

STONEMOR PARTNERS LP  
Form 10-Q  
August 10, 2015  
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 June 30, 2015**

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

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

**311 Veterans Highway, Suite B**

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

**19056**  
**(Zip Code)**

**(215) 826-2800**

**(Registrant's telephone number, including area code)**

**Not Applicable**

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

The number of the registrant's outstanding common units at July 31, 2015 was 31,728,802.



---

**Table of Contents**

## Index Form 10-Q

	Page
<b>Part I</b>	
<u>Financial Information</u>	
Item 1. <u>Financial Statements (unaudited)</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	56
Item 4. <u>Controls and Procedures</u>	58
<b>Part II</b>	
<u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	58
Item 1A. <u>Risk Factors</u>	58
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	59
Item 3. <u>Defaults Upon Senior Securities</u>	59
Item 4. <u>Mine Safety Disclosures</u>	59
Item 5. <u>Other Information</u>	59
Item 6. <u>Exhibits</u>	60
<u>Signatures</u>	61

**Table of Contents****Part I Financial Information****Item 1. Financial Statements****StoneMor Partners L.P.****Condensed Consolidated Balance Sheet****(in thousands)****(unaudited)**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13,403	\$ 10,401
Accounts receivable, net of allowance	67,761	62,503
Prepaid expenses	6,247	4,708
Other current assets	31,696	24,266
<b>Total current assets</b>	<b>119,107</b>	<b>101,878</b>
Long-term accounts receivable, net of allowance	93,747	89,536
Cemetery property	339,596	339,848
Property and equipment, net of accumulated depreciation	99,245	100,391
Merchandise trusts, restricted, at fair value	478,927	484,820
Perpetual care trusts, restricted, at fair value	332,110	345,105
Deferred financing costs, net of accumulated amortization	8,291	9,089
Deferred selling and obtaining costs	105,278	97,795
Deferred tax assets	42	40
Goodwill	58,836	58,836
Intangible assets	67,891	68,990
Other assets	3,300	3,136
<b>Total assets</b>	<b>\$ 1,706,370</b>	<b>\$ 1,699,464</b>
<b>Liabilities and partners' capital</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 40,711	\$ 35,382
Accrued interest	1,356	1,219
Current portion, long-term debt	4,552	2,251
<b>Total current liabilities</b>	<b>46,619</b>	<b>38,852</b>
Other long-term liabilities	1,185	1,292

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Obligation for lease and management agreements, net	9,123	8,767
Long-term debt	326,206	285,378
Deferred cemetery revenues, net	661,282	643,408
Deferred tax liabilities	17,665	17,708
Merchandise liability	152,899	150,192
Perpetual care trust corpus	332,110	345,105
<b>Total liabilities</b>	<b>1,547,089</b>	<b>1,490,702</b>
Commitments and contingencies		
<b>Partners capital (deficit)</b>		
General partner deficit	(7,336)	(5,113)
Common partners, 29,313 and 29,204 units outstanding as of June 30, 2015 and December 31, 2014, respectively	166,617	213,875
<b>Total partners capital</b>	<b>159,281</b>	<b>208,762</b>
<b>Total liabilities and partners capital</b>	<b>\$ 1,706,370</b>	<b>\$ 1,699,464</b>

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****StoneMor Partners L.P.****Condensed Consolidated Statement of Operations****(in thousands, except per unit data)****(unaudited)**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>				
Cemetery				
Merchandise	\$ 36,042	\$ 34,572	\$ 62,979	\$ 60,640
Services	14,591	12,492	28,501	22,789
Investment and other	16,698	12,991	28,008	29,266
Funeral home				
Merchandise	6,250	4,966	13,325	10,018
Services	7,244	6,512	15,429	13,207
<b>Total revenues</b>	<b>80,825</b>	<b>71,533</b>	<b>148,242</b>	<b>135,920</b>
<b>Costs and expenses:</b>				
Cost of goods sold (exclusive of depreciation shown separately below):				
Perpetual care	2,067	1,821	3,734	3,212
Merchandise	7,740	6,829	13,156	12,942
Cemetery expense	19,279	16,141	35,544	29,470
Selling expense	15,769	14,861	29,679	26,050
General and administrative expense	9,192	8,880	18,521	16,525
Corporate overhead (including \$275 and \$266 in unit-based compensation for the three months ended June 30, 2015 and 2014, and \$547 and \$537 for the six months ended June 30, 2015 and 2014, respectively)	10,093	6,546	18,827	14,002
Depreciation and amortization	2,944	2,513	5,896	4,881
Funeral home expense				
Merchandise	2,066	1,604	4,442	3,250
Services	5,703	4,714	11,296	9,501
Other	4,380	3,118	8,561	5,971
Acquisition related costs, net of recoveries	336	1,240	685	1,589
<b>Total cost and expenses</b>	<b>79,569</b>	<b>68,267</b>	<b>150,341</b>	<b>127,393</b>
<b>Operating profit (loss)</b>	<b>1,256</b>	<b>3,266</b>	<b>(2,099)</b>	<b>8,527</b>

