depending on the Company's Consolidated Leverage Ratio.

The Credit Agreement contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require the Company to maintain certain financial covenants, including specified financial ratios. A material decrease in revenues could cause the Company to breach certain of its financial covenants, such as the Consolidated Leverage Ratio, Consolidated Fixed Charge Coverage Ratio and the Consolidated EBITDA covenant, under the Credit Agreement. Any such breach could allow the Lenders to accelerate (or create cross-default under) the Company's debt which would have a material adverse effect on the Company's business, financial condition or results of operations. As of September 30, 2011 the Company was in compliance with all applicable financial covenants.

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

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

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

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

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

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

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

any insolvency proceedings by a Borrower or Guarantor;

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

any Change in Control.

**Table of Contents****9. INCOME TAXES**

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

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

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

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

The provision for income taxes for the three and nine months ended September 30, 2011 and 2010 is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2011 and 2010, respectively. The Company's effective tax rate differs from its statutory tax rate primarily because the Company's legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

The Company is not currently under examination by any state jurisdictions. The federal statute of limitations and certain state statutes of limitations are open from 2007 forward. Management believes that the accrual for tax liabilities is adequate for all open years. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. On the basis of present information, it is the opinion of the Company's management that there are no pending assessments that will result in a material effect on the Company's unaudited condensed consolidated financial statements over the next twelve months.

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

**10. DEFERRED CEMETERY REVENUES, NET**

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

|  | September 30,<br>2011 | As of<br>December 31,<br>2010 |
|--|-----------------------|-------------------------------|
|  | (in thousands)        |                               |
| Deferred cemetery revenue                            | \$ 294,464            | \$ 266,754                    |
| Deferred merchandise trust revenue                   | 46,089                | 28,999                        |
| Deferred merchandise trust unrealized gains (losses) | (22,202)              | 11,307                        |
| Deferred pre-acquisition margin                      | 122,914               | 117,309                       |
| Deferred cost of goods sold                          | (41,263)              | (37,904)                      |
| Deferred cemetery revenues, net                      | \$ 400,002            | \$ 386,465                    |
| Deferred selling and obtaining costs                 | \$ 65,819             | \$ 59,422                     |

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



**11. COMMITMENTS AND CONTINGENCIES**

*Legal*

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

**Table of Contents****Leases**

At September 30, 2011, the Company was committed to operating lease payments for premises, automobiles and office equipment under various operating leases with initial terms ranging from one to five years and options to renew at varying terms. Expenses under operating leases were \$0.6 million and \$1.7 million for the three and nine months ended September 30, 2011, respectively, and \$0.6 million and \$1.6 million for the three and nine months ended 2010, respectively.

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

|              | (in thousands)  |
|--------------|-----------------|
| 2012         | \$ 1,711        |
| 2013         | 1,505           |
| 2014         | 946             |
| 2015         | 681             |
| 2016         | 658             |
| Thereafter   | 1,868           |
| <b>Total</b> | <b>\$ 7,369</b> |

**12. PARTNERS CAPITAL****Unit-Based Compensation**

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

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

|  | Three months ended<br>September 30,<br>2011      2010 |               | Nine months ended<br>September 30,<br>2011      2010 |               |
|--|---|---------------|--|---------------|
|  | (in thousands)  |               | (in thousands)                                       |               |
| Unit appreciation rights                     | \$ 119  | \$ 121        | \$ 358   | \$ 364        |
| Restricted phantom units                     | 76  | 69            | 218  | 179           |
| <b>Total unit-based compensation expense</b> | <b>\$ 195</b>   | <b>\$ 190</b> | <b>\$ 576</b>  | <b>\$ 543</b> |

As of September 30, 2011, there was approximately \$1.1 million in non-vested unit appreciation rights outstanding. These unit appreciation rights will be expensed through the first quarter of 2013.

On February 9, 2011, the Company completed a follow on public offering of 3,756,155 common units, including an option to purchase up to 731,155 common units to cover over-allotments which was exercised in full by the underwriters, at a price of \$29.25 per unit, representing a 19.4% interest in the Company. Total gross proceeds from these transactions were approximately \$109.9 million, before offering costs and underwriting discounts. Net proceeds of the offering, including the related capital contribution of the General Partner, after deducting underwriting discounts and offering expenses, were approximately \$105.6 million. As part of this transaction, selling unitholders also sold 1,849,366 common units. The Company did not receive any of the proceeds generated by the sale of any units held by the selling unitholders.

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



**Table of Contents****13. ACQUISITIONS****First Quarter 2011 Acquisition**

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

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

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

|  | <b>Preliminary<br/>Assessment<br/>(in thousands)</b> |
|--|--|
| <b>Assets:</b>                                   |  |
| 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  |
| <br>   |  |
| Total assets                                     | 3,463  |
| <br><b>Liabilities:</b>                          |  |
| Deferred margin                                  | 795  |
| Merchandise liabilities                          | 734  |
| Perpetual care trust corpus                      | 344  |
| <br>   |  |
| Total liabilities                                | 1,873  |
| <br>   |  |
| Fair value of net assets acquired                | 1,590  |
| <br>   |  |
| Consideration paid                               | 1,700  |
| <br>   |  |
| Goodwill from purchase                           | \$ 110   |

**Second Quarter 2011 Acquisition**

On June 22, 2011, the Operating Company, StoneMor Missouri LLC, a Missouri limited liability company and StoneMor Missouri Subsidiary LLC, a Missouri limited liability company, each a wholly-owned subsidiary of the Company (collectively the Buyer), entered into an Asset Purchase and Sale Agreement (the 2nd Quarter Purchase Agreement) with SCI International, LLC, a Delaware limited liability company and Keystone America, Inc., a Delaware corporation (collectively the Seller or SCI Missouri).

Pursuant to the 2nd Quarter Purchase Agreement, the Buyer acquired three cemeteries and four funeral homes in Missouri, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller \$2.15 million in cash.

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

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

**Third Quarter 2011 Acquisitions**

On August 1, 2011, the Operating Company and CFS West Virginia, an affiliate of the Operating Company, (collectively the Buyer) entered into a Stock Purchase Agreement with three individuals (collectively the Seller) to purchase all of the stock of Prince George Cemetery Corporation, a Virginia corporation. Through the purchase of Prince George Cemetery Corporation, the Buyer acquired one cemetery in Virginia. In consideration for the stock acquired, the Buyer paid the Seller approximately \$1.9 million in cash. The Buyer will also pay \$0.3 million in cash in even quarterly installments over a five year period in exchange for non-compete agreements with the Seller.

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

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|  | <b>Preliminary<br/>Assessment<br/>(in thousands)</b> |
|--|--|
| <b>Assets:</b>                                   |  |
| Accounts receivable                              | \$ 89  |
| Cemetery property                                | 2,277  |
| Merchandise trusts, restricted, at fair value    | 577  |
| Perpetual care trusts, restricted, at fair value | 898  |
| Property and equipment                           | 125  |
| Other assets                                     | 160  |
| <br>Total assets                                 | <br>4,126  |
| <b>Liabilities:</b>                              |  |
| Deferred margin                                  | 360  |
| Merchandise liabilities                          | 332  |
| Deferred tax liability                           | 810  |
| Perpetual care trust corpus                      | 898  |
| <br>Total liabilities                            | <br>2,400  |
| <br>Fair value of net assets acquired            | <br>1,726  |
| <br>Consideration paid at closing                | <br>1,850  |
| <br>Consideration to be paid                     | <br>280  |
| <br>Total consideration                          | <br>\$ 2,130   |
| <br>Goodwill from purchase                       | <br>\$ 404   |

Also, on August 17, 2011, the Operating Company, StoneMor Puerto Rico LLC, a Puerto Rico limited liability company and StoneMor Puerto Rico Subsidiary LLC, a Puerto Rico limited liability company, each a wholly-owned subsidiary of the Company (collectively the Buyer), entered into a Stock Purchase Agreement with Alderwoods Group, LLC, a Delaware limited liability company (the Seller or SCI Puerto Rico) to purchase all of the stock of SCI Puerto Rico Funeral and Cemetery Services, Inc., a Puerto Rico corporation. Through the purchase of SCI Puerto Rico Funeral and Cemetery Services, Inc., the Buyer acquired five cemeteries and four funeral homes in Puerto Rico. In consideration for the stock acquired, the Buyer paid the Seller \$4.6 million in cash.

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

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|  | <b>Preliminary<br/>Assessment<br/>(in thousands)</b> |
|--|--|
| <b>Assets:</b>                                   |  |
| Accounts receivable                              | \$ 3,844   |
| Cemetery property                                | 4,730  |
| Perpetual care trusts, restricted, at fair value | 594  |
| Property and equipment                           | 3,570  |
| <br>Total assets                                 | <br>12,738   |
| <b>Liabilities:</b>                              |  |
| Deferred margin                                  | 5,526  |
| Merchandise liabilities                          | 5,100  |
| Deferred tax liability                           | 640  |
| Perpetual care trust corpus                      | 594  |
| <br>Total liabilities                            | <br>11,860   |
| <br>Fair value of net assets acquired            | <br>878  |
| <br>Consideration paid                           | <br>4,600  |
| <br>Goodwill from purchase                       | <br>\$ 3,722   |

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

**First Quarter 2010 Acquisition**

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

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

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

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

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





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

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

**Second Quarter 2010 Acquisition**

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

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

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

## **Settlement Agreement**

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

Pursuant to the Settlement Agreement, StoneMor agreed to assume, pay and discharge a portion of Ansure's and Forest Lawn's obligations under: (i) certain notes issued by Ansure in favor of Fred W. Meyer, Jr., J. Meyer, T. Meyer, and Cade (collectively, the Original Meyer Family ); and (ii) a note issued by Forest Lawn to FTJ, which was later assigned to the Original Meyer Family.

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

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

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

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

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

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

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

## **Unregistered Sale of Securities**

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

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

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

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

If the acquisitions from the first and second quarters of 2010 had been consummated on January 1, 2010, on a pro forma basis, for the three and nine months ended September 30, 2010, consolidated revenues would have been \$55.1 million and \$149.0 million, respectively, consolidated net income (loss) would have been \$(2.1) million and \$1.7 million, respectively and net income (loss) per limited partner unit (basic and diluted) would have been \$(0.15) and \$0.12, respectively.

**Third Quarter 2010 Acquisition and Long-Term Operating Agreement**

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 owned by the Archdiocese.

Key terms and conditions of the operating agreement include, but are not limited to, the following:

1. There was no consideration paid by either party to effect the execution of the Operating Agreement.
2. The Archdiocese will pay the Company a management fee in the amounts of \$0.5 million, \$0.4 million and \$0.3 million during the first three years of the agreement. This fee is in addition to any revenues the Company will earn from operating the property. No monies will be transferred during Year 4. The Company will pay the Archdiocese a fee in an amount equal to 5% of revenues beginning in Year 5. Total amounts paid are capped at \$0.3 million, \$0.4 million and \$0.5 million during years five through seven consecutively.

3. The operating agreement is for a term of 40 years (subject to certain termination rights).
  
4. The Company shall acquire the exclusive rights to all of the property and assets of each cemetery, including but not limited to, the use of all land for interment purposes; the sum of accounts receivable and merchandise trust funds in force for existing pre-need contracts.

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The Company has concluded that this Operating Agreement does not qualify as a variable interest entity because the Company does not control the entity. However, the existing merchandise trust, which had a fair value of approximately \$3.5 million as of the contract date, has been consolidated as a variable interest entity as the Company controls and directly benefits from the operations of the merchandise trust. Other liabilities assumed by the Company have also been recorded as of the contract date. As no consideration was paid in this transaction, the Company has recorded a deferred gain of approximately \$3.1 million within deferred cemetery revenues, net, which represent the excess of the value of the merchandise trust over the liabilities assumed. This amount will be amortized as the Company recognizes the benefits of ownership associated with the merchandise trust.

The table below reflects the amounts recorded on the contract date either through consolidation as a VIE or the assumption of a liability, resulting in a deferred gain.

|   | <b>Final<br/>Assessment<br/>(in thousands)</b> |
|---|--|
| <b>Assets:</b>                                |  |
| Merchandise trusts, restricted, at fair value | \$ 3,493                                       |
| <b>Liabilities:</b>                           |  |
| Deferred margin                               | 208  |
| Merchandise liabilities                       | 192  |
| <br>  |  |
| Net assets recorded                           | 3,093  |
| Consideration paid                            |  |
| <br>  |  |
| Deferred gain                                 | \$ 3,093                                       |

Also during the third quarter of 2010, the Company purchased a single cemetery for \$1.5 million, which included the payoff of an existing mortgage of \$0.3 million. At September 30, 2010, the Company had made a provisional assessment of the fair value of net assets acquired for this transaction. The Company obtained additional information in the fourth quarter of 2010 and had retrospectively adjusted these preliminary values as of December 31, 2010.

