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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from __________ to __________.

Commission File Number: 001-32270

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware	**80-0103159**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3600 Horizon Boulevard Trevose, Pennsylvania	**19053**
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Explanatory Note

The number of the registrant s outstanding common units at November 1, 2016 was 35,500,745.

On November 9, 2016, the Partnership amended its most recent Form 10-K for the year ended December 31, 2015 and its Form 10-Qs for the periods ended March 31, 2016 and June 30, 2016. The consolidated financial statements and related notes included in this Form 10-Q reflect the restatement for the same errors described in the Partnership s amended filings. Refer to the explanatory note and Note 2 to the audited consolidated financial statements to the Form 10-K/A for more information on the effects of the restatement on the Partnership s consolidated financial statements as of December 31, 2015.

The filing of this Form 10-Q for the period ended September 30, 2016 is inclusive of a restatement of the Partnership s consolidated financial statements as of December 31, 2015 and for the three and nine months ended September 30, 2015 as well as the related notes included in the Original Filing (Restatement).

The Restatement of the consolidated financial statements for the three and nine months ended corrects accounting errors related to:

1) The allocation of net loss to the General Partner and the limited partners for the purposes of determining the general partner s and limited partners capital accounts presented within Partners capital, and the corresponding effect on net loss per limited partner unit (basic and diluted) for each of the three and nine months ended September 30, 2015;

2) The presentation of Cemetery merchandise revenues , Cemetery service revenues , and Cost of goods sold related to assumed performance obligations from acquisitions for the three and nine months ended September 30, 2015;

3) The recording of incorrect amounts of investment revenues and expenses related to merchandise and perpetual care trusts on the consolidated statement of operations and the incorrect tracking of perpetual care-trusting obligations on the consolidated balance sheets;

4) The recognition of incorrect amounts of revenue from deferred pre-acquisition contracts in the consolidated statements of operations based on inaccurate system inputs;

5) Other adjustments principally relating to the recognition, accuracy and/or classification of certain amounts in Deferred cemetery revenues, net , Merchandise liabilities , and Other current assets ; and

6) The corresponding effect of the foregoing accounting errors on the Partnership s income tax accounts, consolidated statement of partners capital, consolidated statement of cash flows, and the related notes thereto, disclosed in the Partnership s consolidated financial statements as of December 31, 2015 and for each of the three and nine months ended September 30, 2015 included in Item 1 Financial Statements (unaudited)

to this Form 10-Q.

Unless the context otherwise requires, references to we, us, our, StoneMor, the Company, or the Partnership a
StoneMor Partners L.P. and its subsidiaries.

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Part I Financial Information

ITEM 1. FINANCIAL STATEMENTS

STONEMOR PARTNERS L.P.

CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

		September 30, 2016		December 31, 2015 (See Note 1)
Assets				
Current assets:				
Cash and cash equivalents	$	15,610	$	15,153
Accounts receivable, net of allowance		75,324		68,415
Prepaid expenses		7,048		5,367
Other current assets		26,531		22,241
Total current assets		124,513		111,176
Long-term accounts receivable, net of allowance		97,982		95,167
Cemetery property		337,245		334,457
Property and equipment, net of accumulated depreciation		118,158		116,127
Merchandise trusts, restricted, at fair value		504,604		464,676
Perpetual care trusts, restricted, at fair value		334,923		307,804
Deferred selling and obtaining costs		122,249		111,542
Deferred tax assets		181		181
Goodwill		70,572		69,851
Intangible assets		66,028		67,209
Other assets		17,684		16,167
Total assets	$	1,794,139	$	1,694,357
Liabilities and Partners Capital				
Current liabilities:				
Accounts payable and accrued liabilities	$	35,920	$	29,989
Accrued interest		4,990		1,503
Current portion, long-term debt		2,144		2,440
Total current liabilities		43,054		33,932
Long-term debt, net of deferred financing costs		314,032		316,399
Deferred revenues		896,752		815,421

Deferred tax liabilities		17,876		17,747
Perpetual care trust corpus		334,923		307,804
Other long-term liabilities		25,955		21,508
Total liabilities		1,632,592		1,512,811
Commitments and contingencies				
Partners Capital				
General partner interest		(2,220)		15
Common limited partners interests		163,767		181,531
Total partners capital		161,547		181,546
Total liabilities and partners capital	$	1,794,139	$	1,694,357

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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STONEMOR PARTNERS L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)

(unaudited)