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Gain on acquisition				412
Gain on settlement agreement, net		888		888
Interest expense	5,770	5,148	11,233	10,722
Net income (loss) before income taxes	(4,514)	(994)	(13,332)	(895)
Income tax expense (benefit)	334	(876)	399	(1,186)
<b>Net income (loss)</b>	<b>\$ (4,848)</b>	<b>\$ (118)</b>	<b>\$ (13,731)</b>	<b>\$ 291</b>
General partner's interest in net income (loss) for the period	\$ (65)	\$ (9)	\$ (185)	\$ (5)
Limited partners' interest in net income (loss) for the period	\$ (4,783)	\$ (109)	\$ (13,546)	\$ 296
Net income (loss) per limited partner unit (basic and diluted)	\$ (.16)	\$	\$ (.46)	\$ .01
Weighted average number of limited partners' units outstanding - basic	29,286	25,552	29,258	24,031
Weighted average number of limited partners' units outstanding - diluted	29,286	25,552	29,258	24,312
Distributions declared per unit	\$ .640	\$ .600	\$ 1.270	\$ 1.200

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.



**Table of Contents**

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

	<b>Partners' Capital (Deficit)</b>		
	<b>Common</b>	<b>General</b>	<b>Total</b>
	<b>Unit Holders</b>	<b>Partner</b>	
Balance, December 31, 2014	\$ 213,875	\$ (5,113)	\$ 208,762
Issuance of common units	2,865		2,865
Compensation related to unit awards	547		547
Net loss	(13,546)	(185)	(13,731)
Cash distributions	(34,259)	(2,038)	(36,297)
Unit distributions	(2,865)		(2,865)
Balance, June 30, 2015	\$ 166,617	\$ (7,336)	\$ 159,281

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	<b>For the six months ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating activities:</b>		
Net income (loss)	\$ (13,731)	\$ 291
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cost of lots sold	4,917	5,656
Depreciation and amortization	5,896	4,881
Unit-based compensation	547	537
Accretion of debt discounts	1,467	1,297
Gain on acquisition		(412)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(11,786)	(10,023)
Allowance for doubtful accounts	2,317	2,891
Merchandise trust fund	(23,478)	(16,292)
Prepaid expenses	(1,539)	(2,576)
Other current assets	(7,430)	(2,301)
Other assets	(193)	(1,129)
Accounts payable and accrued and other liabilities	5,356	525
Deferred selling and obtaining costs	(7,483)	(5,374)
Deferred cemetery revenue	45,307	32,204
Deferred taxes (net)	(44)	(1,672)
Merchandise liability	3,852	(1,752)
Net cash provided by operating activities	3,975	6,751
<b>Investing activities:</b>		
Cash paid for cemetery property	(3,871)	(2,914)
Purchase of subsidiaries		(54,000)
Consideration for lease and management agreements		(53,000)
Cash paid for property and equipment	(3,379)	(4,104)
Net cash used in investing activities	(7,250)	(114,018)
<b>Financing activities:</b>		
Cash distributions	(36,297)	(28,225)
Additional borrowings on long-term debt	56,823	39,872
Repayments of long-term debt	(14,215)	(75,149)

Proceeds from public offerings			120,451
Proceeds from issuance of common units			53,430
Cost of financing activities		(34)	
<b>Net cash provided by financing activities</b>		<b>6,277</b>	<b>110,379</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,002</b>	<b>3,112</b>
<b>Cash and cash equivalents - Beginning of period</b>		<b>10,401</b>	<b>12,175</b>
<b>Cash and cash equivalents - End of period</b>	\$	<b>13,403</b>	\$ <b>15,287</b>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the period for interest	\$	9,551	\$ 9,395
Cash paid during the period for income taxes	\$	3,516	\$ 3,152
<b>Non-cash investing and financing activities:</b>			
Acquisition of assets by financing	\$	242	\$ 50
Acquisition of asset by assumption of directly related liability	\$		\$ 8,368

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

**Table of Contents**

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

**Nature of Operations**

StoneMor Partners L.P. ( StoneMor , the Company or the Partnership ) is a provider of funeral and cemetery products and services in the death care industry in the United States. Through its subsidiaries, StoneMor offers a complete range of funeral merchandise and services, along with cemetery property, merchandise and services, both at the time of need and on a pre-need basis. As of June 30, 2015, the Partnership operated 303 cemeteries in 27 states and Puerto Rico, of which 272 are owned and 31 are operated under lease, management or operating agreements. The Partnership also owned and operated 98 funeral homes in 19 states and Puerto Rico.