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

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|  | Preliminary<br>Assessment | Adjustments<br>(in thousands) | Final<br>Assessment |
|--|---------------------------|-------------------------------|---------------------|
| <b>Assets:</b>                                   |                           |                               |                     |
| Accounts receivable                              | \$ 1,003                  | \$ (134)                      | \$ 869              |
| Cemetery property                                | 2,831                     |                               | 2,831               |
| Property and equipment                           | 607                       |                               | 607                 |
| Merchandise trusts, restricted, at fair value    | 3,080                     |                               | 3,080               |
| Perpetual care trusts, restricted, at fair value | 1,089                     |                               | 1,089               |
| Intangible assets                                | 340                       |                               | 340                 |
| <br>   |                           |                               |                     |
| Total assets                                     | 8,950                     | (134)                         | 8,816               |
| <b>Liabilities:</b>                              |                           |                               |                     |
| Deferred margin                                  | 2,537                     | (133)                         | 2,404               |
| Other liabilities                                | 318                       |                               | 318                 |
| Merchandise liabilities                          | 2,342                     |                               | 2,342               |
| Deferred tax liabilities                         | 1,104                     |                               | 1,104               |
| Perpetual care trust corpus                      | 1,089                     |                               | 1,089               |
| <br>   |                           |                               |                     |
| Total liabilities                                | 7,390                     | (133)                         | 7,257               |
| <br>   |                           |                               |                     |
| Fair value of net assets acquired                | 1,560                     | (1)                           | 1,559               |
| <br>   |                           |                               |                     |
| Consideration paid                               | 1,500                     |                               | 1,500               |
| <br>   |                           |                               |                     |
| Gain on bargain purchase                         | \$ 60                     | \$ (1)                        | \$ 59               |

The results of operations related to this acquisition are not material to the financial statements taken as a whole.

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

**14. SEGMENT INFORMATION**

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

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

The cemetery operations segments sell interment rights, caskets, burial vaults, cremation niches, markers and other cemetery related merchandise. The nature of the Company's customers differs in each of our regionally based cemetery 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.

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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 as of and for the three and nine months ended September 30, 2011 and 2010 is as follows:

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

|                                   | Southeast         | Cemeteries<br>Northeast | West              | Funeral<br>Homes<br>(in thousands) | Corporate         | Adjustment        | Total               |
|-----------------------------------|-------------------|-------------------------|-------------------|------------------------------------|-------------------|-------------------|---------------------|
| <b>Revenues</b>                   |                   |                         |                   |                                    |                   |                   |                     |
| Sales                             | \$ 19,480         | \$ 7,744                | \$ 11,939         | \$                                 | \$                | \$ (5,000)        | \$ 34,163           |
| Service and other                 | 7,354             | 6,007                   | 7,136             |                                    |                   | (1,834)           | 18,663              |
| Funeral home                      |                   |                         |                   | 7,705                              |                   | (206)             | 7,499               |
| <b>Total revenues</b>             | <b>26,834</b>     | <b>13,751</b>           | <b>19,075</b>     | <b>7,705</b>                       |                   | <b>(7,040)</b>    | <b>60,325</b>       |
| <b>Costs and expenses</b>         |                   |                         |                   |                                    |                   |                   |                     |
| Cost of sales                     | 4,056             | 1,965                   | 2,127             |                                    |                   | (988)             | 7,160               |
| Cemetery                          | 6,009             | 3,770                   | 5,533             |                                    |                   |                   | 15,312              |
| Selling                           | 6,686             | 2,693                   | 3,621             |                                    | 130               | (938)             | 12,192              |
| General and administrative        | 3,279             | 1,535                   | 2,297             |                                    |                   |                   | 7,111               |
| Corporate overhead                |                   |                         |                   |                                    | 5,628             |                   | 5,628               |
| Depreciation and amortization     | 425               | 219                     | 444               | 391                                | 407               |                   | 1,886               |
| Funeral home                      |                   |                         |                   | 5,868                              |                   |                   | 5,868               |
| Acquisition related costs         |                   |                         |                   |                                    | 1,189             |                   | 1,189               |
| <b>Total costs and expenses</b>   | <b>20,455</b>     | <b>10,182</b>           | <b>14,022</b>     | <b>6,259</b>                       | <b>7,354</b>      | <b>(1,926)</b>    | <b>56,346</b>       |
| <b>Operating profit</b>           | <b>\$ 6,379</b>   | <b>\$ 3,569</b>         | <b>\$ 5,053</b>   | <b>\$ 1,446</b>                    | <b>\$ (7,354)</b> | <b>\$ (5,114)</b> | <b>\$ 3,979</b>     |
| <b>Total assets</b>               | <b>\$ 438,653</b> | <b>\$ 275,081</b>       | <b>\$ 365,737</b> | <b>\$ 55,117</b>                   | <b>\$ 35,865</b>  | <b>\$</b>         | <b>\$ 1,170,453</b> |
| Amortization of cemetery property | \$ 839            | \$ 442                  | \$ 441            | \$                                 | \$                | \$ (268)          | \$ 1,454            |
| Long lived asset additions        | \$ 7,735          | \$ 472                  | \$ 1,834          | \$ 3,869                           | \$ 236            | \$                | \$ 14,146           |
| Goodwill                          | \$ 3,629          | \$                      | \$ 11,586         | \$ 7,456                           | \$                | \$                | \$ 22,671           |

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As of and for the nine months ended September 30, 2011:

|                                   | Southeast        | Cemeteries<br>Northeast | West             | Funeral<br>Homes<br>(in thousands) | Corporate          | Adjustment         | Total           |
|-----------------------------------|------------------|-------------------------|------------------|------------------------------------|--------------------|--------------------|-----------------|
| <b>Revenues</b>                   |                  |                         |                  |                                    |                    |                    |                 |
| Sales                             | \$ 59,448        | \$ 24,277               | \$ 34,960        | \$                                 | \$ 5               | \$ (25,203)        | \$ 93,487       |
| Service and other                 | 23,533           | 17,586                  | 22,207           |                                    |                    | (9,344)            | 53,982          |
| Funeral home                      |                  |                         |                  | 22,749                             |                    | (555)              | 22,194          |
| <b>Total revenues</b>             | <b>82,981</b>    | <b>41,863</b>           | <b>57,167</b>    | <b>22,749</b>                      | <b>5</b>           | <b>(35,102)</b>    | <b>169,663</b>  |
| <b>Costs and expenses</b>         |                  |                         |                  |                                    |                    |                    |                 |
| Cost of sales                     | 12,128           | 5,281                   | 5,743            |                                    |                    | (3,783)            | 19,369          |
| Cemetery                          | 17,036           | 10,739                  | 15,085           |                                    |                    |                    | 42,860          |
| Selling                           | 20,292           | 8,464                   | 10,336           |                                    | 807                | (5,976)            | 33,923          |
| General and administrative        | 9,547            | 4,555                   | 6,469            |                                    | (2)                |                    | 20,569          |
| Corporate overhead                |                  |                         |                  |                                    | 17,572             |                    | 17,572          |
| Depreciation and amortization     | 1,183            | 663                     | 1,686            | 1,118                              | 1,724              |                    | 6,374           |
| Funeral home                      |                  |                         |                  | 16,875                             |                    |                    | 16,875          |
| Acquisition related costs         |                  |                         |                  |                                    | 3,147              |                    | 3,147           |
| <b>Total costs and expenses</b>   | <b>60,186</b>    | <b>29,702</b>           | <b>39,319</b>    | <b>17,993</b>                      | <b>23,248</b>      | <b>(9,759)</b>     | <b>160,689</b>  |
| <b>Operating profit</b>           | <b>\$ 22,795</b> | <b>\$ 12,161</b>        | <b>\$ 17,848</b> | <b>\$ 4,756</b>                    | <b>\$ (23,243)</b> | <b>\$ (25,343)</b> | <b>\$ 8,974</b> |
| Total assets                      | \$ 438,653       | \$ 275,081              | \$ 365,737       | \$ 55,117                          | \$ 35,865          | \$                 | \$ 1,170,453    |
| Amortization of cemetery property | \$ 2,592         | \$ 1,582                | \$ 835           | \$                                 | \$                 | \$ (597)           | \$ 4,412        |
| Long lived asset additions        | \$ 11,607        | \$ 1,223                | \$ 5,111         | \$ 5,909                           | \$ 540             | \$                 | \$ 24,390       |
| Goodwill                          | \$ 3,629         | \$                      | \$ 11,586        | \$ 7,456                           | \$                 | \$                 | \$ 22,671       |

As of and for the three months ended September 30, 2010:

|                               | Southeast     | Cemeteries<br>Northeast | West          | Funeral<br>Homes<br>(in thousands) | Corporate | Adjustment      | Total         |
|-------------------------------|---------------|-------------------------|---------------|------------------------------------|-----------|-----------------|---------------|
| <b>Revenues</b>               |               |                         |               |                                    |           |                 |               |
| Sales                         | \$ 18,807     | \$ 8,474                | \$ 10,232     | \$                                 | \$        | \$ (8,166)      | \$ 29,347     |
| Service and other             | 7,610         | 6,153                   | 6,898         |                                    |           | (4,386)         | 16,275        |
| Funeral home                  |               |                         |               | 6,688                              |           | (180)           | 6,508         |
| <b>Total revenues</b>         | <b>26,417</b> | <b>14,627</b>           | <b>17,130</b> | <b>6,688</b>                       |           | <b>(12,732)</b> | <b>52,130</b> |
| <b>Costs and expenses</b>     |               |                         |               |                                    |           |                 |               |
| Cost of sales                 | 3,975         | 1,988                   | 1,783         |                                    |           | (1,278)         | 6,468         |
| Cemetery                      | 5,354         | 3,482                   | 4,670         |                                    |           |                 | 13,506        |
| Selling                       | 5,967         | 2,690                   | 3,112         |                                    | 172       | (1,643)         | 10,298        |
| General and administrative    | 3,004         | 1,502                   | 1,812         |                                    | 9         |                 | 6,327         |
| Corporate overhead            |               |                         |               |                                    | 5,360     |                 | 5,360         |
| Depreciation and amortization | 417           | 192                     | 454           | 253                                | 1,150     |                 | 2,466         |
| Funeral home                  |               |                         |               | 5,025                              |           |                 | 5,025         |
| Acquisition related costs     |               |                         |               |                                    | 1,963     |                 | 1,963         |

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|                                   |            |            |            |           |            |            |              |
|-----------------------------------|------------|------------|------------|-----------|------------|------------|--------------|
| Total costs and expenses          | 18,717     | 9,854      | 11,831     | 5,278     | 8,654      | (2,921)    | 51,413       |
| <b>Operating profit</b>           | \$ 7,700   | \$ 4,773   | \$ 5,299   | \$ 1,410  | \$ (8,654) | \$ (9,811) | \$ 717       |
| Total assets                      | \$ 369,567 | \$ 260,912 | \$ 348,006 | \$ 48,668 | \$ 92,475  | \$         | \$ 1,119,628 |
| Amortization of cemetery property | \$ 760     | \$ 544     | \$ 182     | \$        | \$         | \$ (92)    | \$ 1,394     |
| Long lived asset additions        | \$ 476     | \$ 3,611   | \$ 1,476   | \$ 202    | \$ 31      | \$         | \$ 5,796     |
| Goodwill                          | \$ 456     | \$         | \$ 11,304  | \$ 5,818  | \$         | \$         | \$ 17,578    |

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As of and for the nine months ended September 30, 2010:

|                                   | Southeast        | Cemeteries<br>Northeast | West             | Funeral<br>Homes<br>(in thousands) | Corporate          | Adjustment         | Total           |
|-----------------------------------|------------------|-------------------------|------------------|------------------------------------|--------------------|--------------------|-----------------|
| <b>Revenues</b>                   |                  |                         |                  |                                    |                    |                    |                 |
| Sales                             | \$ 58,231        | \$ 25,250               | \$ 26,469        | \$                                 | \$                 | \$ (33,613)        | \$ 76,337       |
| Service and other                 | 19,039           | 16,424                  | 13,223           |                                    |                    | (1,645)            | 47,041          |
| Funeral home                      |                  |                         |                  | 18,651                             |                    | (492)              | 18,159          |
| <b>Total revenues</b>             | <b>77,270</b>    | <b>41,674</b>           | <b>39,692</b>    | <b>18,651</b>                      |                    | <b>(35,750)</b>    | <b>141,537</b>  |
| <b>Costs and expenses</b>         |                  |                         |                  |                                    |                    |                    |                 |
| Cost of sales                     | 11,975           | 5,298                   | 4,311            |                                    | 7                  | (5,398)            | 16,193          |
| Cemetery                          | 15,057           | 9,822                   | 9,963            |                                    |                    | (3)                | 34,839          |
| Selling                           | 18,490           | 8,087                   | 7,843            |                                    | 490                | (7,529)            | 27,381          |
| General and administrative        | 8,910            | 4,473                   | 4,690            |                                    | 13                 |                    | 18,086          |
| Corporate overhead                |                  |                         |                  |                                    | 16,054             |                    | 16,054          |
| Depreciation and amortization     | 1,155            | 571                     | 759              | 820                                | 2,900              |                    | 6,205           |
| Funeral home                      |                  |                         |                  | 14,120                             |                    | (22)               | 14,098          |
| Acquisition related costs         |                  |                         |                  |                                    | 4,619              |                    | 4,619           |
| <b>Total costs and expenses</b>   | <b>55,587</b>    | <b>28,251</b>           | <b>27,566</b>    | <b>14,940</b>                      | <b>24,083</b>      | <b>(12,952)</b>    | <b>137,475</b>  |
| <b>Operating profit</b>           | <b>\$ 21,683</b> | <b>\$ 13,423</b>        | <b>\$ 12,126</b> | <b>\$ 3,711</b>                    | <b>\$ (24,083)</b> | <b>\$ (22,798)</b> | <b>\$ 4,062</b> |
| Total assets                      | \$ 369,567       | \$ 260,912              | \$ 348,006       | \$ 48,668                          | \$ 92,475          | \$                 | \$ 1,119,628    |
| Amortization of cemetery property | \$ 2,345         | \$ 1,615                | \$ 475           | \$                                 | \$                 | \$ (482)           | \$ 3,953        |
| Long lived asset additions        | \$ 2,440         | \$ 4,524                | \$ 64,402        | \$ 8,055                           | \$ 78              | \$                 | \$ 79,499       |
| Goodwill                          | \$ 456           | \$                      | \$ 11,304        | \$ 5,818                           | \$                 | \$                 | \$ 17,578       |

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 unaudited condensed 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 unaudited condensed 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 unaudited condensed 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.

