

STONEMOR PARTNERS LP  
Form 10-Q  
November 09, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 000-50910

---

**STONEMOR PARTNERS L.P.**

(Exact name of registrant as specified in its charter)

---

Delaware  
(State or other jurisdiction of  
incorporation or organization)

155 Rittenhouse Circle

80-0103159  
(I.R.S. Employer

Identification No.)

19007

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

**Bristol, Pennsylvania**  
(Address of principal executive offices)

(Zip Code)

**(215) 826-2800**

(Registrant's telephone number, including area code)

**Not Applicable**

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

---

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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, 2007 was 5,945,821.

---

**Table of Contents**

Index Form 10-Q

	<b>Page</b>
<b>Part I</b> <u>Financial Information</u>	
Item 1. <u>Financial Statements - Unaudited</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 4. <u>Controls and Procedures</u>	35
<b>Part II</b> <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	35
Item 1A. <u>Risk Factors</u>	35
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 3. <u>Defaults Upon Senior Securities</u>	36
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	36
Item 5. <u>Other Information</u>	36
Item 6. <u>Exhibits</u>	36
<u>Signatures</u>	38

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

(in thousands)

(unaudited)

	December 31, 2006	September 30, 2007
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,914	\$ 13,228
Accounts receivable, net of allowance	22,968	23,058
Prepaid expenses	2,801	3,498
Other current assets	2,533	3,966
Total current assets	38,216	43,750
LONG-TERM ACCOUNTS RECEIVABLE net of allowance	36,878	39,156
CEMETERY PROPERTY	171,714	173,110
PROPERTY AND EQUIPMENT, net of accumulated depreciation	29,027	28,307
MERCHANDISE TRUSTS, restricted, at fair value	147,788	147,487
PERPETUAL CARE TRUSTS, restricted, at fair value	168,631	166,245
DEFERRED FINANCING COSTS net of accumulated amortization	1,242	3,471
DEFERRED SELLING AND OBTAINING COSTS	33,478	35,336
OTHER ASSETS	51	371
TOTAL ASSETS	\$ 627,025	\$ 637,233
<b>LIABILITIES AND PARTNERS EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 11,345	\$ 11,588
Accrued interest	361	501
Current portion, long-term debt	1,388	667
Total current liabilities	13,094	12,756
LONG-TERM DEBT	102,104	115,034
DEFERRED CEMETERY REVENUES, net	196,103	201,742
MERCHANDISE LIABILITY	45,805	49,528
TOTAL LIABILITIES	357,106	379,060
COMMITMENTS AND CONTINGENCIES		
NON-CONTROLLING INTEREST IN PERPETUAL CARE TRUSTS	168,631	166,245
PARTNERS EQUITY		

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

General partner	1,382	1,785
Limited partners:		
Common	71,700	66,518
Subordinated	28,206	23,625
Total partners' equity	101,288	91,928
<b>TOTAL LIABILITIES AND PARTNERS' EQUITY</b>	<b>\$ 627,025</b>	<b>\$ 637,233</b>

See Accompanying Notes to the 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 September 30,		Nine months ended September 30,	
	2006	2007	2006	2007
<b>Revenues:</b>				
Cemetery				
Merchandise	\$ 13,303	\$ 19,477	\$ 41,458	\$ 57,338
Services	6,182	7,188	18,524	21,523
Investment and other	6,185	6,438	18,043	19,913
Funeral home				
Merchandise	477	1,110	1,656	3,442
Services	638	1,163	2,048	4,364
<b>Total revenues</b>	<b>26,785</b>	<b>35,376</b>	<b>81,729</b>	<b>106,580</b>
<b>Costs and Expenses:</b>				
Cost of goods sold (exclusive of depreciation shown separately below):				
Perpetual care	794	845	2,377	2,685
Merchandise and services	2,735	4,054	8,287	11,802
Cemetery expense	5,983	7,933	17,985	22,593
Selling expense	5,270	7,145	16,689	21,860
General and administrative expense	3,105	4,031	9,255	11,462
Corporate overhead (including \$1,774 and \$4,113 in stock-based compensation for the three and nine month period ended September 30, 2007)	3,772	5,821	12,006	16,054
Depreciation and amortization	842	1,111	2,588	2,900
Funeral home expense				
Merchandise	186	344	589	1,198
Services	426	1,041	1,374	3,057
Other	330	556	1,033	1,833
<b>Total cost and expenses</b>	<b>23,443</b>	<b>32,881</b>	<b>72,183</b>	<b>95,444</b>
<b>OPERATING PROFIT</b>	<b>3,342</b>	<b>2,495</b>	<b>9,546</b>	<b>11,136</b>
<b>EXPENSES RELATED TO REFINANCING</b>		<b>157</b>		<b>157</b>
<b>INTEREST EXPENSE</b>	<b>1,860</b>	<b>2,263</b>	<b>5,375</b>	<b>6,441</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,482</b>	<b>75</b>	<b>4,171</b>	<b>4,538</b>
<b>INCOME TAXES:</b>				
State	130	106	385	384
Federal	293	(24)	706	149
<b>Total income taxes</b>	<b>423</b>	<b>82</b>	<b>1,091</b>	<b>533</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 1,059</b>	<b>\$ (7)</b>	<b>\$ 3,080</b>	<b>\$ 4,005</b>
General partner's interest in net income for the period	\$ 21	\$ ( )	\$ 62	\$ 81

## Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Limited partners' interest in net income for the period

Common	\$ 536	\$ (4)	\$ 1,558	\$ 2,083
Subordinated	\$ 502	\$ (3)	\$ 1,460	\$ 1,840
Net income per limited partner unit (basic and diluted)	\$ .12	\$ (.00)	\$ .34	\$ .43
Weighted average number of limited partners' units outstanding (basic and diluted)	8,767	9,036	8,763	9,036

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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

(in thousands)

(unaudited)

	Partners Capital			General Partner	Total
	Common	Limited Partners Subordinated	Total		
Balance, December 31, 2006	\$ 71,700	\$ 28,206	\$ 99,906	\$ 1,382	\$ 101,288
Net loss	(339)	(299)	(638)	(13)	(651)
Cash distribution	(2,398)	(2,120)	(4,518)	(92)	(4,610)
Balance, March 31, 2007	\$ 68,963	\$ 25,787	\$ 94,750	\$ 1,277	\$ 96,027
Net Income	2,426	2,144	4,570	93	4,663
Cash distribution	(2,398)	(2,120)	(4,518)	(92)	(4,610)
Balance, June 30, 2007	\$ 68,991	\$ 25,811	\$ 94,802	\$ 1,278	\$ 96,080
Net loss	(4)	(3)	(7)		(7)
Cash distribution	(2,469)	(2,183)	(4,652)	(99)	(4,751)
General partner equity grant				606	606
Balance, September 30, 2007	\$ 66,518	\$ 23,625	\$ 90,143	\$ 1,785	\$ 91,928

See Accompanying Notes to the Condensed Consolidated Financial Statements.



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

(in thousands)

(unaudited)

	<b>Nine months ended September 30,</b>	
	<b>2006</b>	<b>2007</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 3,080	\$ 4,005
Adjustments to reconcile net income to net cash provided by operating activity:		
Cost of lots sold	3,258	3,536
Depreciation and amortization	2,588	2,900
Stock-based compensation		4,113
Other non cash	376	
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	9,828	(2,940)
Allowance for doubtful accounts	500	804
Merchandise trust fund	(1,419)	(138)
Prepaid expenses	(583)	(696)
Other current assets	(1,085)	(644)
Other assets	(57)	(140)
Accounts payable and accrued and other liabilities	(1,755)	(2,493)
Deferred selling and obtaining costs	(2,528)	(1,662)
Deferred cemetery revenue	9,147	10,465
Merchandise liability	(4,907)	(2,333)
Net cash provided by operating activities	16,443	14,777
<b>INVESTING ACTIVITIES:</b>		
Cost associated with potential acquisitions	(20)	(1,323)
Purchase of Subsidiaries, net of common units issued	(9,214)	(2,501)
Additions to cemetery property	(2,920)	(1,676)
Divestiture of funeral home	2,091	
Additions to property and equipment	(1,778)	(1,223)
Net cash used in investing activities	(11,841)	(6,723)
<b>FINANCING ACTIVITIES:</b>		
Cash distribution	(12,828)	(13,972)
Additional borrowings on long-term debt	16,224	45,921
Repayments of long-term debt	(661)	(33,709)
Sale of partner units	120	
Cost of financing activities		(2,980)
Net cash provided by (used in) financing activities	2,855	(4,740)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>7,457</b>	<b>3,314</b>
<b>CASH AND CASH EQUIVALENTS</b> Beginning of period	<b>6,925</b>	<b>9,914</b>
<b>CASH AND CASH EQUIVALENTS</b> End of period	<b>\$ 14,382</b>	<b>\$ 13,228</b>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid during the period for interest	\$	5,330	\$	6,721
Cash paid during the period for income taxes	\$	3,035	\$	3,257

**NON-CASH INVESTING AND FINANCING ACTIVITIES**

Issuance of limited partner units to fund cemetery acquisition	\$	5,875	\$	
--	----	-------	----	--

See Accompanying Notes to the Condensed Consolidated Financial Statements.

**Table of Contents**

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

**Basis of Presentation.** StoneMor Partners L.P. ( StoneMor , the Partnership or the Company ) headquartered in Bristol, Pennsylvania, is an owner and operator of cemeteries in the United States, with 178 cemeteries and 27 funeral homes in 21 states. StoneMor is the only publicly traded deathcare company structured as a partnership.

**Interim Financial Data** The interim financial data are unaudited. However, in the opinion of management, the interim financial data as of September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year.

**Summary of Significant Accounting Policies** Significant accounting policies followed by the Company, as summarized below, are in conformity with accounting principles generally accepted in the United States of America.

**Principles of Consolidation** The condensed consolidated financial statements include the accounts of each of the Company's subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The operations of the 6 managed cemeteries that the Company operates under long-term management contracts are also consolidated in accordance with the provisions of Financial Accounting Standards Board ( FASB ) Interpretation ( FIN ) No. 46 revised ( FIN 46R ), Consolidation of Variable Interest Entities: an Interpretation of Accounting Research Bulletin ( ARB ) No. 51.

Total revenues derived from the cemeteries under long-term management contracts totaled approximately \$4.6 million and \$5.1 million for the three months ended September 30, 2006 and 2007, respectively and \$15.3 million and \$16.2 million for the nine months ended September 30, 2006 and 2007, respectively.

**Cemetery Operations** Sales of at-need cemetery interment rights, merchandise and services are recognized when the service is performed or merchandise is delivered. In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements ( SAB No. 104 ), and the retail land sales provisions of Statement of Financial Accounting Standards No. 66, Accounting for the Sale of Real Estate ( SFAS No. 66 ), revenues from pre-need sales of burial lots and constructed mausoleum crypts and lawn crypts are deferred until at least 10% of the sales price has been collected. At the time of the sale, an allowance for customer cancellations is established, which reduces the amount of accounts receivable, net and deferred cemetery revenues, net or cemetery revenue recognized, based on management's estimates of expected cancellations and historical experiences. Historically, the cancelled contracts represent approximately 10% of the pre-need sales (based on contract dollar amounts). Revenues from the pre-need sale of unconstructed mausoleum and lawn crypts are deferred until at least 10% of the sales price has been collected, at which point revenues are recognized using the percentage-of-completion method of accounting, also in accordance with SFAS No. 66. Revenues related to the pre-need sale of merchandise and services are deferred until such merchandise is delivered (title has transferred to the customer and the merchandise is either installed or stored, at the direction of the customer, at the vendor's warehouse or a third-party warehouse at no additional cost to us) or such services are performed.

The Company also defers certain pre-need cemetery and prearranged funeral direct obtaining costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business. Such costs are accounted for under the provisions of SFAS No. 60, Accounting and Reporting by Insurance Enterprises ( SFAS No. 60 ), and are expensed as revenues are recognized.

Costs related to the sales of interment rights include property and other costs related to cemetery development activities that are specifically identified by project. At the completion of a project, costs are charged to operations as revenues are recognized. Costs related to merchandise and services are based on actual costs incurred or estimates of future costs necessary, including provisions for inflation when required.

The Company records a merchandise liability at the time it enters into a pre-need contract with a customer at the estimated cost to purchase the merchandise or provide the service. The merchandise liability is reduced when payment for the merchandise is made by the Company and title to the merchandise is transferred to the customer. The merchandise liability is also reduced when the contracted service is performed by the Company. Allowances for customer cancellations arising from non-payment are provided at the date of sale based upon management's estimates of expected cancellations and historical experience. Actual cancellation rates in the future may result in a change in estimate. Actual cancellations did not vary significantly from the estimates of expected cancellations at September 30, 2006 and September 30, 2007.

## Table of Contents

Pursuant to state law, a portion of the proceeds from cemetery merchandise or services sold on a pre-need basis is required to be paid into merchandise trusts. The Company defers investment earnings generated by the assets in these merchandise trusts (including realized gains and losses) until the associated merchandise is delivered or the services are performed. The fair value of the funds held in merchandise trusts at December 31, 2006 and September 30, 2007 was approximately \$147.8 million and \$147.5 million, respectively (see Note 5). A portion of the proceeds from the sale of cemetery property is required by state law to be paid into perpetual care trusts. Earnings from the perpetual care trusts are recognized in current cemetery revenues and are used to defray cemetery maintenance costs, which are expensed as incurred. Funds held in perpetual care trusts at December 31, 2006 and September 30, 2007 were \$168.6 million and \$166.2 million, respectively (see Note 6).

