

STONEMOR PARTNERS LP
Form 10-Q
October 27, 2017

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 March 31, 2017

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 19053
Trevose, 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if either registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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 October 15, 2017 was 37,957,482.

Explanatory Note

On September 18, 2017, the Partnership filed its Annual Report on Form 10-K for the year ended December 31, 2016, which amended the Partnership's audited consolidated financial statements as of December 31, 2015, and for each of the two years in the period ended December 31, 2015 and the related notes thereto. This Form 10-Q amends the Partnership's unaudited condensed consolidated financial information for the three months ended March 31, 2016 and the related notes thereto, included on Form 10-Q/A filed on November 9, 2016 ("Original Filing").

The Original Filing included the restatement of the Partnership's unaudited condensed consolidated financial information as of March 31, 2016 and December 31, 2015 and for the three months ended March 31, 2016 and 2015, correcting errors related to:

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 the three months ended March 31, 2016 and 2015;

The presentation of certain components of "Cemetery property", "Property and equipment, net of accumulated depreciation", "Deferred cemetery revenues, net", "Merchandise liability", "Accounts payable and accrued liabilities" and "Common limited partners' interest" as of March 31, 2016 and December 31, 2015;

The presentation of "Cemetery merchandise revenues", Cemetery service revenues" and "Cost of goods sold" related to assumed performance obligations from acquisitions for the three months ended March 31, 2016 and 2015;

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

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

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

The corresponding effect of the foregoing accounting errors on the Partnership's income tax accounts, condensed consolidated statement of partners' capital, condensed consolidated statements of cash flows and the related notes thereto, disclosed in the Partnership's condensed consolidated financial information as of March 31, 2016 and December 31, 2015 and for the three months ended March 31, 2016 and 2015.

The restatement of the Partnership's unaudited condensed consolidated financial information for the three months ended March 31, 2016 in this Form 10-Q ("Restatement") reflects the correction of the aforementioned errors and the following additional errors identified subsequent to the Original Filing:

The timing and accuracy of the recognition of revenues and certain associated costs related to the Partnership's cemetery and funeral home performance obligations in the condensed consolidated statement of operations in improper accounting periods and the related effects on "Deferred revenues" and "Partners' Capital";

The presentation of certain components of "Other current assets" and "Accounts payable and accrued liabilities" in the condensed consolidated balance sheet;

The corresponding effect of the foregoing accounting errors on the Partnership's condensed consolidated statement of cash flows and the related notes thereto;

The recording and presentation of incorrect amounts of individual cemetery and funeral home location-level equity and intercompany balances—the impact of which is limited to Note 11, Supplemental Condensed Consolidating Financial Information; and

The presentation of changes in "Accounts receivable, net of allowance" and "Deferred revenues" on a gross versus net basis in the Partnership's condensed consolidated statement of cash flows and Note 2, Accounts Receivable, Net of Allowance, and omission of related disclosures.

Note 1, General, (“Note 1”) in the Partnership’s unaudited condensed consolidated financial information included in Item 1 provides further information regarding the Restatement.

The following sections in the Original Filing have been corrected in this Form 10-Q to reflect the Restatement:

Part I—Item 1—Financial Statements

Part I—Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations

“Part I—Item 4—Controls and Procedures” to this Form 10-Q discloses the material weaknesses in the Partnership’s internal controls associated with the Restatement, as well as management’s conclusion that the Partnership’s internal control over financial reporting was not effective as of March 31, 2017. As disclosed therein, we continued to make improvements to our internal control over financial reporting with respect to material weaknesses that had been identified at that time, and those remediation efforts as well as other remediation efforts relating to material weaknesses we identified subsequent to March 31, 2017 remain ongoing.

This Form 10-Q does not reflect events occurring after the filing of the Original Filing except to the extent otherwise required to be included herein and does not substantively modify or update the disclosures therein other than as required to reflect the adjustments described above. See Note 1 to the accompanying unaudited condensed consolidated financial information, set forth in Item 1 of this Form 10-Q, for additional information.

We are also filing currently dated certifications from our Chief Executive Officer and Chief Financial Officer as Exhibits 31.1, 31.2, 32.1 and 32.2 to this Form 10-Q.

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

FORM 10-Q OF STONEMOR PARTNERS L.P.
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STONEMOR PARTNERS L.P.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,723	\$ 12,570
Accounts receivable, net of allowance	76,430	77,253
Prepaid expenses	6,072	5,532
Other current assets	21,739	23,466
Total current assets	117,964	118,821
Long-term accounts receivable, net of allowance	98,879	98,886
Cemetery property	335,290	337,315
Property and equipment, net of accumulated depreciation	116,906	118,281
Merchandise trusts, restricted, at fair value	523,858	507,079
Perpetual care trusts, restricted, at fair value	341,479	333,780
Deferred selling and obtaining costs	120,113	116,890
Deferred tax assets	64	64
Goodwill	70,436	70,436
Intangible assets	64,852	65,438
Other assets	21,429	20,023
Total assets	\$ 1,811,270	\$ 1,787,013
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 39,035	\$ 35,547
Accrued interest	5,443	1,571
Current portion, long-term debt	1,617	1,775
Total current liabilities	46,095	38,893
Long-term debt, net of deferred financing costs	303,618	300,351
Deferred revenues	891,356	866,633
Deferred tax liabilities	20,556	20,058
Perpetual care trust corpus	341,479	333,780
Other long-term liabilities	38,019	36,944
Total liabilities	1,641,123	1,596,659
Commitments and contingencies		
Partners' capital (deficit):		
General partner interest	(2,135)	(1,914)
Common limited partners' interest	172,282	192,268
Total partners' capital	170,147	190,354
Total liabilities and partners' capital	\$ 1,811,270	\$ 1,787,013

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

STONEMOR PARTNERS L.P.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
 (in thousands, except per unit data)

	Three Months Ended March 31,	
	2017	2016 (As restated - see Note 1)
Revenues:		
Cemetery:		
Merchandise	\$38,003	\$33,690
Services	14,949	13,719
Investment and other	12,575	14,414
Funeral home:		
Merchandise	7,836	7,482
Services	9,583	8,867
Total revenues	82,946	78,172
Costs and Expenses:		
Cost of goods sold	13,519	10,720
Cemetery expense	16,697	15,856
Selling expense	16,459	14,733
General and administrative expense	9,957	9,204
Corporate overhead	11,104	