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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.

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 and liabilities measured at fair value as of September 30, 2011 and December 31, 2010.

**Table of Contents****As of September 30, 2011****Merchandise Trust**

| Description   | Level 1    | Level 2<br>(in thousands) | Total      |
|---|------------|---------------------------|------------|
| <b>Assets</b>   |            |                           |            |
| Short-term investments                                | \$ 27,242  | \$                        | \$ 27,242  |
| Fixed maturities:                                     |            |                           |            |
| U.S. government and federal agency                    |            |                           |            |
| U.S. state and local government agency                |            | 23                        | 23         |
| Corporate debt securities                             |            | 9,337                     | 9,337      |
| Other debt securities                                 |            | 2,461                     | 2,461      |
| Total fixed maturity investments                      |            | 11,821                    | 11,821     |
| Mutual funds - debt securities                        | 65,959     |                           | 65,959     |
| Mutual funds - equity securities - real estate sector | 19,998     |                           | 19,998     |
| Mutual funds - equity securities - energy sector      | 24,421     |                           | 24,421     |
| Mutual funds - equity securities - MLP s              | 18,488     |                           | 18,488     |
| Mutual funds - equity securities - other              | 61,616     |                           | 61,616     |
| Equity securities                                     |            |                           |            |
| Preferred REIT s                                      | 9,027      |                           | 9,027      |
| Master limited partnerships                           | 34,314     |                           | 34,314     |
| Global equity securities                              | 19,258     |                           | 19,258     |
| Other invested assets                                 |            | 5,112                     | 5,112      |
| Total   | \$ 280,323 | \$ 16,933                 | \$ 297,256 |

**Perpetual Care Trust**

| Description   | Level 1   | Level 2<br>(in thousands) | Total     |
|---|-----------|---------------------------|-----------|
| <b>Assets</b>   |           |                           |           |
| Short-term investments                                | \$ 17,572 | \$                        | \$ 17,572 |
| Fixed maturities:                                     |           |                           |           |
| U.S. government and federal agency                    | 512       |                           | 512       |
| U.S. state and local government agency                |           | 148                       | 148       |
| Corporate debt securities                             |           | 21,105                    | 21,105    |
| Other debt securities                                 |           | 371                       | 371       |
| Total fixed maturity investments                      | 512       | 21,624                    | 22,136    |
| Mutual funds - debt securities                        | 58,648    |                           | 58,648    |
| Mutual funds - equity securities - real estate sector | 22,144    |                           | 22,144    |
| Mutual funds - equity securities - energy sector      | 17,368    |                           | 17,368    |
| Mutual funds - equity securities - MLP s              | 12,467    |                           | 12,467    |
| Mutual funds - equity securities - other              | 40,910    |                           | 40,910    |
| Equity securities                                     |           |                           |           |
| Preferred REIT s                                      | 19,505    |                           | 19,505    |
| Master limited partnerships                           | 23,379    |                           | 23,379    |
| Global equity securities                              | 636       |                           | 636       |

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Other invested assets

|       |            |           |            |
|-------|------------|-----------|------------|
| Total | \$ 213,141 | \$ 21,624 | \$ 234,765 |
|-------|------------|-----------|------------|



**Table of Contents****As of December 31, 2010****Merchandise Trust**

| Description   | Level 1    | Level 2<br>(in thousands) | Total      |
|---|------------|---------------------------|------------|
| <b>Assets</b>   |            |                           |            |
| Short-term investments                                | \$ 40,723  | \$                        | \$ 40,723  |
| Fixed maturities:                                     |            |                           |            |
| U.S. government and federal agency                    |            |                           |            |
| U.S. state and local government agency                |            | 23                        | 23         |
| Corporate debt securities                             |            | 9,940                     | 9,940      |
| Other debt securities                                 |            | 1,538                     | 1,538      |
| Total fixed maturity investments                      |            | 11,501                    | 11,501     |
| Mutual funds - debt securities                        | 52,518     |                           | 52,518     |
| Mutual funds - equity securities - real estate sector | 12,761     |                           | 12,761     |
| Mutual funds - equity securities - energy sector      | 29,119     |                           | 29,119     |
| Mutual funds - equity securities - MLP s              | 20,077     |                           | 20,077     |
| Mutual funds - equity securities - other              | 64,708     |                           | 64,708     |
| Equity securities                                     |            |                           |            |
| Preferred REIT s                                      | 16,549     |                           | 16,549     |
| Master limited partnerships                           | 36,520     |                           | 36,520     |
| Global equity securities                              | 22,192     |                           | 22,192     |
| Other invested assets                                 |            | 5,208                     | 5,208      |
| Total   | \$ 295,167 | \$ 16,709                 | \$ 311,876 |

**Perpetual Care Trust**

| Description   | Level 1   | Level 2<br>(in thousands) | Total     |
|---|-----------|---------------------------|-----------|
| <b>Assets</b>   |           |                           |           |
| Short-term investments                                | \$ 20,583 | \$                        | \$ 20,583 |
| Fixed maturities:                                     |           |                           |           |
| U.S. government and federal agency                    | 600       |                           | 600       |
| U.S. state and local government agency                |           | 148                       | 148       |
| Corporate debt securities                             |           | 22,692                    | 22,692    |
| Other debt securities                                 |           | 508                       | 508       |
| Total fixed maturity investments                      | 600       | 23,348                    | 23,948    |
| Mutual funds - debt securities                        | 55,149    |                           | 55,149    |
| Mutual funds - equity securities - real estate sector | 13,026    |                           | 13,026    |
| Mutual funds - equity securities - energy sector      | 21,340    |                           | 21,340    |
| Mutual funds - equity securities - MLP s              | 13,564    |                           | 13,564    |
| Mutual funds - equity securities - other              | 43,850    |                           | 43,850    |
| Equity securities                                     |           |                           |           |
| Preferred REIT s                                      | 31,050    |                           | 31,050    |
| Master limited partnerships                           | 25,426    |                           | 25,426    |
| Global equity securities                              | 776       |                           | 776       |

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|                       |                   |                  |                   |
|-----------------------|-------------------|------------------|-------------------|
| Other invested assets |                   | 978              | 978               |
| <b>Total</b>          | <b>\$ 225,364</b> | <b>\$ 24,326</b> | <b>\$ 249,690</b> |

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

**16. RESTATEMENT OF SEPTEMBER 30, 2010 CONSOLIDATED FINANCIAL STATEMENTS**

As previously disclosed in the Company's 2010 Form 10-K, during the third quarter of 2010, the Company became the exclusive operator of three cemeteries under long-term operating agreements. The Company had previously concluded that through these operating agreements it had obtained control over variable interest entities and accordingly, the Company applied purchase accounting to record its interest in these variable interest entities. It was subsequently determined that these cemeteries did not qualify as variable interest entities. The Company also determined that it did not obtain control either under the voting interest model or by contract. As a result, the Company concluded that the cemeteries should not have been consolidated and purchase accounting rules should not have been applied. The unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2010 and the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2010 have been revised to deconsolidate these cemeteries and remove a gain of approximately \$6.4 million that was recognized upon execution of the agreements.

Further, as part of these agreements, the Company has assumed certain liabilities and has assumed control of the underlying merchandise trusts related to these cemeteries. These trusts were previously and continue to be properly consolidated as variable interest entities. See Note 13 for a more detailed discussion of the net assets that have been recognized as a result of these transactions.

The following is a summary of the impact of the restatement on the unaudited condensed consolidated financial statements:

**For the three months ended September 30, 2010**

| <b>Condensed Consolidated Statement of Operations</b>          | <b>As Previously<br/>Reported</b> | <b>Adjustment</b> | <b>As<br/>Restated</b> |
|--|-----------------------------------|-------------------|------------------------|
| Cost of goods sold merchandise                                 | \$ 5,150                          | \$ (52)           | \$ 5,098               |
| Depreciation and amortization                                  | 2,261                             | 205               | 2,466                  |
| Acquisition related costs                                      | 2,167                             | (204)             | 1,963                  |
| Operating profit   | 656                               | 61                | 717                    |
| Gain on acquisitions   | 6,656                             | (6,597)           | 59                     |
| Income tax benefit   | (1,829)                           | 2                 | (1,827)                |
| Net income (loss)  | 4,645                             | (6,546)           | (1,901)                |
| General partner's interest in net income (loss) for the period | 93                                | (131)             | (38)                   |
| Limited partners' interest in net income (loss) for the period | 4,552                             | (6,415)           | (1,863)                |
| Net income (loss) per limited partner unit - basic and diluted | \$ .33                            | \$ (.46)          | \$ (.13)               |

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For the nine months ended September 30, 2010

|  | As Previously<br>Reported | Adjustment | As<br>Restated |
|--|---------------------------|------------|----------------|
| <b>Condensed Consolidated Statement of Operations</b>              |                           |            |                |
| Cost of goods sold merchandise                                     | \$ 12,572                 | \$ (106)   | \$ 12,466      |
| Depreciation and amortization                                      | 5,918                     | 287        | 6,205          |
| Acquisition related costs  | 4,823                     | (204)      | 4,619          |
| Operating profit   | 4,029                     | 33         | 4,062          |
| Gain on acquisitions   | 29,968                    | (22,816)   | 7,152          |
| Income tax benefit   | (2,683)                   | 1          | (2,682)        |
| Net income (loss)  | 25,326                    | (22,792)   | 2,534          |
| General partner's interest in net income (loss) for the period     | 510                       | (459)      | 51             |
| General partner's IDR interest in net income (loss) for the period | 6,250                     | (6,250)    |                |
| Limited partners' interest in net income (loss) for the period     | 18,565                    | (16,082)   | 2,483          |
| Net income (loss) per limited partner unit - basic and diluted     | \$ 1.36                   | \$ (1.18)  | \$ .18         |

|   | As Previously<br>Reported | Adjustment | As<br>Restated |
|---|---------------------------|------------|----------------|
| <b>Condensed Consolidated Statement of Cash Flows</b> |                           |            |                |
| Net cash provided by operating activities             | \$ 9,433                  | \$ 324     | \$ 9,757       |
| Net cash used in investing activities                 | \$ (44,464)               | \$ (324)   | \$ (44,788)    |

**17. SUBSEQUENT EVENTS**

In October of 2011, the Company acquired three cemeteries and three funeral homes in Tennessee. The cemeteries and funeral homes were purchased out of a state court-appointed receivership for approximately \$5.0 million in cash. The Company is in the process of assessing the allocation of the purchase price and the fair value of the net assets acquired in this transaction.

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

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

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

**Forward-Looking Statements**

Certain statements contained in this Quarterly Report on Form 10-Q, including, but not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management, assumptions regarding our future performance and plans, and any financial guidance provided, as well as certain information in other filings with the SEC and elsewhere are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words believe, may, will, estimate, continue, anticipate, intend, project, expect, predict and similar expressions identify these forward-looking statements. Forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated, including, but not limited to, the following: uncertainties associated with future revenue and revenue growth; the effect of the current economic downturn; the impact of our significant leverage on our operating plans; our ability to service our debt and pay distributions; the decline in the fair value of certain equity and debt securities held in our trusts; our ability to attract, train and retain an adequate number of sales people; uncertainties associated with the volume and timing of pre-need sales of cemetery services and products; increased use of cremation; changes in the death rate; changes in the political or regulatory environments, including potential changes in tax accounting and trusting policies; our ability to successfully



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implement a strategic plan relating to producing operating improvements, strong cash flows and further deleveraging; 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; and various other uncertainties associated with the death care industry and our operations in particular.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, this Quarterly Report on Form 10-Q and our other reports filed with the SEC. We assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

## **Organization**

We were organized on April 2, 2004 to own and operate the cemetery and funeral home business conducted by Cornerstone and its subsidiaries. On September 20, 2004, in connection with our initial public offering of common units representing limited partner interests, Cornerstone contributed to us substantially all of its assets, liabilities and businesses, and then converted into CFSI LLC, a limited liability company.

Cornerstone had been founded in 1999 by members of our management team and a private equity investment firm, which we refer to as McCown De Leeuw, in order to acquire a group of 123 cemetery properties and 4 funeral homes. Since that time, Cornerstone, succeeded by us, has acquired additional cemeteries and funeral homes, entered into long term cemetery operating agreements, built funeral homes, and sold cemeteries and funeral homes, resulting in the operation of 269 cemeteries and 66 funeral homes.

## **Capitalization**

In September of 2004, we completed our initial public offering. Since that time, we have completed additional follow on public offerings and debt offerings.

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

## **Overview**

### ***Cemetery Operations***

We are currently the second largest owner and operator of cemeteries in the United States. As of September 30, 2011, we operated 269 cemeteries in 25 states and Puerto Rico. We own 248 of these cemeteries, and we operate the remaining 21 under management or operating agreements with the nonprofit cemetery corporations that own the cemeteries. As a result of the agreements, other control arrangements and applicable accounting rules, we have treated 15 of these cemeteries as acquisitions for accounting purposes.