**Cash and Cash Equivalents** The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Concentration of Credit Risk** The Company's revenues and accounts receivable relate to the sale of products and services to a customer base that is almost entirely concentrated in the states where the Company has cemeteries and funeral homes. The Company retains a security interest in any merchandise sold pursuant to the pre-need contracts. The condensed consolidated balance sheets contain a provision for cancellations arising from non-payment in amounts determined based on historical experience and the judgment of Company's management.

**Inventories** Inventories, classified as other current assets on the Company's condensed consolidated balance sheets, include cemetery and funeral home merchandise and are valued at the lower of cost or net realizable value. Cost is determined primarily on a specific identification basis on a first-in, first-out basis. Inventories were approximately \$2.2 million and \$2.7 million at December 31, 2006 and September 30, 2007, respectively.

**Cemetery Property** Cemetery property consists of developed and undeveloped cemetery property and constructed mausoleum crypts and lawn crypts and is valued at cost, which is not in excess of market value.

**Property and Equipment** Property and equipment is recorded at cost and depreciated on a straight-line basis. Maintenance and repairs are charged to expense as incurred, whereas additions and major replacements are capitalized and depreciation is recorded over their estimated useful lives as follows:

Buildings and improvements	10 to 40 years
Furniture and equipment	5 to 10 years
Leasehold improvements	over the term of the lease

For the three months ended September 30, 2006 and 2007, depreciation expense was \$0.6 million and \$0.7 million, respectively. For the nine months ended September 30, 2006 and 2007, depreciation expense was \$2.0 million and \$2.1 million, respectively.

**Deferred Cemetery Revenues, Net** Revenues and all costs associated with pre-need sales of cemetery merchandise and services are deferred until the merchandise is delivered or the services are performed. In addition, investment earnings generated by the assets included in the merchandise trusts are deferred until the associated merchandise is delivered or the services are performed. Deferred cemetery revenues, net, also includes deferred revenues from pre-need sales that were entered into by entities prior to the acquisition of those entities by the Company, including entities that were acquired by Cornerstone Family Services, Inc. (Cornerstone) upon its formation in 1999. The Company provides for a reasonable profit margin for these deferred revenues (deferred margin) to account for the future costs of delivering products and providing services on pre-need contracts that the Company acquired through acquisition. Deferred margin amounts are deferred until the merchandise is delivered or services are performed.

**Merchandise Liability** Merchandise liability accounts for merchandise and services that have been contracted for but not yet delivered or performed. This liability is recorded at the estimated cost and is expensed to cost of goods sold as merchandise is delivered and services are performed.

**Allowance for Cancellations.** Allowances for cancellations arising from non-payment of pre-need contracts are estimated at the date of sale based upon our historical cancellation experience. Due to the number of estimates and projections used in determining an expected cancellation rate and the possibility of changes in collection patterns resulting from modifications to our collection policies or contract terms, actual collections could differ from these estimates.

**Impairment of Long-Lived Assets** The Company monitors the recoverability of long-lived assets, including cemetery property, property and equipment and other assets, based on estimates using factors such as current market value, future asset



## **Table of Contents**

utilization, business and regulatory climate and future undiscounted cash flow expected to result from the use of the related assets. The Company's policy is to evaluate an asset for impairment when events or circumstances indicate that a long-lived asset's carrying value may not be recovered. An impairment charge is recorded to write-down the asset to its fair value if the sum of future undiscounted cash flows is less than the carrying value of the asset.

**Income Taxes** The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. The tax effects of temporary differences between income for financial statement and income tax purposes are recognized in the financial statements. The differences arise primarily from receivables and depreciation.

### ***New Accounting Pronouncements***

In July 2006, the FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109* ( *Interpretation 48* ). Interpretation 48, which clarifies Statement 109, *Accounting for Income Taxes*, establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Company's financial statements. On initial application, Interpretation 48 was applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying Interpretation 48 were reported as an adjustment to retained earnings at the beginning of the period in which it is adopted. The adoption of Interpretation 48 as of January 31, 2007 did not have a significant effect on the Company's financial statements or its ability to comply with its current debt covenants. See Note 8.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( FAS 157 ). FAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. FAS 157 does not expand or require any new fair value measures, however the application of this statement may change current practice. The requirements of FAS 157 are effective for our fiscal year beginning January 1, 2008. StoneMor is in the process of evaluating this guidance and therefore has not yet determined the impact that FAS 157 will have on its financial statements upon adoption.

In February 2007, the FASB issued SFAS No. 159, *Establishing the Fair Value Option for Financial Assets and Liabilities* (FAS 159), to permit all entities to choose to elect to measure eligible financial instruments at fair value. FAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157, *Fair Value Measurements* . An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated financial statements.

**Segment Reporting and Related Information** The Company historically determined that it had two operating segments, cemeteries and funeral homes. Since funeral homes account for less than 10% of each identifying criteria, funeral home operating results were aggregated within the cemetery classification for purposes of segment reporting and disclosed as one segment, death care services. In conjunction with its September 2006 acquisition of 21 cemeteries and 14 funeral homes from Service Corporation International and as part of its strategic planning, the Company continuously conducts marketing studies of its potential customers. Additionally, the Company expects to grow not only through cemetery, but also through funeral home, acquisitions in the future. For these reasons, the Company has decided to add to its segment information the details of its funeral homes and has disaggregated its cemeteries into three distinct classifications. These classifications, designated as West, Southeast, and Northeast, have been identified by the nature of our customers served in each marketplace. As cremation is on the rise and the Company has with its most recent acquisitions entered the states of Oregon, Washington, and Colorado, it has established a Western Region where cremation rates are projected to be high (in Washington and Oregon, 65% of burials). Statistics indicate that customers who select cremation have certain attributes. The other two regions, Southeast and Northeast, have significantly lower cremation rates and customers with different attributes than the West. Cremation rates in Alabama and Kentucky, for instance, are only projected to be 12%, while cremation rates in the Northeast fall generally between the other two regions. The Company has different regional sales managers, maintenance superintendents, and administrative supervisors in each region.

**Table of Contents**

Disclosure of reported segment operating results:

For the three months ended September 30, 2006:

	CEMETERIES		WEST	FUNERAL HOMES	CORPORATE	ADJUSTMENT	TOTAL
	SOUTHEAST	NORTHEAST		(in thousands)			
<b>REVENUES</b>							
SALES	\$ 10,146	\$ 8,313	\$ 17	\$	\$	\$ (2,888)	\$ 15,588
SERVICES AND OTHER	4,537	5,898	8		6	(367)	10,082
FUNERAL HOME				1,115			1,115
<b>TOTAL REVENUES</b>	<b>14,683</b>	<b>14,211</b>	<b>25</b>	<b>1,115</b>	<b>6</b>	<b>(3,255)</b>	<b>26,785</b>
<b>COSTS AND EXPENSES</b>							
COST OF SALES	2,243	1,864	3			(581)	3,529
SELLING	3,282	2,568	8		185	(773)	5,270
CEMETERY	2,812	3,159	2		10		5,983
GENERAL AND ADMINISTRATIVE	1,614	1,473	2		16		3,105
FUNERAL HOME EXPENSE				942			942
CORPORATE EXPENSE					3,772		3,772
<b>TOTAL COST &amp; EXPENSES</b>	<b>9,951</b>	<b>9,064</b>	<b>15</b>	<b>942</b>	<b>3,983</b>	<b>(1,354)</b>	<b>22,601</b>
<b>OPERATING EARNINGS</b>	<b>4,732</b>	<b>5,147</b>	<b>10</b>	<b>173</b>	<b>(3,977)</b>	<b>(1,901)</b>	<b>4,184</b>
INTEREST EXP	956	811		93			1,860
DEPRECIATION	303	244		48	247		842
<b>EARNINGS BEFORE TAXES (LOSS)</b>	<b>\$ 3,473</b>	<b>\$ 4,092</b>	<b>\$ 10</b>	<b>\$ 32</b>	<b>\$ (4,224)</b>	<b>\$ (1,901)</b>	<b>\$ 1,482</b>
<b>SUPPLEMENTAL INFORMATION</b>							
TOTAL ASSETS	\$ 266,452	\$ 282,113	\$ 43,092	\$ 11,133	\$ 13,125	\$	\$ 615,915
AMORTIZATION OF CEMETERY PROPERTY	\$ 622	\$ 582	\$ 1	\$	\$	\$ 72	\$ 1,277

For the three months ended September 30, 2007:

	CEMETERIES		WEST	FUNERAL HOMES	CORPORATE	ADJUSTMENT	TOTAL
	SOUTHEAST	NORTHEAST		(in thousands)			
<b>REVENUES</b>							
SALES	\$ 12,836	\$ 8,375	\$ 2,333	\$	\$	\$ (1,457)	\$ 22,087
SERVICES AND OTHER	5,631	5,795	908			(1,318)	11,016
FUNERAL HOME				2,273			2,273
<b>TOTAL REVENUES</b>	<b>18,467</b>	<b>14,170</b>	<b>3,241</b>	<b>2,273</b>		<b>(2,775)</b>	<b>35,376</b>

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

**COSTS AND EXPENSES**

COST OF SALES	2,912	1,902	465			(380)	4,899
SELLING	3,939	2,527	732		188	(241)	7,145
CEMETERY	3,500	3,534	899				7,933
GENERAL AND ADMINISTRATIVE	2,083	1,498	451		(1)		4,031
FUNERAL HOME EXPENSE				1,941			1,941
CORPORATE EXPENSE					5,978		5,978

<b>TOTAL COST &amp; EXPENSES</b>	<b>12,434</b>	<b>9,461</b>	<b>2,547</b>	<b>1,941</b>	<b>6,165</b>	<b>(621)</b>	<b>31,927</b>
----------------------------------	---------------	--------------	--------------	--------------	--------------	--------------	---------------

<b>OPERATING EARNINGS</b>	<b>6,033</b>	<b>4,709</b>	<b>694</b>	<b>332</b>	<b>(6,165)</b>	<b>(2,153)</b>	<b>3,450</b>
---------------------------	--------------	--------------	------------	------------	----------------	----------------	--------------

INTEREST EXP	1,126	905	93	139			2,263
--------------	-------	-----	----	-----	--	--	-------

DEPRECIATION	315	224	13	106	453		1,111
--------------	-----	-----	----	-----	-----	--	-------

**EARNINGS BEFORE TAXES**

<b>(LOSS)</b>	<b>\$ 4,592</b>	<b>\$ 3,580</b>	<b>\$ 588</b>	<b>\$ 87</b>	<b>\$ (6,618)</b>	<b>\$ (2,153)</b>	<b>\$ 75</b>
---------------	-----------------	-----------------	---------------	--------------	-------------------	-------------------	--------------

**SUPPLEMENTAL INFORMATION**

<b>TOTAL ASSETS</b>	<b>\$ 277,031</b>	<b>\$ 280,207</b>	<b>\$ 47,382</b>	<b>\$ 15,733</b>	<b>\$ 16,880</b>	<b>\$</b>	<b>\$ 637,233</b>
---------------------	-------------------	-------------------	------------------	------------------	------------------	-----------	-------------------

AMORTIZATION OF CEMETERY  
PROPERTY

	\$ 685	\$ 542	\$ 33	\$	\$	\$ (6)	\$ 1,254
--	--------	--------	-------	----	----	--------	----------



**Table of Contents**

For the nine months ended September 30, 2006:

	CEMETERIES		WEST	FUNERAL HOMES (in thousands)	CORPORATE	ADJUSTMENT	TOTAL
	SOUTHEAST	NORTHEAST					
<b>REVENUES</b>							
SALES	\$ 32,021	\$ 25,233	\$ 17	\$	\$	\$ (9,598)	\$ 47,673
SERVICES AND OTHER	13,594	17,911	8		6	(1,167)	30,352
FUNERAL HOME				3,704			3,704
<b>TOTAL REVENUES</b>	<b>45,615</b>	<b>43,144</b>	<b>25</b>	<b>3,704</b>	<b>6</b>	<b>(10,765)</b>	<b>81,729</b>
<b>COSTS AND EXPENSES</b>							
COST OF SALES	7,055	5,449	3			(1,843)	10,664
SELLING	10,465	7,975	8		550	(2,309)	16,689
CEMETERY	8,369	9,504	2		110		17,985
GENERAL AND ADMINISTRATIVE	4,827	4,370	2		56		9,255
FUNERAL HOME EXPENSE				2,996			2,996
CORPORATE EXPENSE					12,006		12,006
<b>TOTAL COST &amp; EXPENSES</b>	<b>30,716</b>	<b>27,298</b>	<b>15</b>	<b>2,996</b>	<b>12,722</b>	<b>(4,152)</b>	<b>69,595</b>
<b>OPERATING EARNINGS</b>	<b>14,899</b>	<b>15,846</b>	<b>10</b>	<b>708</b>	<b>(12,716)</b>	<b>(6,613)</b>	<b>12,134</b>
INTEREST EXP	2,762	2,348		265			5,375
DEPRECIATION	936	750		170	732		2,588
<b>EARNINGS BEFORE TAXES (LOSS)</b>	<b>\$ 11,201</b>	<b>\$ 12,748</b>	<b>\$ 10</b>	<b>\$ 273</b>	<b>\$ (13,448)</b>	<b>\$ (6,613)</b>	<b>\$ 4,171</b>
<b>SUPPLEMENTAL INFORMATION</b>							
TOTAL ASSETS	\$ 266,452	\$ 282,113	\$ 43,092	\$ 11,133	\$ 13,125	\$	\$ 615,915
AMORTIZATION OF CEMETERY PROPERTY	\$ 2,144	\$ 1,807	\$ 1	\$	\$	\$ 189	\$ 4,141