	Three months ended September 30, 2016	Three months ended September 30, 2015 (As restated - See Note 1)	Nine months ended September 30, 2016	Nine months ended September 30, 2015 (As restated - See Note 1)
Revenues:				
Cemetery:				
Merchandise	$ 36,314	$ 37,570	$ 106,937	$ 105,972
Services	13,928	14,945	41,067	44,869
Investment and other	14,302	15,011	40,689	42,937
Funeral home:				
Merchandise	6,656	6,588	20,681	19,913
Services	7,336	7,654	24,373	23,083
Total revenues	78,536	81,768	233,747	236,774
Costs and Expenses:				
Cost of goods sold	11,721	12,195	34,483	35,357
Cemetery expense	19,926	18,245	53,267	53,789
Selling expense	15,931	14,647	46,898	44,326
General and administrative expense	9,522	8,819	27,719	27,340
Corporate overhead	10,058	9,115	30,106	28,627
Depreciation and amortization	2,927	3,311	9,147	9,207
Funeral home expenses:				
Merchandise	2,322	1,002	6,306	5,444
Services	6,070	5,432	18,672	16,728
Other	5,433	4,774	15,319	13,335
Total cost and expenses	83,910	77,540	241,917	234,153
Operating income (loss)	(5,374)	4,228	(8,170)	2,621
Other gains (losses), net	(506)	(1,460)	(1,579)	(1,460)
Interest expense	(5,934)	(5,669)	(17,431)	(16,902)
Loss before income taxes	(11,814)	(2,901)	(27,180)	(15,741)
Income tax benefit (expense)	170	(357)	(590)	(671)
Net loss	$ (11,644)	$ (3,258)	$ (27,770)	$ (16,412)

General partner s interest	$	(130)	$	1,021	$	2,043	$	2,605
Limited partners interest	$	(11,514)	$	(4,279)	$	(29,813)	$	(19,017)
Net loss per limited partner unit (basic and diluted)	$	(0.32)	$	(0.14)	$	(0.87)	$	(0.63)
Weighted average number of limited partners units outstanding (basic and diluted)		35,470		31,491		34,287		30,011

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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STONEMOR PARTNERS L.P.

CONSOLIDATED STATEMENT OF PARTNERS CAPITAL

(dollars in thousands)

(unaudited)

		Partners Capital		
	Outstanding Common Units	Common Limited Partners	General Partner	Total
December 31, 2015 (See Note 1)	32,108,782	$ 181,531	$ 15	$ 181,546
Issuance of common units	3,203,682	78,832		78,832
Common unit awards under incentive plans	12,067	1,468		1,468
Net loss		(29,813)	2,043	(27,770)
Cash distributions		(63,784)	(4,278)	(68,062)
Unit distributions paid in kind	176,214	(4,467)		(4,467)
September 30, 2016	35,500,745	$ 163,767	$ (2,220)	$ 161,547

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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STONEMOR PARTNERS L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine months ended September 30, 2016	2015 (As restated - See Note 1)
Cash Flows From Operating Activities:		
Net loss	$ (27,770)	$ (16,412)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Cost of lots sold	6,773	7,506
Depreciation and amortization	9,147	9,207
Non-cash compensation expense	1,468	824
Non-cash interest expense	2,510	2,207
Other gains (losses), net	975	(1,540)
Changes in assets and liabilities:		
Accounts receivable, net of allowance	(9,167)	(4,838)
Merchandise trust fund	(13,248)	(33,403)
Other assets	(6,270)	(6,740)
Deferred selling and obtaining costs	(10,716)	(10,959)
Deferred revenue	53,996	60,516
Deferred taxes (net)	(245)	(40)
Payables and other liabilities	11,034	5,702
Net cash provided by operating activities	18,487	12,030
Cash Flows From Investing Activities:		
Cash paid for capital expenditures	(9,655)	(11,033)
Cash paid for acquisitions	(10,550)	(13,100)
Proceeds from asset sales	1,896	
Net cash used in investing activities	(18,309)	(24,133)
Cash Flows From Financing Activities:		
Cash distributions	(68,062)	(56,689)
Proceeds from borrowings	207,868	102,323
Repayments of debt	(207,700)	(99,945)
Proceeds from issuance of common units	74,535	67,871
Cost of financing activities	(6,362)	(66)

Net cash provided by financing activities		279		13,494
Net increase (decrease) in cash and cash equivalents		457		1,391
Cash and cash equivalents - Beginning of period		15,153		10,401
Cash and cash equivalents - End of period	$	15,610	$	11,792
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$	11,434	$	10,918
Cash paid during the period for income taxes	$	3,114	$	4,167
Non-cash investing and financing activities:				
Acquisition of assets by financing	$	505	$	593
Acquisition of assets by assumption of directly related liability	$		$	876

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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STONEMOR PARTNERS L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

(Unaudited)

1. GENERAL

Nature of Operations

StoneMor Partners L.P. (the Partnership) is a provider of funeral and cemetery products and services in the death care industry in the United States. As of September 30, 2016, the Partnership operated 317 cemeteries in 28 states and Puerto Rico, of which 286 are owned and 31 are operated under lease, management or operating agreements. The Partnership also owned and operated 105 funeral homes in 18 states and Puerto Rico.