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

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We sell cemetery products and services both at the time of death, which we refer to as at-need, and prior to the time of death, which we refer to as pre-need. Revenues from cemetery operations accounted for approximately 87.6% and 86.9% of our revenues during the three and nine months ended September 30, 2011 as compared to 87.5% and 87.2% during the same periods last year.

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

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

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

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

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

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

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

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

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

the merchandise is complete and ready for installation; or

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

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

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

## Pre-need Sales

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

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

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



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Contracts related to pre-need installment sales are usually for a period not to exceed 60 months, with payments of principal and interest required. Pre-need sales contracts normally contain provisions for both principal and interest. For those contracts that do not bear a market rate of interest, we impute such interest based upon the prime rate plus 150 basis points, which resulted in a rate of 4.75% for the three and nine months ended September 30, 2011 and 2010.

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

In certain cases, pre-need contracts will be cancelled before they are fully paid. In these circumstances, we are generally permitted to retain amounts already paid to us, including any amounts that were required to be deposited into trust. In certain other cases, the products and services purchased under a pre-need contract are needed for interment before payment has been made in full. In these cases, we are generally entitled to be immediately paid in full for any amounts still outstanding.

### At-need Sales

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

### Expenses

We analyze and categorize our operating expenses as follows:

#### 1. Cost of goods sold and selling expenses

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

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

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

#### 2. Cemetery Expenses

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

#### 3. General and administrative expenses

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

#### 4. Depreciation and amortization

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



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### 5. Acquisition related costs

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

### ***Funeral Home Operations***

As of September 30, 2011, we owned and operated 66 funeral homes. These properties are located in seventeen states and Puerto Rico. Thirty five of our funeral homes are located on the grounds of cemeteries that we own.

We derive revenues at our funeral homes from the sale of funeral home merchandise, including caskets and related funeral merchandise, and services, including removal and preparation of remains, the use of our facilities for visitation, worship and performance of funeral services and transportation services. We sell these services and merchandise almost exclusively at the time of need utilizing salaried licensed funeral directors. Funeral home revenues accounted for approximately 12.4% and 13.1% of our revenues during the three and nine months ended September 30, 2011 as compared to 12.5% and 12.8% during the same periods last year.

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

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

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

### ***Corporate***

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

### ***2011 Developments***

Significant business developments for the nine months ended September 30, 2011 include the following:

On January 5, 2011, we entered into an Asset Purchase and Sale Agreement with Heritage Family Services, Inc., a North Carolina Corporation and an individual. Pursuant to this agreement, we acquired three cemeteries in North Carolina, including certain related assets and liabilities. In consideration for the transfer, we paid \$1.7 million in cash.

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

On June 22, 2011, we entered into an Asset Purchase and Sale Agreement with SCI International, LLC, a Delaware limited liability company and Keystone America, Inc., a Delaware corporation. Pursuant to this agreement, we acquired three cemeteries and four

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funeral homes in Missouri, including certain related assets and liabilities. In consideration for the transfer, we paid \$2.15 million in cash.

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On August 1, 2011, we entered into a Stock Purchase Agreement with three individuals to purchase all of the stock of Prince George Cemetery Corporation, a Virginia corporation. Pursuant to this agreement, we acquired one cemetery in Virginia. In consideration for the transfer, we paid approximately \$1.9 million in cash and will pay an additional \$0.3 million in cash in even quarterly installments over the next five years.

On August 17, 2011, we entered into a Stock Purchase Agreement with Alderwoods Group, LLC, a Delaware limited liability company, to purchase all of the stock of SCI Puerto Rico Funeral and Cemetery Services, Inc., a Puerto Rico corporation. Pursuant to this agreement, we acquired five cemeteries and four funeral homes in Puerto Rico. In consideration for the transfer, we paid \$4.6 million in cash.

### **Current Market Conditions and Economic Developments**

As of September 30, 2011, the market value of the assets in our merchandise trust was 93.2% of their amortized cost, but exceeded their amortized cost by 3.7% at December 31, 2010. As of September 30, 2011, the market value of the assets in our perpetual care trust was 96.3% of their amortized cost, but exceeded their amortized cost by 6.5% at December 31, 2010. This quarter is the first time that the aggregate market value of the investments in our trusts has decreased below their amortized cost since the period ended June 30, 2010. This decline is directly related to a decline in overall global market conditions.

We were able to raise capital via a follow on public offering of our common units, representing a limited partnership interest in us, in February of 2011 and September of 2010. In addition, as of September 30, 2011, the majority of our long-term debt consists of \$150.0 million in Senior Notes which is due in 2017 and \$18.0 million and \$5.5 million of borrowings on our Revolving Credit Facility and Acquisition Credit Facility, respectively. We also have unused lines of credit on our revolving and acquisition credit facilities of \$37.0 million and \$59.5 million, respectively.

The value of pre-need and at-need contracts written has not deteriorated and the aggregate values of contracts written were \$59.8 million and \$180.9 million for the three and nine months ended September 30, 2011 as compared to \$57.5 million and \$164.4 million during the same periods last year.

### ***Impact on Our Ability to Meet Our Debt Covenants***

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

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

The leverage ratio relates to the ratio of consolidated debt to the Profitability Measure. This measure was significantly improved due to the pay down of debt using proceeds from our February 2011 follow on public offering of common units as well as the third quarter 2010 public offering of common units. Our leverage ratio is 2.79 at September 30, 2011 as opposed to a maximum allowed ratio of 3.65. The coverage ratio relates to the excess of the Profitability Measure less distributions made to partners over fixed charges. After giving effect to the First Amendment to the Credit Agreement, we were in compliance with our coverage ratio at June 30, 2011. Our coverage ratio was 1.08 at September 30, 2011. On October 28, 2011, we entered into the Second Amendment to the Credit Agreement which reduced the coverage ratio to a minimum allowed ratio of 1.05 for the third and fourth quarters of 2011, effective on a retroactive basis to August 31, 2011.

### **Segment Reporting and Related Information**

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

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



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

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

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

## **Critical Accounting Policies and Estimates**

The unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements required us to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods (see Note 1 to the unaudited condensed consolidated financial statements). Our critical accounting policies are those that are both important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgment. These critical accounting policies are discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2010 Form 10-K. There have been no significant changes to our critical accounting policies since the filing of our 2010 Form 10-K.

## ***Results of Operations – Segments***

### **Three Months Ended September 30, 2011 Compared to the Three Months ended September 30, 2010**

#### **Cemetery Segments**

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

We account for and analyze the results of operations for each of these segments on a basis of accounting that is different from generally accepted accounting principals. We reconcile these non-GAAP accounting results of operations to GAAP based amounts at the consolidated level. This reconciliation is included in Note 14 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

The method of accounting we utilize to analyze our overall results of operations, including segment results, provides for a production based view of our business. Under the production based view, we recognize revenues at their contract value at the point in time in which the contract is written, less a historic cancellation reserve. All related costs are expensed in the period the contract is recognized as revenue. In contrast, GAAP requires that we defer all revenues, and the direct costs associated with these revenues, until we meet certain delivery and performance requirements. The nature of our business is such that there is no meaningful relationship between the time that elapses from the date a contract is executed and the date the underlying merchandise is delivered or the service, delivery and performance requirements are met. Further, certain factors affecting this time period, such as weather and supplier issues, are out of our control. As a result, during a period of growth, operating profits as defined by GAAP will tend to lag behind operating profits on a production based view because of the required deferral of revenues. Our performance based view ignores these delays and presents results based upon the underlying value of contracts written. We believe this is the most reliable indicator of our performance for a given period as the value of contracts written less a historical cancellation reserve reflects the economic value added during a given period of time. Accordingly, the ensuing segment discussion is on a basis of accounting that differs from generally accepted accounting principles. See Note 1 to the consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 for a more detailed discussion of our accounting policies under GAAP.





**Table of Contents****Cemetery Operations Southeast**

In 2010 and 2011, we made several acquisitions in our Cemetery Operations Southeast segment. Of these acquisitions, 3 occurred during the first quarter of 2011 and 6 occurred during the third quarter of 2011. Therefore, the results of operations for these properties have no impact on the three months ended September 30, 2010, but are included in the three months ended September 30, 2011. These additions are contributing the entire increase in revenues and just over half of the increase to costs and expenses for this segment.

The table below compares the results of operations for our Cemetery Operations Southeast for the three months ended September 30, 2011 to the same period last year:

|                          | 2011      | 2010      | Three months ended<br>September 30,<br>Change (\$)<br>(in thousands)<br>(non-GAAP) | Change (%) |
|--------------------------|-----------|-----------|--|------------|
| Total revenues           | \$ 26,834 | \$ 26,417 | \$ 417   | 1.6%       |
| Total costs and expenses | 20,455    | 18,717    | 1,738  | 9.3%       |
| Operating profit         | \$ 6,379  | \$ 7,700  | \$ (1,321)   | -17.2%     |

**Revenues**

Revenues for Cemetery Operations Southeast were \$26.8 million for the three months ended September 30, 2011, an increase of \$0.4 million, or 1.6%, compared to \$26.4 million during the same period last year.

The increase was related to an overall increase in the value of contracts written, with an increase of \$0.6 million in the value of pre-need contracts and \$0.2 million in the value of at-need contracts. This was partially offset by a decrease of \$0.5 million in income from our trusts.

**Total costs and expenses**

Total costs and expenses for Cemetery Operations Southeast were \$20.5 million for the three months ended September 30, 2011, an increase of \$1.8 million, or 9.3%, compared to \$18.7 million during the same period last year.

The increase was primarily related to:

A \$0.1 million increase in cost of goods sold. This was attributable to the corresponding increase in the value of contracts written.

A \$0.7 million increase in selling expenses. This was primarily attributable to an increase of \$0.4 million in salary and benefit expenses, and \$0.2 million in commission related expenses and \$0.1 million in telephone and telemarketing costs.

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

A \$0.3 million increase in general and administrative expense primarily due to a \$0.2 million increase in labor costs and other increases in general office costs.



**Table of Contents****Cemetery Operations Northeast**

The table below compares the results of operations for our Cemetery Operations Northeast for the three months ended September 30, 2011 to the same period last year:

|                          | 2011      | 2010      | Three months ended<br>September 30,<br>Change (\$)<br>(in thousands)<br>(non-GAAP) | Change (%) |
|--------------------------|-----------|-----------|--|------------|
| Total revenues           | \$ 13,751 | \$ 14,627 | \$ (876)   | -6.0%      |
| Total costs and expenses | 10,182    | 9,854     | 328  | 3.3%       |
| Operating profit         | \$ 3,569  | \$ 4,773  | \$ (1,204)   | -25.2%     |

**Revenues**

Revenues for Cemetery Operations Northeast were \$13.7 million for the three months ended September 30, 2011, a decrease of \$0.9 million, or 6.0%, compared to \$14.6 million during the same period last year.

The decrease is related to an overall decrease in the value of contracts written of \$0.6 million in the value of pre-need contracts and a decrease of \$0.3 million in income from our trusts.

**Total costs and expenses**

Total costs and expenses for Cemetery Operations Northeast were \$10.2 million for the three months ended September 30, 2011, an increase of \$0.3 million, or 3.3%, compared to \$9.9 million during the same period last year.

The increase was primarily related to:

A \$0.3 million increase in cemetery expenses. The increase was primarily due to increases of \$0.2 million in labor costs and \$0.1 million in maintenance costs and real estate taxes.

**Cemetery Operations West**

In 2010 and 2011, we made several acquisitions in our Cemetery Operations West segment. Of these acquisitions, 3 occurred during the third quarter of 2010, 1 during the fourth quarter of 2010 and 3 during the second quarter of 2011. Therefore, the results of operations for some of these properties have little or no impact on the three months ended September 30, 2010, but are included in the three months ended September 30, 2011. These additions are contributing just over half of the increases to revenues and costs and expenses for this segment.

The table below compares the results of operations for our Cemetery Operations West for the three months ended September 30, 2011 to the same period last year:

|                          | 2011      | 2010      | Three months ended<br>September 30,<br>Change (\$)<br>(in thousands)<br>(non-GAAP) | Change (%) |
|--------------------------|-----------|-----------|--|------------|
| Total revenues           | \$ 19,075 | \$ 17,130 | \$ 1,945   | 11.4%      |
| Total costs and expenses | 14,022    | 11,831    | 2,191  | 18.5%      |

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|                  |          |          |          |       |
|------------------|----------|----------|----------|-------|
| Operating profit | \$ 5,053 | \$ 5,299 | \$ (246) | -4.6% |
|------------------|----------|----------|----------|-------|

Revenues

Revenues for Cemetery Operations West were \$19.1 million for the three months ended September 30, 2011, an increase of \$2.0 million, or 11.4%, compared to \$17.1 million during the same period last year.

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The increase was primarily related to an increase of \$1.2 million in the value of pre-need contracts written, an increase of \$0.6 million in the value of at-need contracts written and an increase of \$0.1 million in income from our trusts.

**Total costs and expenses**

Total costs and expenses for Cemetery Operations West were \$14.0 million for the three months ended September 30, 2011, an increase of \$2.2 million, or 18.5%, compared to \$11.8 million during the same period last year.