For the nine months ended September 30, 2007:

	CEMETERIES		WEST	FUNERAL HOMES (in thousands)	CORPORATE	ADJUSTMENT	TOTAL
	SOUTHEAST	NORTHEAST					
<b>REVENUES</b>							
SALES	\$ 39,179	\$ 25,983	\$ 6,269	\$	\$	\$ (6,973)	\$ 64,458
SERVICES AND OTHER	16,055	20,123	2,900			(4,762)	34,316
FUNERAL HOME				7,806			7,806
<b>TOTAL REVENUES</b>	<b>55,234</b>	<b>46,106</b>	<b>9,169</b>	<b>7,806</b>		<b>(11,735)</b>	<b>106,580</b>
<b>COSTS AND EXPENSES</b>							

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

COST OF SALES	8,423	5,916	1,357			(1,209)	14,487
SELLING	12,306	8,244	2,015		865	(1,570)	21,860
CEMETERY	9,983	10,191	2,419				22,593
GENERAL AND ADMINISTRATIVE	5,838	4,371	1,233		20		11,462
FUNERAL HOME EXPENSE				6,088			6,088
CORPORATE EXPENSE					16,211		16,211
<b>TOTAL COST &amp; EXPENSES</b>	<b>36,550</b>	<b>28,722</b>	<b>7,024</b>	<b>6,088</b>	<b>17,096</b>	<b>(2,779)</b>	<b>92,701</b>
<b>OPERATING EARNINGS</b>	<b>18,684</b>	<b>17,384</b>	<b>2,145</b>	<b>1,718</b>	<b>(17,096)</b>	<b>(8,955)</b>	<b>13,880</b>
INTEREST EXP	3,180	2,553	284	424			6,441
DEPRECIATION	943	700	29	283	945		2,900
<b>EARNINGS BEFORE TAXES</b>							
<b>(LOSS)</b>	<b>\$ 14,561</b>	<b>\$ 14,131</b>	<b>\$ 1,832</b>	<b>\$ 1,011</b>	<b>\$ (18,041)</b>	<b>\$ (8,955)</b>	<b>\$ 4,538</b>
<b>SUPPLEMENTAL INFORMATION</b>							
TOTAL ASSETS	\$ 277,031	\$ 280,207	\$ 47,382	\$ 15,733	\$ 16,880	\$	\$ 637,233
AMORTIZATION OF CEMETERY PROPERTY	\$ 2,165	\$ 1,849	\$ 80	\$	\$	\$ 180	\$ 4,274

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

**Table of Contents**

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 101/104 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 accounting principles generally accepted in the United States of America.

Management evaluates results of operations of the business units before income taxes because it believes this is a more meaningful representation of the operating performance of its segments. This before tax presentation is closely aligned with the management and operating structure of our company. It is also on this basis that the Company's performance is evaluated internally.

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

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

	December 31, 2006	September 30, 2007
	(in thousands)	
Customer receivables	\$ 81,584	\$ 85,398
Unearned finance income	(9,495)	(10,851)
Allowance for contract cancellations	(12,243)	(12,333)
	59,846	62,214
Less: current portion net of allowance	22,968	23,058
Long-term portion net of allowance	\$ 36,878	\$ 39,156

Activity in the allowance for contract cancellations is as follows:

	December 31, 2006	September 30, 2007
	(in thousands)	
Balance Beginning of period	\$ 9,261	\$ 12,243
Reserve on acquired contracts	926	
Provision for cancellations	8,363	7,091
Charge-offs net	(6,307)	(7,001)
Balance End of period	\$ 12,243	\$ 12,333

**3. CEMETERY PROPERTY**

Cemetery property consists of the following:

	December 31, 2006	September 30, 2007
	(in thousands)	
Developed land	\$ 21,981	\$ 20,610
Undeveloped land	114,175	117,420
Mausoleum crypts and lawn crypts	35,558	35,080

Total		\$ 171,714	\$ 173,110
-------	--	------------	------------

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

Major classes of property and equipment follow:

	December 31, 2006	September 30, 2007
	(in thousands)	
Building and improvements	\$ 29,202	\$ 28,143
Furniture and equipment	21,966	22,632
	51,168	50,775
Less: accumulated depreciation	(22,141)	(22,468)
Property and equipment net	\$ 29,027	\$ 28,307

**5. PRE-NEED MERCHANDISE AND SERVICES AND MERCHANDISE TRUSTS.**

**Cemetery** In connection with the pre-need sale of cemetery interment rights, merchandise and services, the customer typically enters into an installment contract with the Company. The contract is usually for a period not to exceed 60 months with payments of principal and interest required. Interest is imputed for contracts that do not bear a market rate of interest (at a rate of 8.75% during the year ended December 31, 2006 and 9.75% during the nine months ended September 30, 2007). The Company establishes an allowance for cancellations due to non-payment at the date of sale based on historic experience and management's estimates. The allowance is reviewed quarterly and changes in estimates are reflected for current and prior contracts as a result of recent cancellation experience. Actual cancellation rates in the future may result in a change in estimate.

The Company evaluates the collectibility of the assets held in merchandise trusts for impairment when the fair values of the assets are below the recorded asset balance. Assets are deemed to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts from the merchandise trust at the time such amounts are due. In those instances when the amount is deemed to be impaired, the merchandise trust is reduced to the currently estimated recoverable amount with a corresponding reduction to the associated deferred cemetery revenues balance. There is no income statement impact as long as deferred revenues are not below the estimated costs to deliver the underlying products or services. If the deferred revenue were to decrease below the estimated cost to deliver the underlying products or services, the Company would record a charge to earnings for the difference.

At December 31, 2006, the cost and market value associated with the assets held in merchandise trusts follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market
	(in thousands)			
Short-term investment	\$ 19,423	\$	\$	\$ 19,423
Fixed maturities:				
U.S. Government and federal agency	3,572	7	(47)	3,532
U.S. State and local government agency	2,453	6	(33)	2,426
Corporate debt securities	3,875	62	(26)	3,911
Other debt securities	56,737	558	(1,067)	56,228
Total fixed maturities	66,637	633	(1,173)	66,097
Equity securities	57,471	5,365	(568)	62,268
Total	\$ 143,531	\$ 5,998	\$ (1,741)	\$ 147,788



**Table of Contents**

At September 30, 2007, the cost and market value associated with the assets held in merchandise trusts follows:

	Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Market
Short-term investment	\$ 12,128	\$	\$	\$ 12,128
Fixed maturities:				
U.S. Government and federal agency	3,668	8	(38)	3,638
U.S. State and local government agency	2,077	12	(36)	2,053
Corporate debt securities	3,953	29	(91)	3,891
Other debt securities	41,420	111	(680)	40,851
Total fixed maturities	51,118	160	(845)	50,433
Equity securities	85,906	2,699	(3,679)	84,926
Total	\$ 149,152	\$ 2,859	\$ (4,524)	\$ 147,487

An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at September 30, 2007 is presented below:

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Fixed maturities:						
U.S. Government and federal agency	\$ 2,327	\$ 38	\$	\$	\$ 2,327	\$ 38
U.S. State and local government agency	751	13	487	23	1,238	36
Corporate debt securities	1,609	65	747	26	2,356	91
Other debt securities	17,120	659	1,201	21	18,321	680
Total fixed maturities	21,807	775	2,435	70	24,242	845
Equity securities	34,679	2,369	21,025	1,310	55,704	3,679
Total	\$ 56,486	\$ 3,144	\$ 23,460	\$ 1,380	\$ 79,946	\$ 4,524

A reconciliation of the Company's merchandise trust activities for the year-to-date period ended September 30, 2007 is presented below:

	Market Value at 12/31/2006	Contribution	Distributions	Interest/ Dividends	Capital Gain Distribution (in thousands)	Realized Gain/ Loss	Taxes	Fees	Unrealized Change in Market Value	Change in Accrued Income	Market Value at 9/30/2007
Merchandise Trust Funds	147,788	33,454	(37,502)	5,945	305	5,316	(1,150)	(655)	(6,030)	16	147,487
Total:	147,788	33,454	(37,502)	5,945	305	5,316	(1,150)	(655)	(6,030)	16	147,487

## Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

The Company considers various factors when considering if a decline in fair value of an asset is other than temporary, including but not limited to the length of time and magnitude of the unrealized loss; the volatility of the investment; the credit ratings of the issuers of the investments; and the Company's intentions to sell or ability to hold the investments. At September 30, 2007, the Company has concluded that the declines in the fair values of the Company's investments in fixed maturities and equity securities held by the merchandise trusts are temporary.

The Company deposited \$5,246 and \$7,535 and withdrew \$6,971 and \$10,220 from the trusts during the three month period ended September 30, 2006 and 2007, respectively. The company deposited \$12,631 and \$33,454 and withdrew \$16,727 and \$37,502 from the trusts during the nine month period ended September, 2006 and 2007, respectively. During the three months ended September 30, 2006, purchase and sales of securities available for sale included in trust investments were \$21,189 and \$22,961, respectively. During the three months ended September 30, 2007, purchase and sales of securities available for sale included in trust investments were \$20,877 and \$20,970, respectively. During the nine months ended September 30, 2006, purchase and sales of securities available for sale included in trust investments were \$61,588 and \$61,216, respectively. During the nine months ended September 30, 2007, purchase and sales of securities available for sale included in trust investments were \$103,721 and \$138,479, respectively.



**Table of Contents**

**Funeral Home** Prearranged funeral home services provide for future funeral home services generally determined by prices prevailing at the time that the contract is signed. A portion of the payments made under funeral home pre-need contracts is placed in funeral trusts. Amounts used to defray the initial cost of administration are not placed in trust. The balance of the amounts in the trusts totaled approximately \$1.8 million at December 31, 2006 and approximately \$7.2 million at September 30, 2007 and are included within the merchandise trusts above. Funeral trust principal, together with investment earnings retained in trust, are deferred until the service is performed. Upon performance of the contracted funeral home service, the Company recognizes the funeral trust principal amount together with the accumulated trust earnings as funeral home revenues.

**6. PERPETUAL CARE TRUSTS.**

At December 31, 2006, the cost and market value associated with the assets held in perpetual care trust follows:

	Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Market
Short-term investment	\$ 18,092	\$	\$	\$ 18,092
Fixed maturities:				
U.S. Government and federal agency	6,239	19	(45)	6,213
U.S. State and local government agency	5,082	22	(20)	5,084
Corporate debt securities	14,796	337	(67)	15,066
Other debt securities	73,471	1,857	(84)	75,244
Total fixed maturities	99,588	2,235	(216)	101,607
Equity Securities	43,966	5,082	(116)	48,932
Total	\$ 161,646	\$ 7,317	\$ (332)	\$ 168,631

At September 30, 2007, the cost and market value associated with the assets held in perpetual care trust follows:

	Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Market
Short-term investment	\$ 14,280	\$	\$	\$ 14,280
Fixed maturities:				
U.S. Government and federal agency	6,307	21	(42)	6,286
U.S. State and local government agency	4,660	36	(25)	4,671
Corporate debt securities	15,554	153	(347)	15,360
Other debt securities	58,258	234	(1,158)	57,334
Total fixed maturities	84,779	444	(1,572)	83,651
Equity Securities	67,610	2,330	(1,626)	68,314
Total	\$ 166,669	\$ 2,774	\$ (3,198)	\$ 166,245



**Table of Contents**

An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at September 30, 2007 held in perpetual care trusts is presented below:

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands)						
<b>Fixed maturities:</b>						
U.S. Government and federal agency	\$ 3,350	\$ 39	\$ 85	\$ 3	\$ 3,435	\$ 42
U.S. State and local government agency	1,336	20	222	5	1,558	25
Corporate debt securities	6,894	279	2,177	68	9,071	347
Other debt securities	42,320	1,152	512	6	42,832	1,158
<b>Total fixed maturities</b>	<b>53,900</b>	<b>1,490</b>	<b>2,996</b>	<b>82</b>	<b>56,896</b>	<b>1,572</b>
<b>Equity Securities</b>	<b>22,103</b>	<b>1,088</b>	<b>7,698</b>	<b>538</b>	<b>29,801</b>	<b>1,626</b>
<b>Total</b>	<b>\$ 76,003</b>	<b>\$ 2,578</b>	<b>\$ 10,694</b>	<b>\$ 620</b>	<b>\$ 86,697</b>	<b>\$ 3,198</b>

A reconciliation of the Company's merchandise trust activities for the year-to-date period ended September 30, 2007 is presented below:

	Market Value at 12/31/2006	Contribution	Distributions	Interest/Dividends	Capital Gain Distribution	Realized Gain/Loss	Taxes	Fees	Unrealized Change in Market Value	Change in Accrued Income	Market Value at 9/30/2007
<b>Perpetual Care Trust Funds</b>	168,631	15,605	(20,390)	8,282	288	1,502	(697)	(605)	(6,928)	557	166,245
<b>Total:</b>	168,631	15,605	(20,390)	8,282	288	1,502	(697)	(605)	(6,928)	557	166,245

The Company considers various factors when considering if a decline in fair value of an asset is other than temporary, including but not limited to the length of time and magnitude of the unrealized loss; the volatility of the investment; the credit ratings of the issuers of the investments; and the Company's intentions to sell or ability to hold the investments. At September 30, 2007, the Company has concluded that the declines in the fair values of the Company's investments in fixed maturities and equity securities held in perpetual care trusts are temporary.