Basis of Presentation

The accompanying consolidated financial statements, which are unaudited except for the balance sheet at December 31, 2015, which is derived from audited financial statements, are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States (GAAP) for interim reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management s opinion, all adjustments necessary for a fair presentation of the Partnership s financial position, results of operations and cash flows for the periods disclosed have been made. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto presented in the Partnership s Annual Report on Form 10-K/A for the year ended December 31, 2015. Certain amounts in the prior year s financial statements have been reclassified to conform to the current year presentation. The results of operations for the three and nine months ended September 30, 2016 may not necessarily be indicative of the results of operations for the full year ending December 31, 2016.

On November 9, 2016, the Partnership amended its most recent Form 10-K for the year ended December 31, 2015 and its Form 10-Qs for the periods ended March 31, 2016 and June 30, 2016. The consolidated financial statements and related notes included in this Form 10-Q reflect the restatement for the same errors described in the Partnership s amended filings. Refer to the explanatory note and Note 2 to the audited consolidated financial statements to the Form 10-K/A for more information on the effects of the restatement on the Partnership s consolidated financial statements as of December 31, 2015.

The effect of the adjustments on the Partnership s consolidated statements of operations for each of the three and nine months ended September 30, 2015 is summarized below for each affected caption:

A. The Partnership allocates net loss to the General Partner and its limited partners for the purposes of determining the General Partner s and limited partners capital accounts within Partners capital , and to calculate net loss per limited partner unit (basic and diluted). However, the historical allocation of the Partnership s net losses did not appropriately consider available cash that had been (or will be) distributed to the separate class of nonvoting limited partner interest (the incentive distribution rights) held by the General Partner. While this misallocation had no impact on the Partnership s consolidated net loss for both the three and nine months ended September 30, 2015, the revised calculation to correctly allocate net losses increased the limited partners historical share of allocated net loss and decreased the General Partner s historical share of allocated net loss. As a result, the accompanying consolidated statements of operations have been restated to increase the limited partners share of allocated net loss and decrease the General Partner s share of allocated net loss by approximately $1.1 million and $2.8 million for the three and nine months ended September 30, 2015, respectively.

B. The Partnership had historically presented revenue related to assumed obligations from acquisitions on a net basis in the Partnership s consolidated statement of operations. However, the Partnership determined that revenue recognition on such pre-acquisition revenue was understated. Accordingly, the accompanying consolidated financial statements for the three and nine months ended September 30, 2015 have been restated to present this revenue on a gross basis. This classification resulted in an increase in Cemetery merchandise revenues of approximately $1.3 million and $3.8 million, an increase in Cemetery services revenue of approximately $0.2 million and $0.4 million and an increase Cost of goods sold of approximately $1.5 million and $4.2 million for the respective three and nine months ended September 30, 2015.

C. The Partnership had historically recognized incorrect amounts of investment revenues and expenses related to its merchandise and perpetual care trusts on its consolidated statement of operations and was incorrectly tracking its perpetual care-trusting obligations on its consolidated balance sheets. Accordingly, the accompanying consolidated statements of operations for the three and nine months ended September 30, 2015 have been restated for these adjustments. The adjustments resulted in an increase in Cost of goods sold of $0.4 million and $1.1 million for the three and nine months ended September 30, 2015, respectively.

D. The Partnership had historically recognized incorrect amounts of revenue from deferred pre-acquisition contracts in its consolidated statement of operations based on inaccurate system inputs. Accordingly,

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the accompanying consolidated financial statements for the three and nine months ended September 30, 2015 have been restated to reflect the correction of the system inputs. The adjustments resulted in an increase in Cemetery merchandise revenues of $0.4 million and $1.2 million for the respective three and nine months ended September 30, 2015 and an increase in Cemetery services revenues of $0.1 million for the three and nine months ended September 30, 2015.

E. Remaining adjustments principally relate to the recognition, accuracy and/or classification of certain amounts in deferred cemetery revenues, net, merchandise liabilities, and Other current assets , Accordingly, the accompanying consolidated financial statements for the three and nine months ended September 30, 2015 have been restated for these adjustments. The adjustments resulted in an increase in Cemetery merchandise revenues of $1.1 million and $3.3 million, an increase in Cemetery services revenues of $0.5 million and $1.6 million, and an increase in Cost of goods sold of $1.6 million and $4.4 million in the three and nine months ended September 30, 2015, respectively.

F. The Partnership calculated the effect on income taxes associated with the foregoing accounting errors and, as such, the accompanying statement of operations has been restated to recognize Income tax benefit (expense) of approximately $0.1 million for the three and nine months ended September 30, 2015.