The increase was primarily related to:

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

A \$0.5 million increase in selling expense. This was primarily attributable to an increase of \$0.2 million in commission related expenses, \$0.1 million in salary and benefit expenses and \$0.2 million in telephone and telemarketing costs.

A \$0.9 million increase in cemetery expenses. The increase was primarily due to increases of \$0.5 million in labor costs and \$0.3 million in repair and maintenance costs, with the remainder attributable to utilities and other general operating costs.

A \$0.5 million increase in general and administrative expenses. The increase was primarily due to increases of \$0.2 million in labor costs, \$0.1 million in insurance costs, \$0.1 million in professional fees and \$0.1 million in general office costs.

**Funeral Home Segment**

In 2010 and 2011, we acquired several funeral homes. Of these acquisitions, 1 occurred during the fourth quarter of 2010, 4 occurred during the second quarter of 2011 and 4 occurred during the third quarter of 2011. Therefore, the results of operations for these properties have no impact on the three months ended September 30, 2010, but are included in the three months ended September 30, 2011. These additions are contributing close to half of the increases to revenues and costs and expenses for this segment.

The table below compares the results of operations for our Funeral Home segment for the three months ended September 30, 2011 as compared to the same period last year:

|                          | 2011     | Three months ended<br>September 30,<br>2010 |          | Change (%) |
|--------------------------|----------|---|----------|------------|
|                          |          | Change (\$)<br>(in thousands)<br>(non-GAAP) |          |            |
| Total revenues           | \$ 7,705 | \$ 6,688                                    | \$ 1,017 | 15.2%      |
| Total costs and expenses | 6,259    | 5,278                                       | 981      | 18.6%      |
| Operating profit         | \$ 1,446 | \$ 1,410                                    | \$ 36    | 2.6%       |

**Revenues**

Revenues for the Funeral Home segment were \$7.7 million for the three months ended September 30, 2011, an increase of \$1.0 million, or 15.2%, compared to \$6.7 million during the same period last year.

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The increase was primarily attributable to a \$0.5 million increase in pre-need revenues, a \$0.4 million increase in at-need revenues and a \$0.1 million increase in other revenues.

**Table of Contents****Total costs and expenses**

Total costs and expenses for the Funeral Home segment were \$6.3 million for the three months ended September 30, 2011, an increase of \$1.0 million, or 18.6%, compared to \$5.3 million during the same period last year.

The increase was primarily attributable to an increase of \$0.6 million in personnel expenses, \$0.1 million in advertising costs, and \$0.1 million in depreciation expense, with the remainder attributable to various increases in other general expense categories.

**Corporate Segment**

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

Miscellaneous selling, cemetery and general administrative expenses that are not allocable to other operating segments.

Various home office and other expenses. These expenses equal the total corporate expenses as shown on the face of the income statement.

Certain depreciation and amortization expenses.

Gains and losses and purchases and sales of cemetery and funeral home properties.

Acquisition related costs.

The table below details expenses incurred by the Corporate segment for the three months ended September 30, 2011 and for the same period last year:

|   | 2011            | Three months ended<br>September 30,<br>2010 |                   | Change (%)    |
|---|-----------------|---|-------------------|---------------|
|   |                 | Change (\$)<br>(in thousands)<br>(non-GAAP) |                   |               |
| Selling, cemetery and general and administrative expenses | \$ 130          | \$ 181                                      | \$ (51)           | -28.2%        |
| Depreciation and amortization                             | 407             | 1,150                                       | (743)             | -64.6%        |
| Acquisition related costs                                 | 1,189           | 1,963                                       | (774)             | -39.4%        |
| Corporate expenses  |                 |   |                   |               |
| Corporate personnel expenses                              | 3,050           | 2,623                                       | 427               | 16.3%         |
| Other corporate expenses                                  | 2,578           | 2,737                                       | (159)             | -5.8%         |
| <b>Total corporate overhead</b>                           | <b>5,628</b>    | <b>5,360</b>                                | <b>268</b>        | <b>5.0%</b>   |
| <b>Total corporate expenses</b>                           | <b>\$ 7,354</b> | <b>\$ 8,654</b>                             | <b>\$ (1,300)</b> | <b>-15.0%</b> |

Selling, cemetery and general administrative expenses allocated to the Corporate segment were \$0.1 million for the three months ended September 30, 2011, a decrease of \$0.1 million, or 28.2% compared to \$0.2 million during the same period last year.

Total corporate overhead was \$5.6 million for the three months ended September 30, 2011, an increase of \$0.3 million, or 5.0% compared to \$5.3 million during the same period last year. The increase was primarily attributable to an increase of \$0.4 million in labor costs offset by a

decrease of \$0.1 million in other corporate expenses.

**Reconciliation of Segment Results of Operations to Consolidated Results of Operations**

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



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

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

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

The table below analyzes results of operations and the changes therein for the three months ended September 30, 2011 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/ or changes in the timing of when merchandise and services were delivered:

|                                       | Three months ended<br>September 30, 2011<br>(in thousands) |                        |                 | Three months ended<br>September 30, 2010<br>(in thousands) |                        |                 | Change in<br>GAAP results<br>(\$) | Change in<br>GAAP results<br>(%) |
|---------------------------------------|--|------------------------|-----------------|--|------------------------|-----------------|-----------------------------------|----------------------------------|
|                                       | Segment<br>Results<br>(non-GAAP)                           | Non-segment<br>Results | GAAP<br>Results | Segment<br>Results<br>(non-GAAP)                           | Non-segment<br>Results | GAAP<br>Results |                                   |                                  |
| <b>Revenues</b>                       |  |                        |                 |  |                        |                 |                                   |                                  |
| Pre-need cemetery revenues            | \$ 29,794  | \$ (4,103)             | \$ 25,691       | \$ 28,762  | \$ (7,856)             | \$ 20,906       | \$ 4,785                          | 22.9%                            |
| At-need cemetery revenues             | 19,565   | (746)                  | 18,819          | 18,501   | (68)                   | 18,433          | 386                               | 2.1%                             |
| Investment income from trusts         | 8,315  | (2,155)                | 6,160           | 9,101  | (4,892)                | 4,209           | 1,951                             | 46.4%                            |
| Interest income                       | 1,442  |                        | 1,442           | 1,371  |                        | 1,371           | 71                                | 5.2%                             |
| Funeral home revenues                 | 7,705  | (206)                  | 7,499           | 6,688  | (180)                  | 6,508           | 991                               | 15.2%                            |
| Other cemetery revenues               | 544  | 170                    | 714             | 439  | 264                    | 703             | 11                                | 1.6%                             |
| <b>Total revenues</b>                 | <b>67,365</b>  | <b>(7,040)</b>         | <b>60,325</b>   | <b>64,862</b>  | <b>(12,732)</b>        | <b>52,130</b>   | <b>8,195</b>                      | <b>15.7%</b>                     |
| <b>Costs and expenses</b>             |  |                        |                 |  |                        |                 |                                   |                                  |
| Cost of goods sold                    | 8,148  | (988)                  | 7,160           | 7,746  | (1,278)                | 6,468           | 692                               | 10.7%                            |
| Cemetery expense                      | 15,312   |                        | 15,312          | 13,506   |                        | 13,506          | 1,806                             | 13.4%                            |
| Selling expense                       | 13,130   | (938)                  | 12,192          | 11,941   | (1,643)                | 10,298          | 1,894                             | 18.4%                            |
| General and administrative<br>expense | 7,111  |                        | 7,111           | 6,327  |                        | 6,327           | 784                               | 12.4%                            |
| Corporate overhead                    | 5,628  |                        | 5,628           | 5,360  |                        | 5,360           | 268                               | 5.0%                             |
| Depreciation and amortization         | 1,886  |                        | 1,886           | 2,466  |                        | 2,466           | (580)                             | -23.5%                           |
| Funeral home expense                  | 5,868  |                        | 5,868           | 5,025  |                        | 5,025           | 843                               | 16.8%                            |
| Acquisition related costs             | 1,189  |                        | 1,189           | 1,963  |                        | 1,963           | (774)                             | -39.4%                           |
| <b>Total costs and expenses</b>       | <b>58,272</b>  | <b>(1,926)</b>         | <b>56,346</b>   | <b>54,334</b>  | <b>(2,921)</b>         | <b>51,413</b>   | <b>4,933</b>                      | <b>9.6%</b>                      |
| <b>Operating profit</b>               | <b>\$ 9,093</b>  | <b>\$ (5,114)</b>      | <b>\$ 3,979</b> | <b>\$ 10,528</b>   | <b>\$ (9,811)</b>      | <b>\$ 717</b>   | <b>\$ 3,262</b>                   | <b>455.0%</b>                    |

**Revenues**

Pre-need cemetery revenues were \$25.7 million for the three months ended September 30, 2011, an increase of \$4.8 million, or 22.9%, as compared to \$20.9 million during the same period last year. The increase was primarily caused by an increase of \$1.0 million in the value of cemetery contracts written and a decrease of \$3.8 million in deferred revenue.

At-need cemetery revenues were \$18.8 million for the three months ended September 30, 2011, an increase of \$0.4 million, or 2.1%, as compared to \$18.4 million during the same period last year. The increase was primarily caused by an increase of \$1.1 million in the value of

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cemetery contracts written, offset by an increase of \$0.7 million in deferred revenue.

The increase in the value of pre-need and at-need contracts was primarily driven by our Cemetery Operations - West segment where we acquired 3 cemeteries during the third quarter of 2010, 1 during the fourth quarter of 2010, and 3 during the second quarter of 2011. Therefore, the results of operations for these cemeteries are included in the three months ended September 30, 2011, but have little or no impact on the three months ended September 30, 2010.

Investment income from trusts was \$6.2 million for the three months ended September 30, 2011, an increase of \$2.0 million, or

46.4%, as compared to \$4.2 million during the same period last year. On a segment basis, we had a decrease of \$0.8 million, which was offset by an adjustment of \$2.8 million related to funds for which we have met the requirements that allow us to recognize them as revenue.

Interest income on accounts receivable was \$1.5 million for the three months ended September 30, 2011, an increase of \$0.1 million, or 5.2%, as compared to \$1.4 million during the same period last year.

Revenues for the Funeral Home segment were \$7.5 million for the three months ended September 30, 2011, an increase of \$1.0 million, or 15.2%, compared to \$6.5 million during the same period last year. The majority of the increase was driven by the 9 funeral homes we acquired subsequent to the third quarter of 2010, and was primarily attributable to a \$0.4 million increase in at-need revenues, a \$0.5 million increase in pre-need revenues and a \$0.1 million increase in other revenues.

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Other cemetery revenues remained consistent at \$0.7 million for the three months ended September 30, 2011 and 2010.

**Costs and Expenses**

Cost of goods sold were \$7.2 million during the three months ended September 30, 2011, an increase of \$0.7 million, or 10.7%, as compared to \$6.5 million during the same period last year. The ratio of cost of goods sold to pre-need and at-need cemetery revenues decreased slightly to 16.1% during the three months ended September 30, 2011 as compared to 16.4% during the same period last year. The change in the ratio primarily relates to changes in product mix.

Cemetery expenses were \$15.3 million during the three months ended September 30, 2011, an increase of \$1.8 million, or 13.4%, compared to \$13.5 million during the same period last year. The major components of the overall expense increase were \$1.0 million in labor costs, \$0.6 million in repairs and maintenance expenditures, and \$0.2 million in utility and fuel cost. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 31.0% during the three months ended September 30, 2011 as compared to 28.6% during the same period last year.

Selling expenses were \$12.2 million during the three months ended September 30, 2011, an increase of \$1.9 million, or 18.4%, as compared to \$10.3 million during the same period last year. The major components of the overall expense increase were \$0.4 million in commissions, \$0.5 million in salaries and benefits, \$0.3 million in telephone and telemarketing costs, and a reduction in deferred selling expenses of \$0.7 million. The ratio of selling expenses to cemetery revenues increased to 27.4% during the three months ended September 30, 2011 as compared to 26.2% during the same period last year. This ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, the majority of our selling expenses are sales commissions and bonuses which are based on a percentage of the value of actual contracts written. As a result, we would expect this ratio to remain fairly consistent.

General and administrative expenses were \$7.1 million during the three months ended September 30, 2011, an increase of \$0.8 million, or 12.4%, compared to \$6.3 million during the same period last year. The majority of the increase was primarily due to an increase of \$0.5 million in labor costs, with the remaining increase attributable to insurance costs, professional fees, general office supplies and other miscellaneous expenses. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our general and administrative costs relative to our overall cemetery operations. An increase in the ratio indicates that general and administrative percentage expense increases related to our cemetery properties exceeded percent increases in the value of contracts written, while a decrease in the ratio indicates that expense growth on a percentage basis did not exceed percent increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decrease as many of the expenses in this category are fixed in nature. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues remained relatively consistent and was 14.4% during the three months ended September 30, 2011 compared to 13.4% during the same period last year.

Total corporate overhead was \$5.6 million during the three months ended September 30, 2011, an increase of \$0.3 million, or 5.0%, compared to \$5.3 million during the same period last year. The increase was primarily caused by an increase of \$0.4 million in labor costs offset by a decrease of \$0.1 million in other corporate expenses.

Depreciation and amortization was \$1.9 million during the three months ended September 30, 2011, a decrease of \$0.6 million, or 23.5%, as compared to \$2.5 million during the period last year. The decrease was primarily due to reduced amortization of debt financing fees.