The company deposited \$1,233 and \$8,239 and withdrew \$1,793 and \$7,689 from the trusts during the three months ended September 30, 2006 and 2007, respectively. The company deposited \$3,385 and \$15,605 and withdrew \$5,426 and \$20,390 from the trusts during the nine months ended September 30, 2006 and 2007, respectively. During the three months ended September 30, 2006, purchase and sales of securities available for sale included in trust investments were \$47,400 and \$46,307, respectively. During the three months ended September 30, 2007, purchase and sales of securities available for sale included in trust investments were \$56,269 and \$52,880, respectively. During the nine months ended September 30, 2006, purchase and sales of securities available for sale included in trust investments were \$80,877 and \$72,952, respectively. During the nine months ended September 30, 2007, purchase and sales of securities available for sale included in trust investments were \$191,511 and \$169,522, respectively.

The Company recorded income from perpetual care trusts of \$2.2 million and \$6.6 million for the three and nine months ended September 30, 2006, respectively and \$2.7 million and \$7.4 million during the same period of 2007. This income is classified as cemetery revenues in the consolidated statements of operations.

**Table of Contents****7. LONG-TERM DEBT**

The following is a summary of debt outstanding at:

	December 31, 2006	September 30, 2007
	(in thousands)	
Insurance premium financing, due in installments through September 2007 (4.75%)	433	632
Covenants not to compete due through August 2007 (non-interest bearing)	59	
Vehicle Financing	50	69
Acquisition Credit Line, due September 2009 (interest rate Libor + 3.5%)	15,550	
Revolving Credit Line, due September 2009 (interest rate Libor + 3.5%)	7,400	
Senior secured notes, due 2009 (interest rate 7.66%)	80,000	
Series A senior secured notes, due 2009 (interest rate 7.66%)		80,000
Series B senior secured notes, due 2012 (interest rate 9.34%)		35,000
<b>Total</b>	<b>103,492</b>	<b>115,701</b>
Less current portion	1,388	667
<b>Long-term portion</b>	<b>\$ 102,104</b>	<b>\$ 115,034</b>

On September 20, 2004, concurrent with the closing of the Partnership's initial public offering, StoneMor Operating LLC (the Operating Company) and its subsidiaries issued and sold \$80.0 million aggregate principal amount of senior secured notes. The senior secured notes rank pari passu with all of our other senior secured debt, including the revolving credit facility and the acquisition facility, subject to the description of the collateral securing the senior secured notes described below. The senior secured notes are guaranteed by the Partnership, the general partner of the Partnership and any future subsidiaries of the Operating Company. Obligations under the senior secured notes are secured by a first priority lien and security interest covering substantially all of the assets of the issuers of the senior secured notes, whether then owned or thereafter acquired, other than specified receivable rights and a third party priority lien and security interest covering those specified receivable rights, each as described above, of such issuers, whether then owned or thereafter acquired.

On September 20, 2004, concurrent with the closing of the Partnership's initial public offering, the Operating Company and its subsidiaries entered into a \$35.0 million credit facility with a group of banks. This credit facility consisted of a \$12.5 million revolving credit line and a \$22.5 million acquisition line of credit. Borrowings under the revolving credit line were originally due and payable on September 20, 2007, and borrowings under the acquisition line of credit were originally due and payable on September 20, 2008. On September 28, 2006, the Company entered into a second amendment of the credit facility which extended the due date on both lines of credit to September 20, 2009. On May 7, 2007, the Company entered into a third amendment of the credit facility which adjusted the credit facility by increasing the revolving credit line to \$17.5 million and reducing the acquisition line of credit to \$17.5 million until June 29, 2007. On June 29, 2007, the Company entered into a fourth amendment of the credit facility which extended the adjustment period of the third amendment from June 29, 2007 to July 31, 2007. On July 31, 2007, the Company entered into a fifth amendment of the credit facility which extended the adjustment period of the third amendment from June 29, 2007 to August 15, 2007. Depending on the type of loan, this credit facility bore interest at the Base Rate or the Eurodollar Rate, plus applicable margins ranging from 0.00% to 1% and 2.5% to 3.5% per annum, respectively, depending on our ratio of total debt to consolidated EBIDTA, as defined in the credit agreement. The Base Rate is the higher of the federal funds rate plus 0.05% or the prime rate announced by Fleet National Bank, a Bank of America Company. The Eurodollar Rate was determined by the administrative agent according to the credit facility.

Borrowings under the credit facility ranked pari passu with all of our other senior secured debt, including the senior secured notes, subject to the description of the collateral securing the credit facility described below. Borrowings under the credit facility are guaranteed by the Partnership and the general partner of the Partnership.

Our obligations under the revolving facility were secured by a first priority lien and security interest in specified receivable rights, whether then owned or thereafter acquired, of the borrower and the guarantors and by a third party priority lien and security interest in substantially all assets other than those receivable rights of the borrower and the guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, our general partner's interest in the Partnership and our general partner's incentive distribution rights under the Partnership's partnership agreement. These assets secure the acquisition facility and our senior secured notes. The specified receivable rights include all accounts and other rights to payment arising under customer contracts or agreements (other than amounts required to be deposited into merchandise and perpetual care trusts) or management agreements, and all inventory, general intangibles and other

## Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

rights reasonably related to the collection and performance of these accounts and rights to payment.

Our obligations under the acquisition facility were secured by a first priority lien and security interest in substantially all assets, whether then owned or thereafter acquired, other than specified receivable rights of the borrower and the guarantors, excluding

---

**Table of Contents**

trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, our general partner's interest in the Partnership and our general partner's incentive distribution rights under the Partnership's partnership agreement, and a third party priority lien and security interest in those specified receivable rights of the borrower and the guarantors. The senior secured notes shared *pari passu* in the collateral securing the acquisition facility.

On August 15, 2007, the Operating Company and certain of its subsidiaries, collectively, as Borrowers, and the Company and StoneMor GP LLC ( StoneMor GP ), the general partner of StoneMor, collectively, as Guarantors, entered into the Amended and Restated Credit Agreement (the Credit Agreement ) with Bank of America, N.A. ( Bank of America ), other lenders, and Banc of America Securities LLC ( BAS ). Bank of America was the administrative agent and one of the lenders under a Credit Agreement by and among the Company, StoneMor GP, the Operating Company, certain other borrowers and lending institutions, dated September 20, 2004, as amended (the 2004 Credit Agreement ).

On August 15, 2007, StoneMor GP, the Company, the Operating Company, and certain subsidiaries of the Operating Company (collectively, the Issuers ) entered into the Amended and Restated Note Purchase Agreement (the Note Purchase Agreement ) 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, Note Purchasers ).

The following is a summary of the material provisions of the Credit Agreement and the Note Purchase Agreement. This summary is qualified in its entirety by reference to the Credit Agreement, the Note Purchase Agreement, and the Notes issued under the Note Purchase Agreement. Capitalized terms which are not defined in this Quarterly Report on Form 10-Q shall have the meanings assigned to such terms in the Credit Agreement and Note Purchase Agreement.

The Credit Agreement provides for two credit facilities: (1) the Acquisition Facility, with a maximum principal amount of \$40,000,000 (with an option to increase such facility by an additional \$15,000,000 on an uncommitted basis) and the term of 5 years, and (2) the Revolving Credit Facility, with a maximum principal amount of \$25,000,000 (with an option to increase such facility by up to \$10,000,000 on an uncommitted basis) and a term of 5 years. Amounts borrowed under the Acquisition Facility and repaid or prepaid may not be reborrowed. Amounts borrowed under the Revolving Credit Facility and repaid or prepaid during the term may be reborrowed. In addition, Bank of America has agreed to provide to the borrowers Swing Line Loans with a maximum limit of \$5,000,000, which is a part of the Revolving Credit Facility.

Loans outstanding under the Acquisition Facility and the Revolving Credit Facility bear interest at a per annum rate based upon the Base Rate or the Eurodollar Rate, as selected by Borrowers, plus an applicable margin ranging from 0% to 0.75% for Base Rate Loans and 2.25% to 3.25% for Eurodollar Rate Loans, depending on the ratio of consolidated funded debt to consolidated EBITDA of the Company. The Base Rate is a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 0.5% and (b) the prime rate as set by Bank of America. The Eurodollar Rate equals the British Bankers Association LIBOR Rate.

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 Borrowers are also required to pay certain additional fees to Bank of America as Administrative Agent, and BAS as Arranger.

The proceeds of the Acquisition Loans may be used by the Borrowers to finance (i) Permitted Acquisitions, as defined in the Credit Agreement, and (ii) the purchase and construction of mausoleums. The proceeds of the Revolving Credit Loans and Swing Line Loans may be utilized to finance working capital requirements, Capital Expenditures, as defined in the Credit Agreement, and for other general corporate purposes.

Borrowings under the Credit Agreement rank *pari passu* with all other senior secured debt of the Borrowers, including the senior secured notes issued pursuant to the Note Purchase Agreement.

The Borrowers' obligations under the Revolving Facility are secured by a first priority lien and security interest in specified receivable rights, whether then owned or thereafter acquired, of the Borrowers and the guarantors, and by a second priority lien and security interest in substantially all assets other than those receivable rights of the Borrowers and guarantors, excluding trust accounts

---

**Table of Contents**

and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, StoneMor GP's general partner interest in the Company and StoneMor GP's incentive distribution rights under the Company's partnership agreement. The specified receivable rights include all accounts and other rights to payment arising under customer contracts or agreements or management agreements, and all inventory, general intangibles and other rights reasonably related to the collection and performance of these accounts and rights to payment.

The Borrowers' obligations under the Acquisition Facility are secured by a first priority lien and security interest in substantially all assets, whether then owned or thereafter acquired, other than specified receivable rights of the Borrowers and the guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, StoneMor GP's general partner interest in the Company and StoneMor GP's incentive distribution rights under the Company's partnership agreement, and a secondary priority lien and security interest in those specified receivable rights. These assets secure the Acquisition Facility and the Notes described below. The priority of the liens and security interests securing the Acquisition Facility is *pari passu* with the liens and security interests securing Notes described below.

The Borrowers' obligations under the Credit Agreement are guaranteed by StoneMor and StoneMor GP.

Subject to certain exceptions, the Borrowers agreed under the Credit Agreement to certain customary affirmative and negative covenants, which include, among other matters, covenants restricting the incurrence of indebtedness, the making of investments and acquisitions, the issuance of certain types of equity securities, the making of dispositions and the making of certain fundamental changes in equity structure.

The agreements governing the revolving credit facility, the acquisition line of credit and the senior secured notes contain 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. As of September 30, 2007, the Company was in compliance with all debt covenants.

**Senior Secured Notes**

Pursuant to the Note Purchase Agreement, the Issuers and the Note Purchasers agreed to (a) exchange certain Series A Notes issued pursuant to that certain Note Purchase Agreement dated as of September 20, 2004, as amended, for new Series A Notes, as defined in the Note Purchase Agreement, due September 20, 2009, in the maximum aggregate amount of \$80,000,000; and (b) issue Series B Notes, as defined in the Note Purchase Agreement, due August 15, 2012 in the aggregate amount of \$35,000,000, subject to the option, on an uncommitted basis, to issue/purchase additional secured Shelf Notes in the aggregate amount of up to \$35,000,000, and to issue/purchase additional secured Shelf Notes to refinance the Series A Notes (Series A Notes, Series B Notes and the Shelf Notes are referred to collectively as the "Notes"). The Series A Notes bear an interest rate of 7.66% per annum, and the Series B Notes bear an interest of 9.34% per annum.

The Notes are guaranteed by the Company and StoneMor GP. The Notes rank *pari passu* with all other senior secured debt, including the Revolving Credit Facility and the Acquisition Facility. Obligations under the Notes are secured by a first priority lien and security interest covering substantially all of the assets of the issuers, whether then owned or thereafter acquired, other than specified receivable rights and a second priority lien and security interest covering those specified receivable rights of the Issuers, whether then owned or thereafter acquired. These assets secure the Notes and the Acquisition Facility described above. The priority of the liens and security interests securing the Notes is *pari passu* with the liens and security interests securing the Acquisition Facility described above.

The agreements governing the Notes and the Credit Agreement contain 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. As of September 30, 2007, the Company was in compliance with all debt covenants.

Deferred financing costs as of September 30, 2007 consisted of approximately \$4.4 million of debt issuance costs, less accumulated amortization of approximately \$0.9 million. These costs were incurred in connection with the issuance of the Company's senior secured notes during September 2004 and its amendment during August 2007.

---

**Table of Contents**
**8. INCOME TAXES**

As of December 31, 2006, the Company's taxable corporate subsidiaries had a federal net operating loss carryover of approximately \$40.9 million, which will begin to expire in 2019. As of December 31, 2006, the Company also had a state net operating loss carry-forward of approximately \$74.2 million, a portion of which expires annually.

Effective with the closing of the Partnership's initial public offering on September 20, 2004, the Company was no longer 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 unitholders, 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 tax returns of the Partnership are subject to examination by state and federal tax authorities. If such examinations result in changes to taxable income, the tax liability of the partners could be changed accordingly.

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 bases 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, 2006 and 2007, respectively is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2006 and 2007, respectively.

In July 2006, the FASB issued Interpretation No. 48, which is applicable for fiscal years beginning after December 15, 2006. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. Interpretation 48 prescribes a recognition threshold and measurement for financial statement recognition and measurement of a tax position reported or expected to be reported on a tax return. Interpretation 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. On January 1, 2007, the Company adopted Interpretation 48. Prior to the adoption of Interpretation 48, the Company's policy was to recognize tax benefits of uncertain tax positions only if it was "probable" that the position would be sustained. Interpretation 48 requires application of a "more likely than not" threshold to the recognition and derecognition of tax positions. As a result of the adoption of Interpretation 48, no additional adjustments were made to retained earnings for previously unrecognized tax benefits.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is not currently subject to any ongoing federal or state tax examinations. The Company has not extended the statute of limitations for the federal or state jurisdictions with tax years open from 2003 forward. The Company has tax net operating loss and credit carry forwards that are subject to examination for a number of years beyond the year in which they are utilized for tax purposes. Since a portion of these carry forwards will be utilized in the future, many of these attribute carry forwards may remain subject to examination.