The effect of these adjustments on the Partnership s consolidated statements of operations and cash flows for the three and nine months ended September 30, 2015 is summarized below for each affected caption:

		September 30, 2015					
		Three months ended			Nine months ended		
	Reference	As Filed	Restatement Adjustments	As Restated	As Filed	Restatement Adjustments	As Restated
		(in thousands, except per unit data)					
Cemetery revenues:							
Merchandise	B, D, E	$ 34,709	$ 2,861	$ 37,570	$ 97,688	$ 8,284	$ 105,972
Services	B, D, E	14,195	750	14,945	42,696	2,173	44,869
Investment and other	C	15,054	(43)	15,011	43,062	(125)	42,937
Total revenues		78,200	3,568	81,768	226,442	10,332	236,774
Cost of goods sold	B, C, E	8,728	3,467	12,195	25,618	9,739	35,357
Total cost and expenses		74,073	3,467	77,540	224,414	9,739	234,153
Operating income (loss)		4,127	101	4,228	2,028	593	2,621
Loss before income taxes		(3,002)	101	(2,901)	(16,334)	593	(15,741)
Income tax benefit (expense)	F	(400)	43	(357)	(799)	128	(671)
Net loss		(3,402)	144	(3,258)	(17,133)	721	(16,412)
General partner s interest for the period	A, C, D, E, F	(42)	1,063	1,021	(227)	2,832	2,605
Limited partners interest for the period	A, C, D, E, F	(3,360)	(919)	(4,279)	(16,906)	(2,111)	(19,017)
Net loss per limited partner unit (basic and diluted)	A, C, D, E, F	$ (0.11)	$ (0.03)	$ (0.14)	$ (0.56)	$ (0.07)	$ (0.63)

		Nine months ended September 30, 2015		
	Reference	As Filed	Restatement Adjustments	As Restated
Net loss	C, D, E, F	$ (17,133)	$ 721	$ (16,412)
Changes in assets and liabilities:				
Other assets	E	(11,551)	4,811	(6,740)
Deferred revenues	D, E	60,572	(56)	60,516
Deferred taxes (net)	F	106	(146)	(40)
Payables and other liabilities	C	11,032	(5,330)	5,702
Net cash provided by operating activities		$ 12,030	$	$ 12,030

The Restatement adjustments affecting the consolidated statement of cash flows for the periods noted are included in the Partnership s net loss from operations and offset by changes in operating assets and liabilities. There were no adjustments related to cash provided by (used in) investing and financing activities.

Principles of Consolidation

The unaudited consolidated financial statements include the accounts of each of the Partnership s wholly-owned subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the

Partnership has a variable interest and is the primary beneficiary. The Partnership operates 31 cemeteries under long-term lease, operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated.

The Partnership operates 15 cemeteries under long-term leases and other agreements that do not qualify as acquisitions for accounting purposes. As a result, the Partnership did not consolidate all of the existing assets and liabilities related to these cemeteries. The Partnership has consolidated the existing assets and liabilities of the merchandise and perpetual care trusts associated with these cemeteries as variable interest entities since the Partnership controls and receives the benefits and absorbs any losses from operating these trusts. Under the long-term leases, and other agreements associated with these properties, which are subject to certain termination provisions, the Partnership is the exclusive operator of these cemeteries and earns revenues related to sales of merchandise, services, and interment rights, and incurs expenses related to such sales, including the maintenance and upkeep of these cemeteries. Upon termination of these contracts, the Partnership will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Partnership has also recognized the existing performance obligations that it assumed as part of these agreements.

New Accounting Pronouncements

In the second quarter of 2014, the Financial Accounting Standards Board (FASB) issued Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which supersedes the revenue recognition requirements in Topic 605 - Revenue Recognition and most industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. During the third quarter of 2015, Update No. 2015-14, Revenue from Contracts with Customers (Topic 606) was released, deferring the effective date of the amendments to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted, only as of an annual reporting period beginning after December 15, 2016. During the first quarter of 2016, Update No. 2016-08, Revenue from Contracts with Customers (Topic 606) was released, which clarifies the implementation guidance on principal versus agent considerations. During the second quarter of 2016, Update No. 2016-10, Revenue from Contracts with Customers (Topic 606) was released, which clarifies the implementation guidance on identifying performance obligations. The FASB also issued Update No. 2016-12, Revenue from Contracts with Customers (Topic 606) (ASU 2016-12), which clarifies the guidance on assessing collectability, presenting sales taxes, measuring non-cash consideration, and certain transition matters. The Partnership will adopt the requirements of these updates upon the effective date of January 1, 2018, and is evaluating the potential impact of the adoption on its financial position, results of operations or related disclosures.