Funeral home expenses were \$5.9 million for the three months ended September 30, 2011, an increase of \$0.9 million, or 16.8%, as compared to \$5.0 million during the same period last year. The increase was primarily attributable to an increase of \$0.6 million in personnel expenses and \$0.1 million in advertising costs, with the remainder attributable to various increases in other general expense categories.



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Acquisition related costs were \$1.2 million for the three months ended September 30, 2011, a decrease of \$0.8 million, or 39.4%, as compared to \$2.0 million during the same period last year. These costs will vary from period to period depending on the amount of acquisition activity that takes place.

**Non-segment Allocated Results**

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

The table below summarizes these items and the changes between the three months ended September 30, 2011 and 2010:

|   | 2011     | 2010       | Three months ended<br>September 30,<br>Change (\$)<br>(in thousands)<br>(non-GAAP) | Change (%) |
|---|----------|------------|--|------------|
| Increase in fair value of interest rate swaps | \$       | \$ 1,398   | \$ (1,398)   | -100.0%    |
| Interest expense                              | 4,824    | 5,902      | (1,078)  | -18.3%     |
| Gain on acquisitions                          |          | 59         | (59)   | -100.0%    |
| Income tax benefit                            | \$ (622) | \$ (1,827) | \$ 1,205   | -66.0%     |

We entered into two interest rate swaps during the fourth quarter of 2009. During the three months ended September 30, 2010, there was a favorable increase in the fair value of the interest rate swaps of \$1.4 million. The interest rate swaps were terminated in the fourth quarter of 2010.

Interest expense decreased as a result of our reduced debt. The average debt outstanding under our credit facilities was \$18.3 million for the three months ended September 30, 2011 compared to \$52.8 million for the three months ended September 30, 2010. We also had \$35.0 million of Senior Secured Notes outstanding at September 30, 2010. The Senior Secured Notes were repaid in February of 2011. In addition, the decrease in interest expense for the 3 months ended September 30, 2010 was partially offset by interest rate swaps that reduced our interest payments and expense by approximately \$0.4 million. The interest rate swaps were terminated in fourth quarter of 2010.

The gain on acquisition relates to our third quarter 2010 acquisition. See Note 13 of our unaudited condensed consolidated financial statements in Item 1 of this Form 10-Q for a more detailed discussion.

Income tax benefit was \$0.6 million for the three months ended September 30, 2011, a decrease of \$1.2 million, or 66.0%, as compared to \$1.8 million during the same period last year. Our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

**Nine Months Ended September 30, 2011 Compared to the Nine Months Ended September 30, 2010****Cemetery Operations Southeast**

In 2010 and 2011, we made several acquisitions in our Cemetery Operations Southeast segment. Of these acquisitions, 2 occurred during the second quarter of 2010, 3 during the first quarter of 2011 and 6 during the third quarter of 2011. Therefore, the results of operations for these properties have less of an impact, and in some cases little or no impact, on the nine months ended September 30, 2010, but are included in the nine months ended September 30, 2011. These additions are contributing 38% of the increase to revenues and 45% of the increase to costs and expenses for this segment.

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The table below compares the results of operations for our Cemetery Operations Southeast for the nine months ended September 30, 2011 to the same period last year:

|                          | 2011      | 2010      | Nine months ended<br>September 30,<br>Change (\$)<br>(in thousands)<br>(non-GAAP) | Change (%) |
|--------------------------|-----------|-----------|---|------------|
| Total revenues           | \$ 82,981 | \$ 77,270 | \$ 5,711  | 7.4%       |
| Total costs and expenses | 60,186    | 55,587    | 4,599   | 8.3%       |
| Operating profit         | \$ 22,795 | \$ 21,683 | \$ 1,112  | 5.1%       |

**Revenues**

Revenues for Cemetery Operations Southeast were \$83.0 million for the nine months ended September 30, 2011, an increase of \$5.7 million, or 7.4%, compared to \$77.3 million during the same period last year.

The increase was related to an overall increase in the value of contracts written, with an increase of \$1.1 million in the value of pre-need contracts and \$0.9 million in the value of at-need contracts. We also had an increase of \$3.5 million in income from our trusts.

**Total costs and expenses**

Total costs and expenses for Cemetery Operations Southeast were \$60.2 million for the nine months ended September 30, 2011, an increase of \$4.6 million, or 8.3%, compared to \$55.6 million during the same period last year.

The increase was primarily related to:

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

A \$1.8 million increase in selling expenses. This was primarily attributable to an increase of \$1.0 million in salary and benefit expenses, \$0.5 million in commission related expenses and \$0.2 million in telephone and telemarketing costs.

A \$2.0 million increase in cemetery expenses. The increase was primarily due to increases of \$0.9 million in labor costs, \$0.7 million in repair and maintenance costs, \$0.1 million in real estate taxes and \$0.3 million in utility and fuel costs.

A \$0.6 million increase in general and administrative expense primarily due to an increase of \$0.3 million in labor costs and \$0.3 million in other general office and miscellaneous costs.

**Cemetery Operations Northeast**

The table below compares the results of operations for our Cemetery Operations Northeast for the nine months ended September 30, 2011 to the same period last year:

Nine months ended  
September 30,

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|                          | 2011      | 2010      | Change (\$)    | Change (%) |
|--------------------------|-----------|-----------|----------------|------------|
|                          |           |           | (in thousands) |            |
|                          |           |           | (non-GAAP)     |            |
| Total revenues           | \$ 41,863 | \$ 41,674 | \$ 189         | 0.5%       |
| Total costs and expenses | 29,702    | 28,251    | 1,451          | 5.1%       |
| Operating profit         | \$ 12,161 | \$ 13,423 | \$ (1,262)     | -9.4%      |

**Table of Contents**Revenues

Revenues for Cemetery Operations Northeast were \$41.9 million for the nine months ended September 30, 2011, an increase of \$0.2 million, or 0.5%, compared to \$41.7 million during the same period last year.

On an overall basis, we had a decrease in the value of contracts written, with an increase of \$0.7 million in the value of at-need contracts being offset by a decrease of \$0.9 million in the value of pre-need contracts. In addition, we had an increase of \$0.4 million in income from our trusts.

Total costs and expenses

Total costs and expenses for Cemetery Operations Northeast were \$29.7 million for the nine months ended September 30, 2011, an increase of \$1.4 million, or 5.1%, compared to \$28.3 million during the same period last year.

The increase was primarily related to:

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

A \$0.9 million increase in cemetery expenses. The increase was primarily due to increases of \$0.5 million in labor costs, \$0.1 million in utility and fuel costs, \$0.2 million in repair and maintenance costs and \$0.1 million in real estate taxes.

A \$0.1 million increase in general and administrative expense primarily due to an increase in labor costs and other general office and miscellaneous costs.

A \$0.1 million increase in depreciation.

**Cemetery Operations West**

In 2010 and 2011, we made several acquisitions in our Cemetery Operations West segment. Of these acquisitions, 9 occurred at the end of the first quarter of 2010, 6 occurred at the end of the second quarter of 2010, 3 during the third quarter of 2010, 1 during the fourth quarter of 2010 and 3 during the second quarter of 2011. Therefore, the results of operations for these properties have less of an impact, and in some cases little or no impact, on the nine months ended September 30, 2010, but are included in the nine months ended September 30, 2011. These additions are contributing most of the increases to revenues and costs and expenses for this segment.

The table below compares the results of operations for our Cemetery Operations West for the nine months ended September 30, 2011 to the same period last year:

|                          | 2011      | 2010      | Nine months ended<br>September 30,<br>Change (\$)<br>(in thousands)<br>(non-GAAP) | Change (%) |
|--------------------------|-----------|-----------|---|------------|
| Total revenues           | \$ 57,167 | \$ 39,692 | \$ 17,475   | 44.0%      |
| Total costs and expenses | 39,319    | 27,566    | 11,753  | 42.6%      |
| Operating profit         | \$ 17,848 | \$ 12,126 | \$ 5,722  | 47.2%      |

Revenues



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Revenues for Cemetery Operations West were \$57.2 million for the nine months ended September 30, 2011, an increase of \$17.5 million, or 44.0%, compared to \$39.7 million during the same period last year.

The increase was primarily related to an increase of \$5.7 million in the value of pre-need contracts written, an increase of \$5.7 million in the value of at-need contracts written and an increase of \$5.6 million in income from our trusts.

**Table of Contents**Total costs and expenses

Total costs and expenses for Cemetery Operations West were \$39.3 million for the nine months ended September 30, 2011, an increase of \$11.8 million, or 42.6%, compared to \$27.5 million during the same period last year.

The increase was primarily related to:

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

A \$2.5 million increase in selling expense. The increase was primarily due to increases of \$1.1 million in commissions, \$0.9 million in labor costs and \$0.4 million in telephone and telemarketing costs.

A \$5.1 million increase in cemetery expenses. The increase was primarily due to increases of \$2.8 million in labor costs, \$0.6 million in utility and fuel costs, \$1.0 million in repair and maintenance costs and \$0.5 million in real estate taxes.

A \$1.8 million increase in general and administrative expenses. The increase was primarily due to increases of \$1.1 million in labor costs, \$0.3 million in insurance costs and several other smaller increases in other general office and miscellaneous costs.

A \$1.0 million increase in depreciation.

**Funeral Home Segment**

In 2010 and 2011, we acquired several funeral homes. Of these acquisitions, 5 occurred during the second quarter of 2010, 1 occurred during the fourth quarter of 2010, 4 occurred during the second quarter of 2011 and 4 occurred during the third quarter of 2011. Therefore, the results of operations for these properties have less of an impact, and in some cases little or no impact, on the nine months ended September 30, 2010, but are included in the nine months ended September 30, 2011. These additions are contributing most of the increases to revenues and the majority of the increases to costs and expenses for this segment.

The table below compares the results of operations for our Funeral Home segment for the nine months ended September 30, 2011 as compared to the same period last year:

|                          | 2011      | 2010      | Nine months ended<br>September 30,<br>Change (\$)<br>(in thousands)<br>(non-GAAP) | Change (%) |
|--------------------------|-----------|-----------|---|------------|
| Total revenues           | \$ 22,749 | \$ 18,651 | \$ 4,098  | 22.0%      |
| Total costs and expenses | 17,993    | 14,940    | 3,053   | 20.4%      |
| Operating profit         | \$ 4,756  | \$ 3,711  | \$ 1,045  | 28.2%      |

Revenues

Revenues for the Funeral Home segment were \$22.7 million for the nine months ended September 30, 2011, an increase of \$4.1 million, or 22.0%, compared to \$18.6 million during the same period last year.

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The increase was primarily attributable to a \$1.8 million increase in at-need revenues, a \$1.5 million increase in pre-need revenues and a \$0.8 million increase in other revenues.

**Table of Contents**Total costs and expenses

Total costs and expenses for the Funeral Home segment were \$18.0 million for the nine months ended September 30, 2011, an increase of \$3.1 million, or 20.4%, compared to \$14.9 million during the same period last year.

The increase was primarily attributable to an increase of \$1.6 million in personnel expenses, \$0.5 million in facility costs, \$0.4 million in merchandise costs, and \$0.3 million in depreciation, with the remainder attributable to various increases in other general expense categories.

**Corporate Segment**

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

Miscellaneous selling, cemetery and general administrative expenses that are not allocable to other operating segments.

Various home office and other expenses. These expenses equal the total corporate expenses as shown on the face of the income statement.

Certain depreciation and amortization expenses.

Gains and losses and purchases and sales of cemetery and funeral home properties.

Acquisition related costs.

The table below details expenses incurred by the Corporate segment for the nine months ended September 30, 2011 and for the same period last year:

|   | 2011          | 2010          | Nine months ended<br>September 30,<br>Change (\$)<br>(in thousands)<br>(non-GAAP) | Change (%)  |
|---|---------------|---------------|---|-------------|
| Selling, cemetery and general and administrative expenses | \$ 805        | \$ 510        | \$ 295  | 57.8%       |
| Depreciation and amortization                             | 1,724         | 2,900         | (1,176)   | -40.6%      |
| Acquisition related costs                                 | 3,147         | 4,619         | (1,472)   | -31.9%      |
| Corporate expenses  |               |               |   |             |
| Corporate personnel expenses                              | 8,708         | 7,759         | 949   | 12.2%       |
| Other corporate expenses                                  | 8,864         | 8,295         | 569   | 6.9%        |
| <b>Total corporate overhead</b>                           | <b>17,572</b> | <b>16,054</b> | <b>1,518</b>  | <b>9.5%</b> |
| Total corporate expenses                                  | \$ 23,248     | \$ 24,083     | \$ (835)  | -3.5%       |

Selling, cemetery and general administrative expenses allocated to the Corporate segment were \$0.8 million for the nine months ended September 30, 2011, an increase of \$0.3 million, or 57.8% compared to \$0.5 million during the same period last year. The increase is primarily related to a \$0.2 million increase for a new sales training program started in the current year and an increase of \$0.1 million in personnel expenses.

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Total corporate overhead was \$17.6 million for the nine months ended September 30, 2011, an increase of \$1.5 million, or 9.5% compared to \$16.1 million during the same period last year. The increase was primarily attributable to an increase of \$0.9 million in labor costs, \$0.4 million in professional fees and \$0.2 million in other general corporate expenses.