At September 30, 2007, the Company had no specific amounts recorded for uncertain tax positions, interest or penalties in the accompanying consolidated financial statements.

**9. DEFERRED CEMETERY REVENUES - NET**

In accordance with SAB No. 104, the Company defers the revenues and all direct costs associated with the sale of pre-need cemetery merchandise and services until the merchandise is delivered or the services are performed. The Company also defers the costs to obtain new pre-need cemetery and new prearranged funeral business as well as the investment earnings on the prearranged services and merchandise trusts (see Note 1). At December 31, 2006 and September 30, 2007, deferred cemetery revenues, net, consisted of the following:





**Table of Contents**

	December 31, 2006	September 30, 2007
	(in thousands)	
Deferred cemetery revenue	\$ 149,327	\$ 157,841
Deferred merchandise trust revenue	27,422	26,650
Deferred pre-acquisition margin	41,954	40,682
Deferred cost of good sold	(22,600)	(23,431)
<b>Deferred cemetery revenues, net</b>	<b>\$ 196,103</b>	<b>\$ 201,742</b>
Deferred selling and obtaining costs	\$ 33,478	\$ 35,336

Deferred selling and obtaining costs are carried as an asset on the condensed consolidated balance sheet in accordance with FAS 60.

**10. 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 adverse effect on the Company's financial position, results of operations or liquidity.

**Leases** At September 30, 2007, the Company was committed to operating lease payments for premises, automobiles and office equipment under various operating leases with initial terms ranging from one to five years and options to renew at varying terms. Expenses under operating leases were \$0.5 million for the nine months ended September 30, 2007 and \$0.4 million for the nine months ended September 30, 2006.

At September 30, 2007, operating leases will result in future payments in the following approximate amounts:

	(in thousands)
2007	\$ 175
2008	628
2009	600
2010	484
2011	426
Thereafter	877
<b>Total</b>	<b>\$ 3,190</b>

**Tax Indemnification** CFSI LLC (formerly Cornerstone Family Services, Inc., the Company's predecessor) has agreed to indemnify the Company for all federal, state and local income tax liabilities attributable to the operation of the assets contributed by CFSI LLC to us prior to September 20, 2004. CFSI LLC has also agreed to indemnify us against additional income tax liabilities, if any, that arise from the consummation of the transactions related to our formation in excess of those believed to result at the time of the closing of our initial public offering. CFSI LLC has also agreed to indemnify us against the increase in income tax liabilities of our corporate subsidiaries resulting from any reduction or elimination of our net operating losses to the extent those net operating losses are used to offset any income tax gain or income resulting from the prior operation of the assets of CFSI LLC contributed to us, or from our formation transactions in excess of such gain or income believed to result at September 20, 2004.

**Table of Contents****11. PARTNERS EQUITY****Unit-Based Compensation**

Effective January 1, 2006, the Company adopted SFAS No. 123R, which replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation* (FAS 123) and supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. Prior to January 1, 2006, the Company did not have any outstanding unit-based employee compensation grants.

Compensation expense recognized related to unit appreciation rights and restricted phantom unit awards is summarized in the table below:

(in thousands)	Nine Months Ended September 30,	
	2006	2007
Unit appreciation rights	\$ 0	\$ 128
Restricted phantom units	0	3,379
General partner equity grant		606
<b>Total unit-based compensation expense</b>	<b>\$ 0</b>	<b>\$ 4,113</b>

As of September 30, 2007, there was \$0.1 million of unrecognized pretax compensation cost related to nonvested unit appreciation rights and \$3.6 million of unrecognized pretax compensation cost related to nonvested restricted phantom units which will be recognized through September 2009.

**12. ACQUISITIONS**

During the quarter ended September 30, 2007, the Company acquired 2 cemeteries. The results of the operations of these acquired cemeteries have been included in the consolidated financial statements since their date of acquisition. StoneMor paid \$2.5 million in cash to the sellers to acquire these locations. Including the acquisition transaction costs, the transaction was valued at \$2.9 million for accounting purposes.

The following table summarizes the estimated fair values (in thousands) of the assets acquired and liabilities assumed as of the acquisition date. StoneMor was in the process of finalizing the allocation of the purchase price as of November 9, 2007; thus, the allocation shown below is preliminary and subject to further refinement.

<b>Assets acquired</b>	
Accounts receivable, net	\$ 233
Cemetery property	3,609
Property and equipment	619
Merchandise trust funds, restricted at fair value	243
<b>Total assets acquired</b>	<b>4,704</b>
<b>Liabilities assumed</b>	
Deferred margin	949
Merchandise liability	875
<b>Total liabilities assumed</b>	<b>1,824</b>
<b>Net assets acquired</b>	<b>\$ 2,880</b>

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

The words we, us, our, StoneMor, the Partnership, Company and similar words, when used in a historical context prior to the closing of the 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 StoneMor's operating activities, the plans and objectives of StoneMor's management, assumptions regarding

## Table of Contents

StoneMor's 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(i) of the Securities Act of 1933 and Section 21E(i) of the Securities Exchange Act of 1934. The words believe, may, will, estimate, continues, anticipate, intend, project, expect predict, expressions identify these forward-looking statements. These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated, including, but not limited to, the following: future revenue and revenue growth; the impact of StoneMor's significant leverage on its operating plans; the ability of StoneMor to service its debt; StoneMor's 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; variances in death rates; variances in the use of cremation; changes in the political or regulatory environments, including potential changes in tax accounting and trusting policies; StoneMor's ability to successfully implement a strategic plan relating to producing operating improvement, strong cash flows and further deleveraging; uncertainties associated with the integration or the anticipated benefits of the acquisition of assets, information disclosed within this Quarterly Report on Form 10-Q; and various other uncertainties associated with the deathcare industry and StoneMor's 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/A for the fiscal year ended December 31, 2006. We assume no obligation to publicly 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.

### **Overview**

On April 2, 2004, StoneMor Partners L.P. was created to own and operate the cemetery and funeral home business conducted by Cornerstone Family Services, Inc. ( Cornerstone ) and its subsidiaries. On September 20, 2004, in connection with the initial public offering by the Partnership of common units representing limited partner interests, Cornerstone contributed to the Partnership substantially all of the assets, liabilities and businesses owned and operated by it, and then converted into CFSI LLC, a limited liability company. This transfer represented a reorganization of entities under common control and was recorded at historical cost. In exchange for these assets, liabilities and businesses, CFSI LLC received 564,782 common units and 4,239,782 subordinated units representing limited partner interests in the Partnership.

Cornerstone was 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 StoneMor, acquired 57 additional cemeteries and 22 funeral homes, built two funeral homes, exited from one management contract and sold one cemetery and one funeral home.

We are an owner and operator of cemeteries in the United States of America. As of September 30, 2007, the Company operated 178 cemeteries in 21 states, located primarily in the eastern United States of America. The Company owns 172 of these cemeteries and operates the remaining 6 under long-term management agreements with cemetery associations that own the cemeteries. As a result of the agreements and other control arrangements, StoneMor consolidates the results of the 6 managed cemeteries in our historical consolidated financial statements.

StoneMor sells cemetery products and services both at the time of death, which the Company refers to as at-need, and prior to the time of death, which the Company refers to as pre-need. During the first nine months of 2007, StoneMor performed approximately 21,700 burials and sold more than 16,500 interment rights (net of cancellations) compared to 18,700 and 11,900, respectively, for the same period of 2006.

### *Cemetery Operations*

*Sources of Revenues.* Our results of 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 revenues primarily from:

at-need sales of cemetery interment rights, merchandise and services, which we recognize as revenues at the time of sale;

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;

**Table of Contents**

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, other than perpetual care services, which we recognize as revenues when we perform the services for the customer;

accumulated merchandise trust earnings related to the delivery of pre-need cemetery merchandise and the performance of pre-need cemetery services, which we recognize as revenues when we deliver the merchandise or perform the services;

income from perpetual care trusts, 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.

Revenues from pre-need sales of cemetery merchandise and the related accumulated merchandise trust earnings are deferred until the merchandise is delivered to the customer, which generally means that:

the merchandise is complete and ready for installation or, in the case of merchandise other than burial vaults, storage on third-party premises;

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, except as described below; 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.

*Deferred Cemetery Revenues, Net.* Deferred revenues from pre-need sales and related merchandise trust earnings are reflected on our balance sheet in deferred cemetery revenues, net, until we recognize the amounts as revenues. 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. These entities include those that we acquired at the time of the formation of Cornerstone and other entities we subsequently acquired. We recognize revenues from these acquired pre-need sales in the manner described above—that is, when we deliver the merchandise to, or perform the services for, the customer. Our profit margin on these pre-need sales 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. We recognize certain expenses, such as indirect selling costs, maintenance costs and general and administrative costs, at the time the pre-need sale is made and defer other expenses, such as direct selling costs and costs of goods sold, until we recognize revenues on the sale. As a result, our profit margin on current pre-need sales is generally higher than on the pre-need sales we acquired.

*Funeral Home Operations*

We also derive revenues 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. These services and merchandise are sold by us almost exclusively at the time of need by salaried licensed funeral directors.

## Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

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.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based on the historical consolidated financial statements of StoneMor. We prepared these financial statements 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

## **Table of Contents**

amounts of revenues and expenses during the reporting periods. We based our estimates, judgments and assumptions on historical experience and known facts and other assumptions that we believed to be reasonable under the circumstances. In future periods, we expect to make similar estimates, judgments and assumptions on the same basis as we have historically. Our actual results in future periods may differ from these estimates under different assumptions and conditions. We believe that the following accounting policies or estimates had or will have the greatest potential impact on our consolidated financial statements for the periods discussed and for future periods.

*Revenue Recognition.* At-need sales of cemetery interment rights, merchandise and services and at-need sales of funeral home merchandise and services are recognized as revenues when the interment rights or merchandise is delivered or the services are performed.

Revenues from pre-need sales of cemetery interment rights in constructed burial property are deferred until at least 10% of the sales price has been collected. Revenues from pre-need sales of cemetery interment rights in unconstructed burial property, such as mausoleum crypts and lawn crypts, are deferred until at least 10% of the sales price has been collected, at which time revenues are recognized using the percentage-of-completion method of accounting. The percentage-of-completion method of accounting requires us to estimate the percentage of completion as of the balance sheet date and future costs (including estimates for future inflation). Changes to our estimates of the percentage of completion or the related future costs would impact the amount of recognized and deferred revenues.

Revenues from pre-need sales of cemetery merchandise and services are deferred until the merchandise is delivered or the services are performed. Investment earnings generated by funds required to be deposited into merchandise trusts, including realized gains and losses, in connection with pre-need sales of cemetery merchandise and services are deferred until the associated merchandise is delivered or the services are performed.

We defer recognition of the direct costs associated with pre-need sales of cemetery products and services. Direct costs are those costs that vary with and are directly related to obtaining new pre-need cemetery business and the actual cost of the products and services we sell. Direct costs are expensed when the related revenues are recognized. Until that time, direct costs are reflected on our balance sheet in deferred cemetery revenues, net.

*Allowance for Cancellations.* Allowances for cancellations arising from non-payment of pre-need contracts are estimated at the date of sale based upon our historical cancellation experience. Due to the number of estimates and projections used in determining an expected cancellation rate and the possibility of changes in collection patterns resulting from modifications to our collection policies or contract terms, actual collections could differ from these estimates.

*Impairment of Long-Lived Assets.* We monitor the recoverability of long-lived assets, including cemetery property, property and equipment, merchandise and perpetual care trusts, and other assets, based on estimates using factors such as current market value, future asset utilization, business and regulatory climate and future undiscounted cash flows expected to result from the use of the related assets. Our policy is to record an impairment loss in the period when it is determined that the sum of future undiscounted cash flows is less than the carrying value of the asset. Modifications to our estimates could result in our recording impairment charges in future periods.

*Property and Equipment.* Property and equipment is recorded at cost and depreciated on a straight-line basis. Maintenance and repairs are charged to expense as incurred, whereas additions and major replacements are capitalized and depreciated over the estimated useful life of the asset. We estimate that the useful lives of our buildings and improvements are 10 to 40 years, that the useful lives of our furniture and equipment are 5 to 10 years and that the useful lives of our leasehold improvements are the respective terms of the leases. These estimates could be impacted in the future by changes in market conditions or other factors.

*Income Taxes.* We make estimates and judgments to calculate some of our tax liabilities and determine the recoverability of some of our deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. We also estimate a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results, recent cumulative losses and our forecast of future taxable income. In determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.





## **Table of Contents**

We expect to reduce the amount of our taxable income as a result of our treatment as a partnership for U.S. federal tax purposes. However, some of our operations will be continue to be conducted through corporate subsidiaries that will be subject to applicable U.S. federal and state income taxes. Accordingly, changes in our income tax plans and estimates may impact our earnings in future periods.

As of December 31, 2006, the Company's taxable corporate subsidiaries had a federal net operating loss carryover of approximately \$40.9 million, which will begin to expire in 2019. As of December 31, 2006, the Company also had a state net operating loss carry-forward of approximately \$74.2 million, a portion of which expires annually. Our ability to use such federal net operating losses may be limited by changes in the ownership of our units deemed to result in an ownership change under the applicable provisions of the Internal Revenue Code.