In the first quarter of 2016, the FASB issued Update No. 2016-01, Financial Instruments (Subtopic 825-10) (ASU 2016-01). The core principle of ASU 2016-01 is that equity investments should be measured at fair value with changes in the fair value recognized through net income. The amendment is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted for the key aspects of the amendment. The Partnership will adopt the requirements of ASU 2016-01 upon its effective date of January 1, 2018, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

In the first quarter of 2016, the FASB issued Update No. 2016-02, Leases (Topic 842) (ASU 2016-02). The core principle of ASU 2016-02 is that all leases create an asset and a liability for lessees and recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The amendment is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Partnership plans to adopt the requirements of ASU 2016-02 upon its effective date of January 1, 2019, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

In the second quarter of 2016, the FASB issued Update No. 2016-13, Credit Losses (Topic 326) (ASU 2016-13). The core principle of ASU 2016-13 is that all assets measured at amortized cost basis should be presented at the net amount expected to be collected using historical experience, current conditions, and reasonable and supportable forecasts as a basis for credit loss estimates, instead of the probable initial recognition threshold used under current GAAP. The amendment is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early application is permitted. The Partnership plans to adopt the requirements of ASU 2016-13 upon its effective date of January 1, 2020, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

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In 2015, the FASB issued Update No. 2015-07, Fair Value Measurement (Topic 820). The amendments in this update removed the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient. The entity adopted this guidance in the current period pertaining to its new investment funds (see Notes 6, 7 and 14).

In the third quarter of 2016, the FASB issued Update No. 2016-15, Statement of Cash flows (Topic 230) (ASU 2016-15). The core principle of ASU 2016-15 is to provide cash flow statement classification guidance. The amendment is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted. The Partnership plans to adopt the requirements of ASU 2016-15 upon its effective date of January 1, 2018, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

Summary of Significant Accounting Policies

Refer to Note 1 of the December 31, 2015 10K/A for the complete summary of significant accounting policies, including those pertaining to cemetery merchandise and services sales, which has been expanded in the subsequent paragraph.

The cost of goods sold related to merchandise and services reflects the actual cost of purchasing products and performing services, and the value of cemetery property depleted through the recognized sales of interment rights. The costs related to the sales of lots and crypts are determined systematically using a specific identification method under which the total value of the underlying cemetery property and the spaces available to be sold at the location are used to determine the cost per space.

Use of Estimates

The preparation of the Partnership s unaudited consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the unaudited consolidated financial statements, as well as the reported amounts of revenue and expense during the reporting periods. The Partnership s unaudited consolidated financial statements are based on a number of significant estimates, including revenue and expense accruals, depreciation and amortization, merchandise trusts and perpetual care trusts asset valuation, allowance for cancellations, unit-based compensation, deferred revenues, deferred merchandise trust investment earnings, deferred selling and obtaining costs, assets and liabilities obtained via business combinations and income taxes. As a result, actual results could differ from those estimates.

Net Income (Loss) per Common Unit

Basic net income (loss) attributable to common limited partners per unit is computed by dividing net income (loss) attributable to common limited partners, which is determined after the deduction of the general partner s interest, by the weighted average number of common limited partner units outstanding during the period. Net income (loss) attributable to common limited partners is determined by deducting net income attributable to participating securities, if applicable and net income (loss) attributable to the general partner s units. The general partner s interest in net income (loss) is calculated on a quarterly basis based upon its ownership interest and incentive distributions to be distributed for the quarter, with a priority allocation of net income to the general partner s incentive distributions, if any, in accordance with the partnership agreement, and the remaining net income (loss) allocated with respect to the general partner s and limited partners ownership interests.

The Partnership presents net income (loss) per unit under the two-class method for master limited partnerships, which considers whether the incentive distributions of a master limited partnership represent a participating security when considered in the calculation of earnings per unit under the two-class method. The two-class method considers whether the partnership agreement contains any contractual limitations concerning distributions to the incentive distribution rights that would impact the amount of earnings to allocate to the incentive distribution rights for each reporting period. If distributions are contractually limited to the incentive distribution rights share of currently designated available cash for distributions as defined under the partnership agreement, undistributed earnings in excess of available cash should not be allocated to the incentive distribution rights. Under the two-class method, management of the Partnership believes the partnership agreement contractually limits cash distributions to available cash; therefore, undistributed earnings in excess of available cash are not allocated to the incentive distribution rights.