### **Reconciliation of Segment Results of Operations to Consolidated Results of Operations**

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

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The table below analyzes results of operations and the changes therein for the nine months ended September 30, 2011 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/ or changes in the timing of when merchandise and services were delivered:

|                                    | Nine months ended<br>September 30, 2011<br>(in thousands) |                        |                 | Nine months ended<br>September 30, 2010<br>(in thousands) |                        |                 | Change in<br>GAAP results<br>(\$) | Change in<br>GAAP results<br>(%) |
|------------------------------------|---|------------------------|-----------------|---|------------------------|-----------------|-----------------------------------|----------------------------------|
|                                    | Segment<br>Results<br>(non-GAAP)                          | Non-segment<br>Results | GAAP<br>Results | Segment<br>Results<br>(non-GAAP)                          | Non-segment<br>Results | GAAP<br>Results |                                   |                                  |
| <b>Revenues</b>                    |   |                        |                 |   |                        |                 |                                   |                                  |
| Pre-need cemetery revenues         | \$ 90,451   | \$ (21,314)            | \$ 69,137       | \$ 84,959   | \$ (29,038)            | \$ 55,921       | \$ 13,216                         | 23.6%                            |
| At-need cemetery revenues          | 59,772  | (4,207)                | 55,565          | 52,105  | (3,667)                | 48,438          | 7,127                             | 14.7%                            |
| Investment income from trusts      | 25,582  | (9,596)                | 15,986          | 16,050  | (3,154)                | 12,896          | 3,090                             | 24.0%                            |
| Interest income                    | 4,580   |                        | 4,580           | 4,381   |                        | 4,381           | 199                               | 4.5%                             |
| Funeral home revenues              | 22,749  | (555)                  | 22,194          | 18,651  | (492)                  | 18,159          | 4,035                             | 22.2%                            |
| Other cemetery revenues            | 1,631   | 570                    | 2,201           | 1,141   | 601                    | 1,742           | 459                               | 26.3%                            |
| <b>Total revenues</b>              | <b>204,765</b>  | <b>(35,102)</b>        | <b>169,663</b>  | <b>177,287</b>  | <b>(35,750)</b>        | <b>141,537</b>  | <b>28,126</b>                     | <b>19.9%</b>                     |
| <b>Costs and expenses</b>          |   |                        |                 |   |                        |                 |                                   |                                  |
| Cost of goods sold                 | 23,152  | (3,783)                | 19,369          | 21,591  | (5,398)                | 16,193          | 3,176                             | 19.6%                            |
| Cemetery expense                   | 42,860  |                        | 42,860          | 34,842  | (3)                    | 34,839          | 8,021                             | 23.0%                            |
| Selling expense                    | 39,899  | (5,976)                | 33,923          | 34,910  | (7,529)                | 27,381          | 6,542                             | 23.9%                            |
| General and administrative expense | 20,569  |                        | 20,569          | 18,086  |                        | 18,086          | 2,483                             | 13.7%                            |
| Corporate overhead                 | 17,572  |                        | 17,572          | 16,054  |                        | 16,054          | 1,518                             | 9.5%                             |
| Depreciation and amortization      | 6,374   |                        | 6,374           | 6,205   |                        | 6,205           | 169                               | 2.7%                             |
| Funeral home expense               | 16,875  |                        | 16,875          | 14,120  | (22)                   | 14,098          | 2,777                             | 19.7%                            |
| Acquisition related costs          | 3,147   |                        | 3,147           | 4,619   |                        | 4,619           | (1,472)                           | -31.9%                           |
| <b>Total costs and expenses</b>    | <b>170,448</b>  | <b>(9,759)</b>         | <b>160,689</b>  | <b>150,427</b>  | <b>(12,952)</b>        | <b>137,475</b>  | <b>23,214</b>                     | <b>16.9%</b>                     |
| <b>Operating profit</b>            | <b>\$ 34,317</b>  | <b>\$ (25,343)</b>     | <b>\$ 8,974</b> | <b>\$ 26,860</b>  | <b>\$ (22,798)</b>     | <b>\$ 4,062</b> | <b>\$ 4,912</b>                   | <b>120.9%</b>                    |

**Revenues**

Pre-need cemetery revenues were \$69.1 million for the nine months ended September 30, 2011, an increase of \$13.2 million, or 23.6%, as compared to \$55.9 million during the same period last year. The increase was primarily caused by an increase of \$5.5 million in the value of cemetery contracts written and a decrease of \$7.7 million in deferred revenue.

At-need cemetery revenues were \$55.6 million for the nine months ended September 30, 2011, an increase of \$7.1 million, or 14.7%, as compared to \$48.5 million during the same period last year. The increase was primarily caused by an increase of \$7.7 million in the value of cemetery contracts written, offset by an increase in deferred revenue of \$0.6 million.

The increase in the value of pre-need and at-need contracts was primarily driven by our Cemetery Operations - West segment where we acquired 9 cemeteries during the first quarter of 2010, 6 cemeteries during the second quarter of 2010, 3 cemeteries during the third quarter of 2010, 1 during the fourth quarter of 2010, and 3 during the second quarter of 2011. Therefore, the results of operations for these cemeteries are included in the nine months ended September 30, 2011, but have less of an impact, and in some cases little or no impact, on the nine months ended September 30, 2010.

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Investment income from trusts was \$16.0 million for the nine months ended September 30, 2011, an increase of \$3.1 million, or 24.0%, as compared to \$12.9 million during the same period last year. On a segment basis, we had an increase of \$9.5 million, which was offset by an adjustment of \$6.4 million related to funds for which we have not met the requirements that would allow us to recognize them as revenue.

Interest income on accounts receivable was \$4.6 million for the nine months ended September 30, 2011, an increase of \$0.2 million, or 4.5%, as compared to \$4.4 million during the same period last year.

Revenues for the Funeral Home segment were \$22.2 million for the nine months ended September 30, 2011, an increase of \$4.0 million, or 22.2%, compared to \$18.2 million during the same period last year. The majority of the increase was driven by the 14 funeral homes we acquired from the second quarter of 2010 through the third quarter of 2011, and was primarily attributable to a \$1.8 million increase in at-need revenues, a \$1.5 million increase in pre-need revenues and a \$0.7 million increase in other revenues.

Other cemetery revenues were \$2.2 million for the nine months ended September 30, 2011, as compared to \$1.7 million during the same period last year.

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**Table of Contents****Costs and Expenses**

Cost of goods sold were \$19.4 million during the nine months ended September 30, 2011, an increase of \$3.2 million, or 19.6%, as compared to \$16.2 million during the same period last year. The ratio of cost of goods sold to pre-need and at-need cemetery revenues remained consistent at 15.5% during the nine months ended September 30, 2011 and 2010.

Cemetery expenses were \$42.9 million during the nine months ended September 30, 2011, an increase of \$8.1 million, or 23.0%, compared to \$34.8 million during the same period last year. The major components of the overall expense increase were \$4.1 million in labor costs, \$1.0 million in utility and fuel cost, and \$1.9 million in repairs and maintenance expenditures, and \$0.7 in real estate taxes. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 28.5% during the nine months ended September 30, 2011 as compared to 25.4% during the same period last year.

Selling expenses were \$33.9 million during the nine months ended September 30, 2011, an increase of \$6.5 million, or 23.9%, as compared to \$27.4 million during the same period last year. The major components of the overall expense increase include \$1.6 million in commissions, \$2.2 million in salaries and benefits, \$0.7 million in telephone and telemarketing expense and \$0.2 million related to a new sales training program started in the current year as well as a reduction in deferred selling expenses of \$1.6 million. The ratio of selling expenses to cemetery revenues increased to 27.2% during the nine months ended September 30, 2011 as compared to 26.2% during the same period last year. This ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, the majority of our selling expenses are sales commissions and bonuses which are based on a percentage of the value of actual contracts written. As a result, we would expect this ratio to remain fairly consistent.

General and administrative expenses were \$20.6 million during the nine months ended September 30, 2011, an increase of \$2.5 million, or 13.7%, compared to \$18.1 million during the same period last year. The majority of the increase was due to an increase of \$1.5 million in labor costs and \$0.3 million in insurance costs, with the remaining increase attributable to office supplies and other miscellaneous expenses. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our general and administrative costs relative to our overall cemetery operations. An increase in the ratio indicates that general and administrative percentage expense increases related to our cemetery properties exceeded percent increases in the value of contracts written, while a decrease in the ratio indicates that expense growth on a percentage basis did not exceed percentage increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decrease as many of the expenses in this category are fixed in nature. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues increased slightly to 13.7% during the nine months ended September 30, 2011 compared to 13.2% during the same period last year.

Total corporate overhead was \$17.6 million during the nine months ended September 30, 2011, an increase of \$1.5 million, or 9.5%, compared to \$16.1 million during the same period last year. The increase was primarily attributable to an increase of \$0.9 million in labor costs, \$0.4 million in professional fees, and \$0.2 million in other general corporate expenses.

Depreciation and amortization was \$6.4 million during the nine months ended September 30, 2011, an increase of \$0.2 million, or 2.7%, as compared to \$6.2 million during the period last year. The increase was primarily due to increased depreciation and amortization from tangible and intangible assets acquired in our 2010 and 2011 acquisitions.

Funeral home expenses were \$16.9 million for the nine months ended September 30, 2011, an increase of \$2.8 million, or 19.7%, as compared to \$14.1 million during the same period last year. The increase was primarily attributable to an increase of \$1.6 million in personnel expenses, \$0.5 million in facility costs, and \$0.4 million in merchandise costs, with the remainder attributable to various increases in other general expense categories.





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Acquisition related costs were \$3.1 million for the nine months ended September 30, 2011, a decrease of \$1.5 million, or 31.9%, as compared to \$4.6 million during the same period last year. These costs will vary from period to period depending on the amount of acquisition activity that takes place.

**Non-segment Allocated Results**

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

The table below summarizes these items and the changes between the nine months ended September 30, 2011 and 2010:

|   | 2011       | 2010       | Nine months ended<br>September 30,<br>Change (\$)<br>(in thousands)<br>(non-GAAP) | Change (%) |
|---|------------|------------|---|------------|
| Expenses related to refinancing               | \$ 453     | \$         | \$ 453  | n/a        |
| Gain on acquisition                           |            | 7,152      | (7,152)   | -100.0%    |
| Early extinguishment of debt                  | 4,010      |            | 4,010   | n/a        |
| Increase in fair value of interest rate swaps |            | 4,637      | (4,637)   | -100.0%    |
| Interest expense                              | 14,266     | 15,999     | (1,733)   | -10.8%     |
| Income tax benefit                            | \$ (3,133) | \$ (2,682) | \$ (451)  | 16.8%      |

The expenses related to refinancing for the nine months ended September 30, 2011 were incurred when we amended our credit facilities in January of 2011.

The gain on acquisition relates to our first and third quarter 2010 acquisitions. Refer to Note 13 of our unaudited condensed consolidated financial statements in Item 1 of this Form 10-Q for a more detailed discussion.

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

We entered into two interest rate swaps during the fourth quarter of 2009. During the nine months ended September 30, 2010, there was a favorable increase in the fair value of the interest rate swaps of \$4.6 million. The interest rate swaps were terminated in the fourth quarter of 2010.

Interest expense decreased as a result of our reduced debt. Borrowings on our credit facilities have fluctuated and have been impacted by borrowings we made for acquisitions and repayments of borrowing using proceeds from follow on public offerings. The average debt outstanding under our credit facilities was \$12.1 million for the nine months ended September 30, 2011 compared to \$27.9 million for the nine months ended September 30, 2010. We also had \$35.0 million of Senior Secured Notes outstanding at September 30, 2010. The Senior Secured Notes, along with all amounts outstanding on our credit facilities were repaid in February of 2011. We did not have any borrowing on our credit facilities from this point through the end of May 2011. In addition, the decrease in interest expense for the nine months ended September 30, 2010 was partially offset by interest rate swaps that reduced our interest payments and expense by approximately \$1.2 million. The interest rate swaps were terminated in fourth quarter of 2010.