For additional information about, among other things, our pre-need sales, at-need sales, trusting requirements, cash flow, expenses and operations, please see Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in our annual report on Form 10-K/A for the fiscal year ended December 31, 2006 and our other reports and statements filed with the SEC.

## **Recent Accounting Pronouncements**

In July 2006, the FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109* (*Interpretation 48*). Interpretation 48, which clarifies Statement 109, *Accounting for Income Taxes*, establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Company's financial statements. On initial application, Interpretation 48 was applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying Interpretation 48 were reported as an adjustment to retained earnings at the beginning of the period in which it is adopted. The adoption of Interpretation 48 as of January 31, 2007 did not have a significant effect on the Company's financial statements or its ability to comply with its current debt covenants. See Note 8 to Notes to Condensed Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. FAS 157 does not expand or require any new fair value measures, however the application of this statement may change current practice. The requirements of FAS 157 are effective for our fiscal year beginning January 1, 2008. StoneMor is in the process of evaluating this guidance and therefore has not yet determined the impact that FAS 157 will have on its financial statements upon adoption.

In February 2007, the FASB issued SFAS No. 159, *Establishing the Fair Value Option for Financial Assets and Liabilities* (FAS 159), to permit all entities to choose to elect to measure eligible financial instruments at fair value. FAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157, *Fair Value Measurements*. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated financial statements.

**Table of Contents**

The following table summarizes our results of operations for the periods presented:

	Three months ended		Nine months ended	
	September 30, 2006	2007	September 30, 2006	2007
	(in thousands)		(in thousands)	
<b>Statement of Operations Data:</b>				
Revenues:				
Cemetery :				
Merchandise	\$ 13,303	\$ 19,477	\$ 41,458	\$ 57,338
Services	6,182	7,188	18,524	21,523
Investment and other	6,185	6,438	18,043	19,913
Funeral home :				
Merchandise	477	1,110	1,656	3,442
Services	638	1,163	2,048	4,364
Total	26,785	35,376	81,729	106,580
Costs and Expenses:				
Cost of goods sold:				
Perpetual care	794	845	2,377	2,685
Merchandise and services	2,735	4,054	8,287	11,802
Cemetery expense	5,983	7,933	17,985	22,593
Selling expense	5,270	7,145	16,689	21,860
General and administrative expense	3,105	4,031	9,255	11,462
Corporate overhead	3,772	5,821	12,006	16,054
Depreciation and amortization	842	1,111	2,588	2,900
Funeral home expense:				
Merchandise	186	344	589	1,198
Services	426	1,041	1,374	3,057
Other	330	556	1,033	1,833
Expenses related to refinancing	0	157	0	157
Interest expense	1,860	2,263	5,375	6,441
Income taxes	423	82	1,091	533
Net income	\$ 1,059	\$ (7)	\$ 3,080	\$ 4,005

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

	Three months ended		Nine months ended	
	September 30, 2006	2007	September 30, 2006	2007
<b>Operating Data:</b>				
Interments Performed	6,116	6,992	18,704	21,740
Cemetery revenues per interment performed	\$ 4,197	\$ 4,734	\$ 4,172	\$ 4,543
Interment rights sold (1):				
Lots	3,495	4,082	9,971	14,214
Mausoleum crypts (including pre-construction)	522	599	1,706	1,861
Niches	88	130	317	463
Total interment rights sold	4,105	4,811	11,994	16,538

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Number of contracts written	12,689	15,281	39,998	47,305
Aggregate contract amount, in thousands (excluding interest)	\$ 27,126	\$ 33,797	\$ 85,390	\$ 104,178
Average amount per contract (excluding interest)	\$ 2,138	\$ 2,212	\$ 2,135	\$ 2,202
Number of pre-need contracts written	5,743	7,222	18,540	22,191
Aggregate pre-need contract amount, in thousands (excluding interest)	\$ 17,272	\$ 21,762	\$ 54,976	\$ 67,605
Average amount per pre-need contract (excluding interest)	\$ 3,007	\$ 3,013	\$ 2,965	\$ 3,047
Number of at-need contracts written	6,946	8,059	21,458	25,114
Aggregate at-need contract amount, in thousands	\$ 9,854	\$ 12,036	\$ 30,414	\$ 36,572
Average amount per at-need contract	\$ 1,419	\$ 1,493	\$ 1,417	\$ 1,456

(1) Net of cancellations. Counts the sale of a double-depth burial lot as the sale of two interment rights.

**Table of Contents****Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006**

*Cemetery Revenues.* Cemetery revenues were \$33.1 million in the third quarter of 2007, an increase of \$7.4 million, or 28.8%, as compared to \$25.7 million in the third quarter of 2006. Cemetery revenues from pre-need sales, including interest income from pre-need installment contracts and investment income from trusts, were \$21.9 million in the third quarter of 2007, an increase of \$5.2 million, or 31.1%, as compared to \$16.7 million in the third quarter of 2006. The increase primarily resulted from increased lot sales (\$0.3 million), additional vault deliveries (\$0.3 million), additional marker and marker base deliveries (\$3.5 million), additional casket deliveries (\$0.2 million) and additional crypt sales (\$0.2 million). Total revenues from merchandise and perpetual care trusts for the third quarter of 2007 were \$4.0 million, an increase of \$0.1 million, or 2.6%, as compared to \$3.9 million during the same period in 2006. The increase in trust revenues is a result of the increased product deliveries, as indicated above.

Cemetery revenues from at-need sales in the third quarter of 2007 were \$10.9 million, an increase of \$2.3 million, or 26.7%, as compared to \$8.6 million in the third quarter of 2006. The increase in cemetery revenues from at-need sales was primarily attributable to higher sales of openings and closings of \$0.6 million, higher sales of monument bases and markers of \$0.9 million, higher sales of lots of \$0.2 million, higher sales of mausoleums of \$0.3 million and higher sales of vaults of \$0.2 million.

Other cemetery revenues were \$0.4 million in the third quarter of 2007, essentially unchanged from the third quarter of 2006

*Costs of Goods Sold.* Cost of goods sold was \$4.9 million in the third quarter of 2007, an increase of \$1.4 million, or 40.0%, as compared to \$3.5 million in the third quarter of 2006 due to the composition of the items serviced during the period. As a percentage of cemetery revenues, cost of goods sold was 14.8% in the third quarter of 2007 an increase of 1.2% from 13.6% in the third quarter of 2006. The increase in cost of goods sold as a percentage of cemetery revenue was attributable to a change in product mix delivered in the third quarter of 2007.

*Selling Expense.* Total selling expense was \$7.1 million in the third quarter of 2007, an increase of \$1.8 million, or 34.0%, as compared to \$5.3 million in the third quarter of 2006 due to the increase in sales commissions and other compensation expenses. Sales commissions and other compensation expenses contributed \$6.0 million to total selling expense during the third quarter of 2007, an increase of \$.5 million, or 9.1%, compared to \$5.5 million in the third quarter of 2006. As a percentage of pre-need sales, sales commissions and other compensation expenses were 27.4% in the third quarter of 2007, a decrease of 5.5% from the third quarter of 2006. This decrease in percentage is attributable to the fixed cost component of our selling expense being leveraged over a greater sales volume.

*Cemetery Expense.* Cemetery expense was \$7.9 million in the third quarter of 2007, an increase of \$1.9 million, or 31.7%, as compared to \$6.0 million in the third quarter of 2006. This increase was primarily due to an increase in cemetery labor costs of \$0.9 million, an increase in cemetery maintenance of \$0.7 million and an increase in utilities of \$0.1 million.

*General and Administrative Expense.* General and administrative expense was \$4.0 million in the third quarter of 2007, an increase of \$0.9 million, or 29.0%, as compared to \$3.1 million in the third quarter of 2006. The increase was primarily attributable to an increase in office salaries of \$0.5 million and moderate increases in all other general and administrative expenses.

*Funeral Home Revenues and Expenses.* Funeral home revenues were \$2.3 million in the third quarter of 2007, an increase of \$1.2 million, or 109.1%, as compared to \$1.1 million in the third quarter of 2006. The primary reason for the increase was an increase in the number of services performed, 669 in the third quarter of 2007 compared to 264 in the third quarter of 2006. Funeral home expenses were \$1.9 million in the third quarter of 2007, an increase of \$1.0 million, or 111.1%, as compared to \$0.9 million in the third quarter of 2006. The majority of all increases in funeral home revenues and expenses were attributable to our acquisition of 14 funeral homes from Service Corporation International in September 2006.

*Corporate Overhead.* Corporate overhead was \$5.8 million in the third quarter of 2007, an increase of \$2.0 million, or 52.6%, as compared to \$3.8 million in the third quarter of 2006. The increase was primarily attributable to \$1.8 million in additional non-cash expenses resulting from a grant of unit-based compensation under our Long-Term Incentive Plan in November of 2006 which will be expensed over the vesting term in accordance with FAS 123R.

**Table of Contents**

*Depreciation and Amortization.* Depreciation and amortization was \$1.1 million in the third quarter of 2007, an increase of \$0.3 million, or 37.5%, as compared to \$0.8 million in the third quarter of 2006.

*Interest Expense.* Interest expense was \$2.3 million in the third quarter of 2007, an increase of \$0.4 million, or 21.1%, as compared to \$1.9 million in the third quarter of 2006. This increase was attributable to \$13.2 million increase in debt outstanding at September 30, 2007.

*Provision (Benefit) for Income Taxes.* Provision for income taxes was \$0.2 million in the third quarter of 2007, a decrease of approximately \$0.2 million, or 50.0%, as compared to \$0.4 million in the third quarter of 2006. The change in provision for income taxes was primarily due to a decrease in operating profit in our non-qualified entities attained during the first nine months of 2007.

*Net Income(loss).* Net loss was \$0.1 million during the third quarter of 2007, a decrease of \$1.2 million, or 109.1%, as compared to a net income of \$1.1 million during the third quarter of 2006. The decrease was primarily attributable to \$1.8 million in non-cash expenses resulting from an equity grant under our Long-Term Incentive Plan in November of 2006 and \$0.6 million in accumulated acquisition costs for locations that we did not ultimately acquire which were written off during the quarter. We incurred no similar expense in the third quarter of 2006.

*Deferred Cemetery Revenue, net.* Deferred cemetery revenues, net, decreased \$3.6 million, or 1.8% in the third quarter of 2007, from \$205.4 million as of June 30, 2007 to \$201.8 million as of September 30, 2007. In the comparable period in 2006, deferred cemetery revenues, net, increased \$16.1 million, or 9.2%, from \$175.3 million as of June 30, 2006 to \$191.4 million as of September 30, 2006. The net decrease in the quarter ended September 30, 2007 was primarily attributable to an increase in delivery of products and services that were sold in previous quarters. In the three months ended September 30, 2007, we added \$9.2 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog which was offset by revenues recognized, net of costs, of \$13.6 million, including accumulated merchandise trust earnings related to the delivery and performance of pre-need cemetery merchandise and services. In the three months ended September 30, 2006, we added \$15.2 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog which was offset by revenues recognized, net of costs, of \$9.4 million, including accumulated merchandise trust earnings related to the delivery and performance of pre-need cemetery merchandise and services.

*Segment Discussion.* Revenues for the Southeast and West increased significantly due to the acquisition of 21 cemeteries and 14 funeral homes in September of 2006. For the third quarter of 2007, the company owned these locations for the entire third quarter. This also accounted for the significant increase in operating earnings recognized. Revenue and operating earnings for the Northeast decreased during the third quarter of 2007 when compared to the same period in 2006 due to decreased investment performance in our merchandise and perpetual care trusts.

**Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006**

*Cemetery Revenues.* Cemetery revenues were \$98.8 million in the first nine months of 2007, an increase of \$20.8 million, or 26.7%, as compared to \$78.0 million in the first nine months of 2006. Cemetery revenues from pre-need sales, including interest income from pre-need installment contracts and investment income from trusts, were \$64.6 million in the first nine months of 2007, an increase of \$15.5 million, or 31.6%, as compared to \$49.1 million in the first nine months of 2006. The increase primarily resulted from additional lot sales (\$1.4 million), additional vault deliveries (\$1.6 million), additional marker and marker base sales (\$7.0 million), additional casket deliveries (\$2.0 million), additional crypt sales (\$1.0 million) and additional document fees (\$0.2 million). An additional contribution to the increase in cemetery revenues from pre-need sales was higher accumulated earnings from merchandise trusts allocated to the pre-need products delivered during the first nine months of 2007. Total revenues from merchandise and perpetual care trusts for the first nine months of 2007 were higher by \$2.2 million than the same period in 2006. The increase in trust revenues is a result of the increased product deliveries, as indicated above, and improved investment return of our trusts.

---

**Table of Contents**

Cemetery revenues from at-need sales in the first nine months of 2007 were \$33.4 million, an increase of \$6.2 million, or 22.8%, as compared to \$27.2 million in the first nine months of 2006. The increase in cemetery revenues from at-need sales was primarily attributable to higher sales of monument bases and markers of \$2.4 million, higher sales of at-need interment rights of \$1.9 million, higher mausoleum sales of \$0.5 million, higher sales of burial vaults of \$0.5 million and higher sales of lots of \$0.5 million.

Other cemetery revenues were \$0.8 million in the first nine months of 2007, a decrease of \$0.9 million, or 52.9%, from \$1.7 million in the first nine months of 2006. The decrease in other cemetery revenues was primarily attributable to a decrease in sales of undeveloped land for net proceeds of \$0.7 million.