The following is a reconciliation of net income (loss) allocated to the common limited partners for purposes of calculating net income (loss) attributable to common limited partners per unit (in thousands, except unit data):

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Net loss	$ (11,644)	$ (3,258)	$ (27,770)	$ (16,412)
Less: Incentive distribution right (IDR) payments to general partner		1,074	2,387	2,860
Net loss to allocate to general and limited partners	(11,644)	(4,332)	(30,157)	(19,272)
General partner s interest excluding IDRs	(130)	(53)	(344)	(255)
Net loss attributable to common limited partners	$ (11,514)	$ (4,279)	$ (29,813)	$ (19,017)

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Diluted net income (loss) attributable to common limited partners per unit is calculated by dividing net income (loss) attributable to common limited partners, less income allocable to participating securities, by the sum of the weighted average number of common limited partner units outstanding and the dilutive effect of unit appreciation rights and other awards, as calculated by the treasury stock or if converted methods, as applicable. These awards consist of common units issuable upon payment of an exercise price by the participant under the terms of the Partnership s long-term incentive plan (see Note 12).

The following table sets forth the reconciliation of the Partnership s weighted average number of common limited partner units used to compute basic net income (loss) attributable to common limited partners per unit with those used to compute diluted net income (loss) attributable to common limited partners per unit (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Weighted average number of common limited partner units - basic	35,470	31,491	34,287	30,011
Add effect of dilutive incentive awards (1)				
Weighted average number of common limited partner units - diluted	35,470	31,491	34,287	30,011

(1) The diluted weighted average number of limited partners units outstanding presented on the consolidated statement of operations does not include 383,091 units and 192,482 units for the three months ended September 30, 2016 and 2015, respectively and 374,649 units and 187,640 units for the nine months ended September 30, 2016 and 2015, as their effects would be anti-dilutive.

2. ACQUISITIONS

2016 Acquisition

During the second quarter of 2016, the Partnership acquired the assets, net of certain assumed liabilities of three direct service cremation businesses for $1.5 million. During the third quarter of 2016, the Partnership acquired the assets, net of certain assumed liabilities of ten cemeteries and one granite company for $9.0 million. The Partnership accounted for these transactions under the acquisition method of accounting. Accordingly, the Partnership evaluated the identifiable assets acquired and liabilities assumed at the acquisition date fair values. All other costs associated with the acquisition of the assets noted were expensed as incurred. The following table presents the Partnership s values assigned to the assets acquired and liabilities assumed in the acquisitions, based on their estimated fair values at the date of the acquisition, which may be prospectively adjusted as additional information is received (in thousands):

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Assets:		
Accounts receivable	$	791
Cemetery property		4,612
Property and equipment		4,527
Inventory		1,900
Merchandise trusts, restricted		4,424
Perpetual care trusts, restricted		5,631
Intangible assets		508
Other assets		13
Total assets		22,406
Liabilities:		
Deferred revenues		4,204
Perpetual care trust corpus		5,631
Deferred taxes		375
Total liabilities		10,210
Fair value of net assets acquired		12,196
Consideration paid - cash		10,550
Total consideration paid		10,550
Gain on bargain purchase	$	2,704
Goodwill from purchase	$	1,058

The Partnership recorded goodwill of $1.1 million in the Funeral Home reporting unit for the properties acquired in 2016. The third quarter acquisition resulted in the recognition of a gain of $2.7 million based on provisional amounts. This gain was recorded within Other gains (losses), net in the consolidated statement of operations.

2015 Acquisitions

During the year ended December 31, 2015, the Partnership acquired the following properties assets, net of certain assumed liabilities:

One funeral home for cash consideration of $0.9 million on July 21, 2015;

Three funeral homes and one cemetery for cash consideration of $5.7 million on August 6, 2015;

Two cemeteries for cash consideration of $1.5 million on August 20, 2015;

One funeral home for cash consideration of $5.0 million on August 31, 2015, and an additional $1.0 million paid in five annual installments beginning on the 1st anniversary of the closing date; and

One cemetery and two funeral homes for cash consideration of $5.7 million on December 1, 2015.

The Partnership accounted for these transactions under the acquisition method of accounting. Accordingly, the Partnership evaluated the identifiable assets acquired and liabilities assumed at their respective acquisition date fair values. All other costs incurred associated with the acquisition of the assets noted were expensed as incurred. The following table presents the Partnership s values assigned to the assets acquired and liabilities assumed in the acquisitions, based on their estimated and revised fair values, as applicable, which may be prospectively adjusted as additional information is received (in thousands):

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Assets:		
Accounts receivable	$	2,690
Cemetery property		5,249
Property and equipment		7,710
Inventory		53
Merchandise trusts, restricted		15,075
Perpetual care trusts, restricted		4,134
Intangible assets		406
Total assets		35,317
Liabilities:		
Deferred revenues		21,243
Perpetual care trust corpus		4,134
Other liabilities		21
Total liabilities		25,398
Fair value of net assets acquired		9,919
Consideration paid - cash		18,800
Deferred cash consideration		876
Total consideration paid		19,676
Gain on bargain purchase	$	921
Goodwill from purchase	$	10,678

Certain provisional amounts pertaining to the 2015 acquisitions were adjusted in the second and third quarters of 2016 as the Company obtained additional information related to three of the acquisitions. The changes resulted in an adjustment to the gains on acquisition recognized during the year ended December 31, 2015, reducing the gain by $0.6 million via a loss recognized in the current period in accordance with GAAP. The amounts shown may be adjusted as additional information is received. The Partnership recorded goodwill of $1.1 million and $9.6 million in the Cemetery and Funeral Home reporting units, respectively, with regard to the properties acquired during the year ended December 31, 2015. The original gains and related adjustments pertaining to the 2015 acquisitions were recorded within Other gains (losses), net in the consolidated statement of operations.