Income tax benefit was \$3.1 million for the nine months ended September 30, 2011, an increase of \$0.4 million, or 16.8%, as compared to \$2.7 million during the same period last year. The increase is due to the recording of a \$0.9 million income tax benefit related to the reversal of uncertain tax positions for which the statute of limitations had expired. In addition, our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

**Table of Contents****Supplemental data**

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

|  | Three months<br>ended<br>September 30, 2011 | Three months<br>ended<br>September 30, 2010 | Nine months<br>ended<br>September 30, 2011 | Nine months<br>ended<br>September 30, 2010 |
|--|---|---|--|--|
| <b>Operating Data:</b>   |   |   |  |  |
| Interments performed   | 10,846                                      | 10,451                                      | 33,626                                     | 29,852                                     |
| <b>Interment rights sold:</b>  |   |   |  |  |
| Lots   | 6,130                                       | 5,791                                       | 20,408                                     | 18,155                                     |
| Mausoleum crypts (including<br>pre-construction)                         | 422   | 684   | 1,970                                      | 1,836                                      |
| Niches   | 277   | 244   | 859  | 765  |
| <b>Total interment rights sold</b>                                       | <b>6,829</b>                                | <b>6,719</b>                                | <b>23,237</b>                              | <b>20,756</b>                              |
| Number of contracts written  | 24,670                                      | 24,363                                      | 75,809                                     | 68,319                                     |
| Aggregate contract amount, in thousands<br>(excluding interest)          | \$ 59,753                                   | \$ 57,452                                   | \$ 180,888                                 | \$ 164,433                                 |
| Average amount per contract (excluding<br>interest)                      | \$ 2,422                                    | \$ 2,358                                    | \$ 2,386                                   | \$ 2,407                                   |
| Number of pre-need contracts written                                     | 11,909                                      | 11,676                                      | 37,124                                     | 33,440                                     |
| Aggregate pre-need contract amount, in<br>thousands (excluding interest) | \$ 38,558                                   | \$ 36,867                                   | \$ 115,758                                 | \$ 106,309                                 |
| Average amount per pre-need contract<br>(excluding interest)             | \$ 3,238                                    | \$ 3,158                                    | \$ 3,118                                   | \$ 3,179                                   |
| Number of at-need contracts written                                      | 12,761                                      | 12,687                                      | 38,685                                     | 34,879                                     |
| Aggregate at-need contract amount, in<br>thousands                       | \$ 21,195                                   | \$ 20,585                                   | \$ 65,130                                  | \$ 58,124                                  |
| Average amount per at-need contract                                      | \$ 1,661                                    | \$ 1,623                                    | \$ 1,684                                   | \$ 1,666                                   |

**Liquidity and Capital Resources****Overview**

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

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

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

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

**Long-term Debt****Purchase Agreement**

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

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### *Indenture*

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

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

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

### **Note Purchase Agreement**

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

On January 28, 2011, and in connection with our February 2011 follow on public offering of common units, we entered into the Eighth Amendment to the Amended and Restated Credit Agreement. This amendment included the Lenders' consent to the use of a portion of the proceeds from the public offering of common units to redeem in full the outstanding \$17.5 million of 12.5% Series B and \$17.5 million of 12.5% Series C Senior Notes due August 2012 and to pay an aggregate make-whole premium of \$4.0 million related thereto, which represented our final obligations outstanding under the NPA.

### **Acquisition Credit Facility and Revolving Credit Facility**

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

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

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

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

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The maturity date of the Credit Facility is January 29, 2016. Our maximum Consolidated Leverage Ratio, which is the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA, is 3.65 to 1.0 for all Measurement Periods ending after December 31, 2010. In addition, we will not be permitted to have Maintenance Capital Expenditures, as defined in the agreement, for any Measurement Period ending in 2011, 2012 and 2013 exceeding \$4.6 million, \$5.2 million and \$5.8 million,

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respectively, or \$6.5 million for any Measurement Period ending in 2014 or thereafter. Further, we will not permit Consolidated EBITDA for any Measurement Period to be less than the sum of (i) \$52 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after February 9, 2011.

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

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

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

The Credit Agreement requires the Borrowers to pay an unused commitment fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceed the usage of such commitments. The Commitment Fee Rate ranges from 0.5% to 0.75% depending on our Consolidated Leverage Ratio.

The Credit Agreement contains restrictive covenants that, among other things, prohibit distributions upon defined events of default, restrict investments and sales of assets and require us to maintain certain financial covenants, including specified financial ratios. A material decrease in revenues could cause us to breach certain of our financial covenants, such as the Consolidated Leverage Ratio, Consolidated Fixed Charge Coverage Ratio and the Consolidated EBITDA covenant, under our Credit Agreement. Any such breach could allow the Lenders to accelerate (or create cross-default under) our debt which would have a material adverse effect on our business, financial condition or results of operations. As of September 30, 2011, we were in compliance with all covenants. See Note 8 to our Condensed Consolidated Financial Statements for additional information regarding the Credit Agreement.

Amounts outstanding under our credit facilities fluctuated during the nine months ended September 30, 2011 and 2010. At the beginning of 2011, we had \$33.5 million outstanding on our credit facilities which we repaid in February of 2011. We did not have any additional borrowings on our credit facilities from this point through the end of May 2011, when we borrowed \$8.0 million. During the third quarter of 2011, we borrowed an additional \$15.5 million on our credit facilities, bringing the total outstanding borrowings on these facilities to \$23.5 million at September 30, 2011. At the beginning of 2010, we did not have any amounts outstanding on our credit facilities, but we increased our borrowings at various times during the next 9 months, primarily in connection with acquisitions, until we had \$60.0 million outstanding during September 2010. In connection with a follow on public offering that we completed on September 22, 2010, we repaid \$38.0 million of this debt and had \$22.0 million outstanding at September 30, 2010. The average amounts borrowed under our credit facilities were \$12.1 million and \$27.9 million for the nine months ended September 30, 2011 and 2010, respectively.

***Cash Flow from Operating Activities***

Cash flows provided by operating activities were \$11.1 million during the nine months ended September 30, 2011, an increase of \$1.3 million compared to cash provided by operating activities of \$9.8 million during the same period last year. The increase is primarily due to a decrease of \$1.5 million in acquisition related costs combined with increased cash flows from our accounts receivable, which are being offset by increased cash flows into our merchandise trusts.

***Cash Flow from Investing Activities***

Net cash used in investing activities was \$19.2 million during the nine months ended September 30, 2011 as compared to \$44.8 million during the same period last year. Cash flows used for investing activities during the nine months ended September 30, 2011 were \$10.3 million for the acquisition of twelve cemetery properties and eight funeral homes and \$8.9 million for other capital expenditures compared to \$38.5 million utilized for the acquisition of eighteen cemetery and five funeral home properties and \$6.0 million for other capital expenditures during the nine months ended September 30, 2010.

***Cash Flow from Financing Activities***

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Cash flows provided by financing activities were \$20.7 million during the nine months ended September 30, 2011 as compared to \$39.5 million during the same period last year. Cash flows provided by financing activities for the nine months ended September 30, 2011 were \$103.2 million of proceeds from our public offering and a contribution from our general partner of \$2.2 million offset by net repayments of long-term debt of \$46.7 million, cash distributions to unit holders of \$32.8



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million and the payment of a \$4.0 million make-whole premium related to the pay-off of \$35.0 million in senior secured notes. Cash flows provided by financing activities for the nine months ended September 30, 2010 were \$39.5 million of proceeds from our public offering and a contribution from our general partner of \$1.0 million, and \$22.7 million of net borrowings, which were in turn primarily used to fund our first, second, and third quarter 2010 acquisitions, offset by \$23.3 million of cash distributions to unit holders.

**Capital Expenditures**

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

|                                   | Three months ended<br>September 30,<br>2011 |                 | Nine months ended<br>September 30,<br>2011 |                  |
|-----------------------------------|---|-----------------|--|------------------|
|                                   | 2010  | (in thousands)  | 2010                                       | (in thousands)   |
| Maintenance capital expenditures  | \$ 1,397                                    | \$ 1,482        | \$ 4,601                                   | \$ 4,139         |
| Expansion capital expenditures    | 8,438                                       | 2,530           | 14,558                                     | 40,303           |
| <b>Total capital expenditures</b> | <b>\$ 9,835</b>                             | <b>\$ 4,012</b> | <b>\$ 19,159</b>                           | <b>\$ 44,442</b> |

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

**Seasonality**

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

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

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

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

**Interest-Bearing Investments**

Our fixed-income securities subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of September 30, 2011, the fair value of fixed-income securities in our merchandise trusts represented 3.9% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 9.4% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was \$11.8 million and \$22.1 million in merchandise trusts and perpetual care trusts,

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respectively, as of September 30, 2011. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately \$118,000 and \$221,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows. If these securities are held to maturity, no change in fair market value will be realized.

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Our money market and other short-term investments subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of September 30, 2011, the fair value of money market and short-term investments in our merchandise trusts represented 8.9% of the fair value of total trust assets while the fair value of money market and short-term investments in our perpetual care trusts represented 7.5% of the fair value of total trust assets. The aggregate quoted fair value of these money market and short-term investments was \$27.2 million and \$17.6 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2011. Each 1% change in interest rates on these money market and short-term investments would result in changes of approximately \$272,000 and \$176,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively.

### **Marketable Equity Securities**

Our marketable equity securities subject to market risk consist primarily of investments held in our merchandise trusts and perpetual care trusts. These assets consist of both individual equity securities as well as closed and open ended mutual funds. As of September 30, 2011, the fair value of marketable individual equity securities in our merchandise trusts represented 20.4% of the fair value of total trust assets while the fair value of marketable individual equity securities in our perpetual care trusts represented 18.5% of total trust assets. The aggregate quoted fair market value of these marketable individual equity securities was \$62.6 million and \$43.5 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2011, based on final quoted sales prices. Each 10% change in the average market prices of the individual equity securities would result in a change of approximately \$6.3 million and \$4.4 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively. As of September 30, 2011, the fair value of marketable closed and open ended mutual funds in our merchandise trusts represented 62.2% of the fair value of total trust assets while the fair value of closed and open ended mutual funds in our perpetual care trusts represented 64.4% of total trust assets. The aggregate quoted fair market value of these closed and open ended mutual funds was \$190.5 million and \$151.5 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2011, based on final quoted sales prices. Each 10% change in the average market prices of the closed and open ended mutual funds would result in a change of approximately \$19.0 million and \$15.2 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively.

### **Investment Strategies and Objectives**

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

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

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

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

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

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

Our investment guidelines are based on relatively long investment horizons, which vary with the type of trust. Because of this, interim fluctuations should be viewed with appropriate perspective. The strategic asset allocation of the trust portfolios is also based on this longer-term

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perspective. However, in developing our investment policy, we have taken into account the potential negative impact on our operations and financial performance of significant short-term declines in market value.

We recognize the challenges we face in achieving our investment objectives in light of the uncertainties and complexities of contemporary investment markets. Furthermore, we recognize that, in order to achieve the stated long-term objectives, we may have short-term declines in market value. Given the need to maintain consistent values in the portfolio, we have attempted to develop a strategy which is likely to maximize returns and earnings without experiencing overall declines in value in excess of 3% over any 12-month period.

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

### **Debt Instruments**

Our Acquisition Credit Facility and Revolving Credit Facility bear interest at a floating rate, based on LIBOR, which is adjusted quarterly. These credit facilities will subject us to increases in interest expense resulting from movements in interest rates. As of September 30, 2011, we had \$18.0 million of borrowings outstanding under our Revolving Credit Facility and \$5.5 million of borrowings outstanding under our Acquisition Credit Facility. After borrowings, our unused line of credit under the Revolving Credit Facility and Acquisition Credit Facility is \$37.0 and \$59.5 million, respectively. The interest rate on amounts outstanding on these facilities was 5.75% at September 30, 2011.

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

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

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

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Part II Other Information**

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and in other reports filed with the SEC which could materially affect our business, financial condition or future results.

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The risks described in the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and in other reports filed with the SEC are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and in other reports filed with the SEC.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**  
None.

**Item 3. Defaults Upon Senior Securities.**  
None.

**Item 4. (Removed and Reserved).**

**Item 5. Other Information.**  
None.

**Table of Contents****Item 6. Exhibits**

| Exhibit Number | Description  |
|----------------|--|
| 10.1           | First Amendment to Second Amended and Restated Credit Agreement, dated August 4, 2011, among StoneMor Operating LLC, each of its Subsidiaries, StoneMor GP LLC, StoneMor Partners L.P., the Lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.  |
| 10.2           | Second Amendment to Second Amended and Restated Credit Agreement, dated October 28, 2011, among StoneMor Operating LLC, each of its Subsidiaries, StoneMor GP LLC, StoneMor Partners L.P., the Lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the SEC on November 3, 2011).   |
| 31.1           | Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors.   |
| 31.2           | Certification pursuant to Exchange Act Rule 13a-14(a) of William R. Shane, Executive Vice President and Chief Financial Officer.   |
| 32.1           | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors (furnished herewith).   |
| 32.2           | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of William R. Shane, Executive Vice President and Chief Financial Officer (furnished herewith).   |
| 101            | Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2011, and December 31, 2010; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010; (iii) Condensed Consolidated Statement of Partners' Capital; (iv) Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2011 and 2010; and (v) Notes to the Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 401 of Regulation S-T that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of StoneMor Partners, L.P. |

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



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**SIGNATURES**

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

**STONEMOR PARTNERS L.P.**

By: StoneMor GP LLC  
its general partner

November 9, 2011

/s/ LAWRENCE MILLER

**Lawrence Miller**

**Chief Executive Officer, President and Chairman of the Board of  
Directors (Principal Executive Officer)**

November 9, 2011

/s/ WILLIAM R. SHANE

**William R. Shane**

**Executive Vice President and Chief Financial Officer**

**(Principal Financial Officer)**

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| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 10.1                  | First Amendment to Second Amended and Restated Credit Agreement, dated August 4, 2011, among StoneMor Operating LLC, each of its Subsidiaries, StoneMor GP LLC, StoneMor Partners L.P., the Lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.  |
| 10.2                  | Second Amendment to Second Amended and Restated Credit Agreement, dated October 28, 2011, among StoneMor Operating LLC, each of its Subsidiaries, StoneMor GP LLC, StoneMor Partners L.P., the Lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the SEC on November 3, 2011).   |
| 31.1                  | Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors.   |
| 31.2                  | Certification pursuant to Exchange Act Rule 13a-14(a) of William R. Shane, Executive Vice President and Chief Financial Officer.   |
| 32.1                  | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors (furnished herewith).   |
| 32.2                  | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of William R. Shane, Executive Vice President and Chief Financial Officer (furnished herewith).   |
| 101                   | Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2011, and December 31, 2010; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010; (iii) Condensed Consolidated Statement of Partners' Capital; (iv) Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2011 and 2010; and (v) Notes to the Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 401 of Regulation S-T that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of StoneMor Partners, L.P. |

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