*Costs of Goods Sold.* Cost of goods sold was \$14.5 million in the first nine months of 2007, an increase of \$3.8 million, or 35.5%, as compared to \$10.7 million in the first nine months of 2006. As a percentage of cemetery revenues, cost of goods sold increased to 14.7% in the first nine months of 2007 from 13.7% in the first nine months of 2006. The increase in cost of goods sold as a percentage of cemetery revenue was attributable to the change in product mix delivered in the first nine months of 2007.

*Selling Expense.* Total selling expense was \$21.9 million in the first nine months of 2007, an increase of \$5.2 million, or 31.1%, as compared to \$16.7 million in the first nine months of 2006. Sales commissions and other compensation expenses contributed \$18.7 million to total selling expense during the first nine months of 2007, an increase of \$3.6 million, or 23.8%, compared to \$15.1 million in the first nine months of 2006. As a percentage of pre-need sales, sales commissions and other compensation expenses were 28.9% in the first nine months of 2007, as compared to 31.9% in the first nine months of 2006. This decrease in percentage is attributable to the fixed cost component of our selling expense being leveraged over a greater sales volume.

*Cemetery Expense.* Cemetery expense was \$22.6 million in the first nine months of 2007, an increase of \$4.6 million, or 25.6%, as compared to \$18.0 million in the first nine months of 2006. This increase was primarily due to an increase in cemetery labor costs of \$2.2 million, an increase in cemetery maintenance of \$0.8 million, an increase in real estate taxes of \$0.2 million, an increase in utilities of \$0.3 million and an increase in building repairs and maintenance of \$0.4 million.

*General and Administrative Expense.* General and administrative expense was \$11.5 million in the first nine months of 2007 an increase of \$2.2 million, or 23.7%, as compared to \$9.3 million in the first nine months of 2006. The increase was primarily attributable to an increase in office salaries of \$1.1 million and an increase in taxes, licenses of \$0.1 million, regional overhead of \$0.2 million and an increase in data processing costs of \$0.3 million.

*Funeral Home Revenues and Expense.* Funeral home revenues were \$7.8 million in the first nine months of 2007, an increase of \$4.1 million, or 110.8%, as compared to \$3.7 million in the first nine months of 2006. The primary reason for the increase was an increase in the number of services performed, 2,284 in the first nine months of 2007 compared to 888 in the first nine months of 2006. Funeral home expenses were \$6.1 million in the first nine months of 2007, an increase of \$3.1 million, or 103.3%, as compared to \$3.0 million in the first nine months of 2006. The majority of all increases in funeral home revenue and expenses are attributable to our acquisition of 14 funeral homes from Service Corporation International in September 2006.

*Corporate Overhead.* Corporate overhead was \$16.1 million in the first nine months of 2007, an increase of \$4.1 million, or 34.2%, as compared to \$12.0 million in the first nine months of 2006. The increase was primarily attributable to \$4.1 million in additional non-cash expenses resulting from a grant of unit-based compensation under our Long-Term Incentive Plan in November of 2006 which will be expensed over the vesting term in accordance with FAS 123R.

*Depreciation and Amortization.* Depreciation and amortization was \$2.9 million in the first nine months of 2007, an increase of \$0.3 million, or 11.5%, as compared to \$2.6 million in the first nine months of 2006.

*Interest Expense.* Interest expense was \$6.4 million in the first nine months of 2007, an increase of \$1.0 million, or 18.5%, as compared to \$5.4 million in the first nine months of 2006. This increase is attributable to an increase in outstanding borrowings on our acquisition line of credit of \$9.9 million and an increase in borrowings on our revolving line of credit of \$4.5 million. This increase was attributable to \$13.2 million increase in debt outstanding at September 30, 2007.

*Provision (Benefit) for Income Taxes.* Provision for income taxes was \$0.7 million in the first nine months of 2007 as compared to a provision for income taxes of \$1.1 million during the first nine months of 2006. The change in provision for income taxes was primarily due to a decrease in operating profit in our non-qualified entities attained during the first nine months of 2007.





## **Table of Contents**

*Net Income(Loss).* Net income was \$3.9 million during the first nine months of 2007, an increase of \$0.8 million, or 25.8%, as compared to net income of \$3.1 million during the first nine months of 2006. The increase was primarily attributable to a \$1.6 million increase in operating profit attained and is net of \$4.1 million in non-cash expenses resulting from an equity grant under our Long-Term Incentive Plan in November of 2006 which we did not incur in the first nine months of 2006.

*Deferred Cemetery Revenue.* Deferred cemetery revenues, net, increased \$5.6 million, or 2.9%, in the first nine months of 2007, from \$196.1 million as of December 31, 2006 to \$201.7 million as of September 30, 2007. In the comparable period in 2006, deferred cemetery revenues, net, increased \$23.6 million, or 14.1% in the first nine months of 2006, from \$167.0 million as of December 31, 2005 to \$191.4 million as of September 30, 2006. The net increase in the first nine months of 2007 was primarily attributable to an increase in sales of pre-need cemetery products and services that were not delivered or performed in the first nine months of 2007. We added \$46.2 million in pre-need sales of cemetery merchandise and services, net of deferred costs and cancellations, to our pre-need sales backlog during the first nine months of 2007 as compared to \$40.3 million added during the first nine months of 2006. These increases were offset by revenues recognized, net of costs, of \$39.3 million, including accumulated merchandise trust earnings, during the first nine months of 2007 related to the delivery and performance of pre-need cemetery merchandise and services as compared to \$28.0 million of revenues recognized in the first nine months of 2006.

*Segment Discussion.* Revenues for the Southeast and West increased significantly due to the acquisition of 21 cemeteries and 14 funeral homes in September of 2006. For the nine month period ended September 30, 2007, the company owned these locations for the entire nine months. This also accounted for the significant increase in operating earnings recognized. Revenue and operating earnings in the Northeast increased during the nine month period ended September 30, 2007 when compared to the same period in 2006 due to increased year-to-date investment performance in our merchandise and perpetual care trusts.

## **Liquidity and Capital Resources**

*Overview.* Our primary short-term operating liquidity needs are to fund general working capital requirements and maintenance capital expenditures. Our long-term operating liquidity needs are primarily associated with acquisitions of cemetery properties and the construction of mausoleum crypts and lawn crypts on the grounds of our cemetery properties. We may also construct funeral homes on the grounds of cemetery properties that we acquire in the future. Our primary source of funds for our short-term liquidity needs are cash flow from operations and income from perpetual care trusts. Our primary source of funds for long-term liquidity needs are long-term bank borrowings and the issuance of additional common units and other partnership securities, including debt, subject to the restrictions in our credit facility and under our senior secured notes.

We believe that cash generated from operations and our borrowing capacity under our credit facility, which is discussed below, will be sufficient to meet our working capital requirements, anticipated capital expenditures and scheduled debt payments for the foreseeable future. In 2007, we anticipate that we will spend \$2.8 million for the construction of mausoleums. Additionally, we anticipate ongoing annual capital expenditure requirements of between approximately \$1.7 million and \$2.9 million for the foreseeable future, of which between \$1.1 million and \$2.1 million is for maintenance of our existing cemeteries and between \$0.6 million and 0.8 million is for mausoleum and lawn crypt construction and other expansion, excluding acquisitions. The estimate for cemetery maintenance capital expenditures would increase if we were to acquire additional cemetery properties.

One of our goals is to grow through the acquisition of high-quality cemetery properties. On November 1, 2005, StoneMor acquired 22 cemeteries and six funeral homes from Service Corporation International (NYSE: SCI) for \$12.93 million. StoneMor paid \$7.03 million in cash and 280,952 StoneMor common units representing limited partner interests, representing the additional \$5.9 million. In addition, StoneMor assumed the merchandise and service liabilities associated with certain pre-arranged bonded contracts related to the properties. Additionally, on September 28, 2006, we completed the acquisition of 21 cemeteries and 14 funeral homes from Service Corporation International (NYSE: SCI) and certain other entities for \$11.8 million. We paid \$5.9 million in cash and 275,046 in common units representing limited partner interests, representing the additional \$5.9 million. We acquired two additional cemeteries during the fourth quarter of 2006 with an aggregate purchase price of approximately \$1.3 million and two cemeteries in the third quarter of 2007 with an aggregate purchase price of approximately \$25 million.

## Table of Contents

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.

*Cash Flow from Operating Activities.* Cash flows provided by operating activities were \$14.6 million in the first nine months of 2007 compared to cash flows provided by operating activities of \$16.4 million during the first nine months of 2006. Cash flows provided by operating activities in the first nine months of 2007 decreased from the cash flows provided by operating activities in the first nine months of 2006 primarily due to an increase in cash used for accounts receivable of \$12.8 million associated with an increase in pre-need contracts written during the first nine months of 2007, partially offset by an increase in net income of \$0.8 million which is net of \$4.1 million unit-based compensation, a \$1.2 million increase in deferred cemetery revenue, a decrease in cash used to satisfy merchandise liabilities of \$2.6 million, and a decrease in net contributions to the merchandise trust of \$1.3 million.

*Cash Flow from Investing Activities.* Net cash used in investing activities was \$6.7 million in the first nine months of 2007, a decrease of \$5.1 million, as compared to cash used in investing activities of \$11.8 million in the first nine months of 2006. This decrease in cash used in investing activities was primarily attributable to a \$6.7 million decrease in net cash used to purchase subsidiaries, partially offset by the net proceeds of \$2.1 million related to the sale of one of our funeral homes in the first nine months of 2006. We did not sell any locations in the first nine months of 2007.

*Cash Flow from Financing Activities.* Net cash used in financing activities was \$4.6 million in the first nine months of 2007 as compared to cash provided by financing activities of \$2.9 million in the first nine months of 2006. The cash flow used in financing activities in the first nine months of 2007 was primarily attributable to the February, May and August unit holder distributions of \$14.0 million and \$2.8 million in financing costs related to our third quarter 2007 refinancing partially offset by increased net borrowings from our long-term debt facilities of \$12.2 million. The cash flow used in financing activities in the first nine months of 2006 was primarily attributable to the February, May and August unit holder distributions of \$12.8 million offset by increased borrowings from our revolving credit facility of \$16.2 million.

*Credit Facility.* On September 20, 2004, concurrent with the closing of the Partnership's initial public offering, StoneMor Operating LLC (the Operating Company) and its subsidiaries issued and sold \$80.0 million aggregate principal amount of senior secured notes. The senior secured notes rank pari passu with all of our other senior secured debt, including the revolving credit facility and the acquisition facility, subject to the description of the collateral securing the senior secured notes described below. The senior secured notes are guaranteed by the Partnership, the general partner of the Partnership and any future subsidiaries of the Operating Company. Obligations under the senior secured notes are secured by a first priority lien and security interest covering substantially all of the assets of the issuers of the senior secured notes, whether then owned or thereafter acquired, other than specified receivable rights and a third party priority lien and security interest covering those specified receivable rights, each as described above, of such issuers, whether then owned or thereafter acquired.

On September 20, 2004, concurrent with the closing of the Partnership's initial public offering, the Operating Company and its subsidiaries entered into a \$35.0 million credit facility with a group of banks. This credit facility consisted of a \$12.5 million revolving credit line and a \$22.5 million acquisition line of credit. Borrowings under the revolving credit line were originally due and payable on September 20, 2007, and borrowings under the acquisition line of credit were originally due and payable on September 20, 2008. On September 28, 2006, the Company entered into a second amendment of the credit facility which extended the due date on both lines of credit to September 20, 2009. On May 7, 2007, the Company entered into a third amendment of the credit facility which adjusted the credit facility by increasing the revolving credit line to \$17.5 million and reducing the acquisition line of credit to \$17.5 million until June 29, 2007. On June 29, 2007, the Company entered into a fourth amendment of the credit facility which extended the adjustment period of the third amendment from June 29, 2007 to July 31, 2007. On July 31, 2007, the Company entered into a fifth amendment of the credit facility which extended the adjustment period of the third amendment from June 29, 2007 to August 15, 2007. Depending on the type of loan, this credit facility bore interest at the Base Rate or the Eurodollar Rate, plus applicable margins ranging from 0.00% to 1% and 2.5% to 3.5% per annum, respectively, depending on our ratio of total debt to consolidated EBIDTA, as defined in the credit agreement. The Base Rate is the higher of the federal funds rate plus 0.05% or the prime rate announced by Fleet National Bank, a Bank of America Company. The Eurodollar Rate was determined by the administrative agent according to the credit facility.

---

**Table of Contents**

Borrowings under the credit facility ranked pari passu with all of our other senior secured debt, including the senior secured notes, subject to the description of the collateral securing the credit facility described below. Borrowings under the credit facility are guaranteed by the Partnership and the general partner of the Partnership.

Our obligations under the revolving facility were secured by a first priority lien and security interest in specified receivable rights, whether then owned or thereafter acquired, of the borrower and the guarantors and by a third party priority lien and security interest in substantially all assets other than those receivable rights of the borrower and the guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, our general partner's interest in the Partnership and our general partner's incentive distribution rights under the Partnership's partnership agreement. These assets secure the acquisition facility and our senior secured notes. The specified receivable rights include all accounts and other rights to payment arising under customer contracts or agreements (other than amounts required to be deposited into merchandise and perpetual care trusts) or management agreements, and all inventory, general intangibles and other rights reasonably related to the collection and performance of these accounts and rights to payment.

Our obligations under the acquisition facility were secured by a first priority lien and security interest in substantially all assets, whether then owned or thereafter acquired, other than specified receivable rights of the borrower and the guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, our general partner's interest in the Partnership and our general partner's incentive distribution rights under the Partnership's partnership agreement, and a third party priority lien and security interest in those specified receivable rights of the borrower and the guarantors. The senior secured notes shared pari passu in the collateral securing the acquisition facility.