The following data presents pro forma revenues, net income (loss) and basic and diluted net income (loss) per unit for the Partnership as if the acquisitions consummated during the nine months ended September 30, 2016 and the year ended December 31, 2015 had occurred as of January 1, 2015. The Partnership prepared these pro forma unaudited financial results for comparative purposes only. The results may not be indicative of the results that would have occurred if the acquisitions consummated during the nine months ended September 30, 2016 and 2015 had occurred as of January 1, 2015 or the results that will be attained in future periods (in thousands, except per unit data):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue	$ 78,713	$ 82,209	$ 234,731	$ 238,135
Net loss	(15,085)	(4,449)	(33,544)	(17,061)
Net loss per limited partner unit (basic and diluted)	$ (0.42)	$ (0.17)	$ (1.04)	$ (0.66)

The properties acquired in 2016 have contributed \$0.3 million and \$0.4 million of revenue for the three and nine months ended September 30, 2016, respectively and \$0.6 million of operating losses for both the three and nine months ended September 30, 2016. The properties acquired in 2015 have contributed \$1.7 million and \$6.5 million of revenue and \$0.6 million of operating loss and \$0.3 million of operating profit for the three and nine months ended September 30, 2016 respectively.

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3. ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

Accounts receivable, net of allowance, consists of the following at the dates indicated (in thousands):

	September 30, 2016		December 31, 2015	
Customer receivables	$	222,238	$	207,645
Unearned finance income		(20,730)		(20,078)
Allowance for contract cancellations		(28,202)		(23,985)
Accounts receivable, net of allowance		173,306		163,582
Less: current portion, net of allowance		75,324		68,415
Long-term portion, net of allowance	$	97,982	$	95,167

Activity in the allowance for contract cancellations is as follows (in thousands):

	Nine months ended September 30,			
	2016		2015	
Balance, beginning of period	$	23,985	$	22,138
Provision for cancellations		20,301		19,054
Charge-offs, net		(16,084)		(17,489)
Balance, end of period	$	28,202	$	23,703

4. CEMETERY PROPERTY

Cemetery property consists of the following at the dates indicated (in thousands):

	September 30, 2016		December 31, 2015	
Cemetery land	$	256,627	$	253,955
Mausoleum crypts and lawn crypts		80,618		80,502
Cemetery property	$	337,245	$	334,457

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at the dates indicated (in thousands):

	September 30, 2016	December 31, 2015
Building and improvements	$ 123,670	$ 117,034
Furniture and equipment	55,184	54,346
Funeral home land	11,707	11,797
Property and equipment, gross	190,561	183,177
Less: accumulated depreciation	(72,403)	(67,050)
Property and equipment, net of accumulated depreciation	$ 118,158	$ 116,127

Depreciation expense was $2.3 million and $2.8 million for three months ended September 30, 2016 and 2015, respectively, and $7.4 million and $7.5 million for nine months ended September 30, 2016 and 2015, respectively.

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6. MERCHANDISE TRUSTS

At September 30, 2016 and December 31, 2015, the Partnership s merchandise trusts consisted of investments in debt and equity marketable securities and cash equivalents, both directly as well as through mutual and investment funds. Certain assets acquired in connection with the Partnership s 2015 and 2016 acquisitions (see Note 2) are based upon preliminary estimated values assigned to the assets by the Partnership at the date of acquisition, and will be adjusted when additional information is received.

All of these investments are classified as Available for Sale and accordingly, all of the assets are carried at fair value. All of the investments subject to the fair value hierarchy (see Note 1) are considered either Level 1 or Level 2 assets pursuant to the three-level hierarchy described in Note 14. There were no Level 3 assets.

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

The Partnership included $8.5 million and $8.2 million of investments held in trust by the West Virginia Funeral Directors Association at September 30, 2016 and December 31, 2015, respectively, in its merchandise trust assets. As required by law, the Partnership deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recognized at their account value, which approximates fair value.

A reconciliation of the Partnership s merchandise trust activities for the nine months ended September 30, 2016 and 2015 is presented below (in thousands):

	Nine months ended September 30,	
	2016	**2015**
Balance, beginning of period	$ 464,676	$ 484,820
Contributions	49,841	60,875
Distributions	(49,168)	(34,477)
Interest and dividends	17,657	13,642
Capital gain distributions	264	(738)
Realized gains and losses	3,727	14,190
Other than temporary impairment	(7,278)	
Taxes	(1,721)	(3,441)
Fees	(2,234)	(2,474)
Unrealized change in fair value	28,840	(73,077)
Balance, end of period	$ 504,604	$ 459,320

During the nine months ended September 30, 2016, purchases of available for sale securities were $82.6 million, while sales, maturities and paydowns of available for sale securities were $65.9 million.

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The cost and market value associated with the assets held in the merchandise trusts as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

September 30, 2016	Fair Value Hierarchy Level	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments	1	$ 29,928	$	$	$ 29,928
Fixed maturities:					
U.S. governmental securities	2	41	2		43
Corporate debt securities	2	7,017	347	(323)	7,041
Other debt securities	2				
Total fixed maturities		7,058	349	(323)	7,084
Mutual funds - debt securities	1	241,048	2,885	(4,156)	239,777
Mutual funds - equity securities	1	131,331	5,813	(2,079)	135,065
Other investment funds (1)		41,447	892		42,339
Equity securities	1	38,711	2,782	(1,753)	39,740
Other invested assets	2	2,457	(255)		2,202
Total managed investments		$ 491,980	$ 12,466	$ (8,311)	$ 496,135
Assets acquired via acquisition					
West Virginia Trust Receivable		8,469			8,469
Total		$ 500,449	$ 12,466	$ (8,311)	$ 504,604

(1) Other investment funds are measured at fair value using the net asset value per share practical expedient and have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheet. This asset class is composed of fixed income funds and equity funds which have redemption periods ranging from 30 to 90 days.

December 31, 2015	Fair Value Hierarchy Level	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments	1	$ 35,150	$	$	$ 35,150
Fixed maturities:					
U.S. governmental securities	2	98	6	(3)	101
Corporate debt securities	2	11,922	8	(546)	11,384
Other debt securities	2	7,150	11	(7)	7,154

Total fixed maturities		19,170	25	(556)	18,639
Mutual funds - debt securities	1	232,096	86	(10,713)	221,469
Mutual funds - equity securities	1	139,341	69	(12,249)	127,161
Equity securities	1	49,563	1,127	(2,474)	48,216
Other invested assets	2	1,681			1,681
Total managed investments		$ 477,001	$ 1,307	$ (25,992)	$ 452,316
Assets acquired via acquisition		4,185			4,185
West Virginia Trust Receivable		8,175			8,175
Total		$ 489,361	$ 1,307	$ (25,992)	$ 464,676

The contractual maturities of debt securities as of September 30, 2016 were as follows below:

	Less than 1 year	**1 year through 5 years**	**6 years through 10 years**	**More than 10 years**
U.S. governmental securities	$ 5	$ 23	$ 15	$
Corporate debt securities		6,261	780	
Other debt securities				
Total fixed maturities	$ 5	$ 6,284	$ 795	$

Temporary Declines in Fair Value

The Partnership evaluates declines in fair value below cost for each asset held in the merchandise trusts on a quarterly basis.

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An aging of unrealized losses on the Partnership s investments in debt and equity securities within the merchandise trusts as of September 30, 2016 and December 31, 2015 is presented below (in thousands):

	Less than 12 months		12 Months or more		Total	
September 30, 2016	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Fixed maturities:						
U.S. governmental securities	$ 4	$	$ 2	$	$ 6	$
Corporate debt securities	2,275	175	2,724	148	4,999	323
Total fixed maturities	2,279	175	2,726	148	5,005	323
Mutual funds - debt securities	15,642	312	131,966	3,844	147,608	4,156
Mutual funds - equity securities	2,204	33	27,098	2,046	29,302	2,079
Equity securities	10,304	869	4,763	884	15,067	1,753
Other invested assets						
Total	$ 30,429	$ 1,389	$ 166,553	$ 6,922	$ 196,982	$ 8,311

	Less than 12 months		12 Months or more		Total	
December 31, 2015	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Fixed maturities:						
U.S. governmental securities	$	$	$ 33	$ 3	$ 33	$ 3
Corporate debt securities	7,247	411	1,513	135	8,760	546
Other debt securities	2,883	7			2,883	7
Total fixed maturities	10,130	418	1,546	138	11,676	556
Mutual funds - debt securities	121,777	6,938	36,682	3,775	158,459	10,713
Mutual funds - equity securities	58,467	10,994	5,465	1,255	63,932	12,249
Equity securities	21,480	2,275	649	199	22,129	2,474
Total	$ 211,854	$ 20,625	$ 44,342	$ 5,367	$ 256,196	$