On August 15, 2007, the Operating Company and certain of its subsidiaries, collectively, as Borrowers, and the Company and StoneMor GP LLC ( StoneMor GP ), the general partner of StoneMor, collectively, as Guarantors, entered into the Amended and Restated Credit Agreement (the Credit Agreement ) with Bank of America, N.A. ( Bank of America ), other lenders, and Banc of America Securities LLC ( BAS ). Bank of America was the administrative agent and one of the lenders under a Credit Agreement by and among the Company, StoneMor GP, the Operating Company, certain other borrowers and lending institutions, dated September 20, 2004, as amended (the 2004 Credit Agreement ).

On August 15, 2007, StoneMor GP, the Company, the Operating Company, and certain subsidiaries of the Operating Company (collectively, the Issuers ) entered into the Amended and Restated Note Purchase Agreement (the Note Purchase Agreement ) 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, Note Purchasers ).

The following is a summary of the material provisions of the Credit Agreement and the Note Purchase Agreement. This summary is qualified in its entirety by reference to the Credit Agreement, the Note Purchase Agreement, and the Notes issued under the Note Purchase Agreement. Capitalized terms which are not defined in this Current Report on Form 10-Q shall have the meanings assigned to such terms in the Credit Agreement and Note Purchase Agreement.

The Credit Agreement provides for two credit facilities: (1) the Acquisition Facility, with a maximum principal amount of \$40,000,000 (with an option to increase such facility by an additional \$15,000,000 on an uncommitted basis) and the term of 5 years, and (2) the Revolving Credit Facility, with a maximum principal amount of \$25,000,000 (with an option to increase such facility by up to \$10,000,000 on an uncommitted basis) and a term of 5 years. Amounts borrowed under the Acquisition Facility and repaid or prepaid may not be reborrowed. Amounts borrowed under the Revolving Credit Facility and repaid or prepaid during the term may be reborrowed. In addition, Bank of America has agreed to provide to the borrowers Swing Line Loans with a maximum limit of \$5,000,000, which is a part of the Revolving Credit Facility.

Loans outstanding under the Acquisition Facility and the Revolving Credit Facility bear interest at a per annum rate based upon the Base Rate or the Eurodollar Rate, as selected by Borrowers, plus an applicable margin ranging from 0% to 0.75% for Base Rate Loans and 2.25% to 3.25% for Eurodollar Rate Loans, depending on the ratio of consolidated funded debt to consolidated EBITDA of the Company. The Base Rate is a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 0.5% and (b) the prime rate as set by Bank of America. The Eurodollar Rate equals the British Bankers Association LIBOR Rate.

---

**Table of Contents**

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 Borrowers are also required to pay certain additional fees to Bank of America as Administrative Agent, and BAS as Arranger.

The proceeds of the Acquisition Loans may be used by the Borrowers to finance (i) Permitted Acquisitions, as defined in the Credit Agreement, and (ii) the purchase and construction of mausoleums. The proceeds of the Revolving Credit Loans and Swing Line Loans may be utilized to finance working capital requirements, Capital Expenditures, as defined in the Credit Agreement, and for other general corporate purposes.

Borrowings under the Credit Agreement rank pari passu with all other senior secured debt of the Borrowers, including the senior secured notes issued pursuant to the Note Purchase Agreement.

The Borrowers' obligations under the Revolving Facility are secured by a first priority lien and security interest in specified receivable rights, whether then owned or thereafter acquired, of the Borrowers and the guarantors, and by a second priority lien and security interest in substantially all assets other than those receivable rights of the Borrowers and guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, StoneMor GP's general partner interest in the Company and StoneMor GP's incentive distribution rights under the Company's partnership agreement. The specified receivable rights include all accounts and other rights to payment arising under customer contracts or agreements or management agreements, and all inventory, general intangibles and other rights reasonably related to the collection and performance of these accounts and rights to payment.

The Borrowers' obligations under the Acquisition Facility are secured by a first priority lien and security interest in substantially all assets, whether then owned or thereafter acquired, other than specified receivable rights of the Borrowers and the guarantors, excluding trust accounts and certain proceeds required by law to be placed into such trust accounts and funds held in trust accounts, StoneMor GP's general partner interest in the Company and StoneMor GP's incentive distribution rights under the Company's partnership agreement, and a secondary priority lien and security interest in those specified receivable rights. These assets secure the Acquisition Facility and the Notes described below. The priority of the liens and security interests securing the Acquisition Facility is pari passu with the liens and security interests securing Notes described below.

The Borrowers' obligations under the Credit Agreement are guaranteed by StoneMor and StoneMor GP.

Subject to certain exceptions, the Borrowers agreed under the Credit Agreement to certain customary affirmative and negative covenants, which include, among other matters, covenants restricting the incurrence of indebtedness, the making of investments and acquisitions, the issuance of certain types of equity securities, the making of dispositions and the making of certain fundamental changes in equity structure.

The agreements governing the revolving credit facility, the acquisition line of credit and the senior secured notes contain 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. As of September 30, 2007, the Company was in compliance with all debt covenants.

**Senior Secured Notes**

Pursuant to the Note Purchase Agreement, the Issuers and the Note Purchasers agreed to (a) exchange certain Series A Notes issued pursuant to that certain Note Purchase Agreement dated as of September 20, 2004, as amended, for new Series A Notes, as defined in the Note Purchase Agreement, due September 20, 2009, in the maximum aggregate amount of \$80,000,000; and (b) issue Series B Notes, as defined in the Note Purchase Agreement, due August 15, 2012 in the aggregate amount of \$35,000,000, subject to the option, on an uncommitted basis, to issue/purchase additional secured Shelf Notes in the aggregate amount of up to \$35,000,000, and to issue/purchase additional secured Shelf Notes to refinance the Series A Notes (Series A Notes, Series B Notes and the Shelf Notes are referred to collectively as the "Notes"). The Series A Notes bear an interest rate of 7.66% per annum, and the Series B Notes bear an interest of 9.34% per annum.

The Notes are guaranteed by the Company and StoneMor GP. The Notes rank pari passu with all other senior secured debt, including the Revolving Credit Facility and the Acquisition Facility. Obligations under the Notes are secured by a first priority lien and security interest covering substantially all of the assets of the issuers, whether then owned or thereafter acquired, other than

**Table of Contents**

specified receivable rights and a second priority lien and security interest covering those specified receivable rights of the Issuers, whether then owned or thereafter acquired. These assets secure the Notes and the Acquisition Facility described above. The priority of the liens and security interests securing the Notes is pari passu with the liens and security interests securing the Acquisition Facility described above.

The agreements governing the Notes and the Credit Agreement contain 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. As of September 30, 2007, the Company was in compliance with all debt covenants.

*Intercreditor and Collateral Agency Agreement.* In connection with the closing of the credit facility and the private placement of the senior secured notes, our general partner, the partnership, our operating company, our other subsidiaries, the lenders under the new credit facility, the holders of the senior secured notes and Fleet National Bank, as collateral agent, entered into an intercreditor and collateral agency agreement setting forth the rights and obligations of the parties to the agreement as they relate to the collateral securing the new credit facility and the senior secured notes.

*Capital Expenditures*

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

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2007</b>
Maintenance capital expenditures	\$ 1,778	\$ 1,223
Expansion capital expenditures	18,029	5,500
<b>Total capital expenditures</b>	<b>\$ 19,807</b>	<b>\$ 6,723</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 are subtracted from operating surplus ratably during the estimated number of years it will take to sell all of the available spaces in the mausoleum or lawn crypt. Estimated life is determined by our general partner, with the concurrence of its conflicts committee.

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

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

The information presented below should be read in conjunction with the notes to our unaudited condensed consolidated financial statements included under Part 1 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 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.



---

**Table of Contents**

*Interest-bearing Investments.* Our fixed-income securities subject to market risk consist primarily of investments in merchandise trusts and perpetual care trusts. As of September 30, 2007, fixed-income securities represented 34.5% of the funds held in merchandise trusts and 50.3% of the funds held in perpetual care trusts. The aggregate quoted market value of these fixed-income securities was \$50.9 million and \$83.7 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2007. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately \$0.5 million and \$0.8 million in the fair market values of the securities held in 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.

Our money market and other short-term investments subject to market risk consist primarily of investments held in merchandise trusts and perpetual care trusts. As of September 30, 2007, these investments accounted for approximately 8.2% and 8.6% of the funds held in merchandise trusts and perpetual care trusts, respectively. The fair market value of these investments was \$12.1 million and \$14.3 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2007. Each 10% change in average interest rates applicable to these investments would result in changes of approximately \$1.2 million and \$1.4 million, respectively, in the aggregate fair market values of the perpetual care investments and the merchandise trust investments.

*Marketable Equity Securities.* Our marketable equity securities subject to market risk consist primarily of investments held in merchandise trusts and in the case of perpetual care trusts, investments in real estate investment trusts, or REITs. As of September 30, 2007, marketable equity securities represented 57.2% of funds held in merchandise trusts and 50.3% of funds held in perpetual care trusts. The aggregate fair market value of these marketable equity securities was \$84.4 million and \$68.3 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2007, based on final quoted sales prices. Each 10% change in the average market prices of the equity securities would result in a change of approximately \$8.4 million and \$6.8 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively.

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

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

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

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

Appoint first-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 our peers, on a regular basis.

Our investment guidelines are based on relatively long investment horizons, which vary with the type of trust. Because of this, interim fluctuations should be viewed with appropriate perspective. The strategic asset allocation of the trust portfolios is also based on this longer-term perspective. However, in developing our investment policy, we have taken into account the potential negative impact on our operations and financial performance of significant short-term declines in market value.

## Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

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.



## **Table of Contents**

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 credit facility bears interest at a floating rate, based on LIBOR, which is adjusted quarterly. This credit facility will subject us to increases in interest expense resulting from movements in interest rates. As of September 30, 2007, we had no outstanding borrowings under our revolving credit line or our acquisition line of credit.

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

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 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 the Company's management, including its 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, the Company carried out an evaluation, under the supervision and with the participation of the Company's Disclosure Committee and management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon, and as of the date of this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that information the Company is required to disclose in its reports under the Securities Exchange Act of 1934 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 the Company's management as appropriate to allow timely decisions regarding required disclosure.

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

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## **Part II Other Information**

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

We and certain of our subsidiaries may from time to time be parties to legal proceedings that have arisen in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

We carry insurance that we believe to be adequate. Although there can be no assurance that such insurance is sufficient to protect us against all contingencies, management believes 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 factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risk factors in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2006 have not materially changed. The risks described in that Annual Report on Form 10-K/A for the fiscal year ended December 31, 2006, 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.



**Table of Contents**

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/A for the fiscal year ended December 31, 2006.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
4.1	Form of 7.66% Senior Secured Note Due 2009, dated June 20, 2007 (incorporated by reference to Exhibit 4.1 of Registrant's Current Report on Form 8-K filed on August 15, 2007).
4.2	Form of 9.34% Series B Senior Secured Note Due 2012, dated August 15, 2007 (incorporated by reference to Exhibit 4.2 of Registrant's Current Report on Form 8-K filed on August 15, 2007).
10.1	Amended and Restated Credit Agreement, dated August 15, 2007, among StoneMor Operating LLC, as a Borrower, various subsidiaries thereof, as additional Borrowers, StoneMor Partners L.P. and StoneMor GP LLC, as Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the other Lenders Party Hereto, and Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on August 15, 2007).

**Table of Contents**

- 10.2 Amended and Restated Note Purchase Agreement, dated as of August 15, 2007, by StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, and each of the Subsidiary Issuers listed on the signature pages hereof. (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed on August 15, 2007).
- 10.3 First Amendment to the Amended and Restated Limited Liability Company Agreement of StoneMor GP LLC, dated as of September 14, 2007 (incorporated by reference to Exhibit 99.1 of Registrant's Current Report on Form 8-K filed on September 19, 2007).
- 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)

**Table of Contents**

**SIGNATURES**

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

**STONEMOR PARTNERS L.P.**

By: StoneMor GP LLC  
its general partner

November 9, 2007

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

November 9, 2007

/s/ William R. Shane  
William R. Shane  
Executive Vice President and Chief Financial Officer (Principal  
  
Financial Officer)

**Table of Contents**

Exhibit Index

<b>Exhibit Number</b>	<b>Description</b>
4.1	Form of 7.66% Senior Secured Note Due 2009, dated June 20, 2007 (incorporated by reference to Exhibit 4.1 of Registrant's Current Report on Form 8-K filed on August 15, 2007).
4.2	Form of 9.34% Series B Senior Secured Note Due 2012, dated August 15, 2007 (incorporated by reference to Exhibit 4.2 of Registrant's Current Report on Form 8-K filed on August 15, 2007).
10.1	Amended and Restated Credit Agreement, dated August 15, 2007, among StoneMor Operating LLC, as a Borrower, various subsidiaries thereof, as additional Borrowers, StoneMor Partners L.P. and StoneMor GP LLC, as Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the other Lenders Party Hereto, and Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on August 15, 2007).
10.2	Amended and Restated Note Purchase Agreement, dated as of August 15, 2007, by StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, and each of the Subsidiary Issuers listed on the signature pages hereof. (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed on August 15, 2007).
10.3	First Amendment to the Amended and Restated Limited Liability Company Agreement of StoneMor GP LLC, dated as of September 14, 2007 (incorporated by reference to Exhibit 99.1 of Registrant's Current Report on Form 8-K filed on September 19, 2007).
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)