**Basis of Presentation**

The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). All interim financial data is unaudited. However, in the opinion of management, the interim financial data as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year. The December 31, 2014 condensed consolidated balance sheet data was derived from audited financial statements included in the Company s 2014 Annual Report on Form 10-K ( 2014 Form 10-K ), but does not include all disclosures required by GAAP, which are presented in the Company s 2014 Form 10-K.

**Principles of Consolidation**

The unaudited condensed consolidated financial statements include the accounts of each of the Company s subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Company has a variable interest and is the primary beneficiary. The Company operates 31 cemeteries under long-term lease, operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated in accordance with the provisions of Accounting Standards Codification (ASC) 810.

The Company operates 15 cemeteries under long-term lease, operating or management agreements that do not qualify as acquisitions for accounting purposes, including 13 cemeteries related to the transaction with the Archdiocese of Philadelphia that closed in the second quarter of 2014. As a result, the Company did not consolidate all of the existing assets and liabilities related to these cemeteries. The Company has consolidated the existing assets and liabilities of these cemeteries merchandise and perpetual care trusts as variable interest entities since the Company controls and receives the benefits and absorbs any losses from operating these trusts. Under these long-term lease, operating or management agreements, which are subject to certain termination provisions, the Company is the exclusive operator of these cemeteries. The Company earns revenues related to sales of merchandise, services, and interment rights and incurs expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, the Company will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Company has also recognized the existing merchandise liabilities that it assumed as part of these agreements.

**New Accounting Pronouncements**

In the second quarter of 2014, the Financial Accounting Standards Board 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. The amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. On April 29, 2015, the Financial Accounting Standards Board issued for public comment a proposed update that would defer the effective date of ASU 2014-09 by one year. The Company is currently in the process of evaluating the potential impact of this update on its financial statements.

In the first quarter of 2015, the Financial Accounting Standards Board issued Update No. 2015-02, Consolidation (Topic 810) ( ASU 2015-02 ), which amends previous consolidation analysis guidance. ASU 2015-02 requires

**Table of Contents**

companies to consider revised consolidation criteria regarding limited partnerships and similar legal entities. The amendments are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early application is permitted. The Company has evaluated the impact of this update, concluding that it will not have an impact on the Company's financial position, results of operations, or cash flows.

In the second quarter of 2015, the Financial Accounting Standards Board issued Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which changes the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. The amendments in the update are effective for annual reporting periods beginning after December 15, 2015, including interim periods within those reporting periods. Early application is permitted. The Company is currently in the process of evaluating the impact of this update, which is not expected to have a significant impact on its financial position, results of operations, or cash flows.

**Use of Estimates**

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

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

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

	As of	
	June 30, 2015	December 31, 2014
	(in thousands)	
Customer receivables	\$ 207,685	\$ 194,537
Unearned finance income	(21,103)	(20,360)
Allowance for contract cancellations	(25,074)	(22,138)
	161,508	152,039
Less: current portion, net of allowance	67,761	62,503
Long-term portion, net of allowance	\$ 93,747	\$ 89,536



**Table of Contents**

Activity in the allowance for contract cancellations is as follows:

	<b>For the six months ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>	
Balance - Beginning of period	\$ 22,138	\$ 20,275
Provision for cancellations	13,200	11,128
Charge-offs - net	(10,264)	(7,706)
Balance - End of period	\$ 25,074	\$ 23,697

There have been no changes to the Company's long-term accounts receivable accounting policies since the filing of the Company's 2014 Form 10-K.

**3. CEMETERY PROPERTY**

Cemetery property consists of the following:

	<b>As of</b>	
	<b>June 30,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>	
Developed land	\$ 79,407	\$ 79,058
Undeveloped land	171,446	172,238
Mausoleum crypts and lawn crypts	78,715	78,524
Other land	10,028	10,028
Total	\$ 339,596	\$ 339,848

**4. PROPERTY AND EQUIPMENT**

Major classes of property and equipment follow:

	<b>As of</b>	
	<b>June 30,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>	
Building and improvements	\$ 110,283	\$ 108,178
Furniture and equipment	50,330	49,290



	160,613	157,468
Less: accumulated depreciation	(61,368)	(57,077)
Property and equipment - net	\$ 99,245	\$ 100,391

Depreciation expense was \$2.4 million and \$4.8 million for the three and six months ended June 30, 2015, respectively, as compared to \$2.0 million and \$4.0 million during the same periods last year.

## 5. MERCHANDISE TRUSTS

At June 30, 2015, the Company's merchandise trusts consisted of the following types of assets:

Money market funds that invest in low risk short term securities;

**Table of Contents**

Publicly traded mutual funds that invest in underlying debt securities;

Publicly traded mutual funds that invest in underlying equity securities;

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

Fixed maturity debt securities issued by various corporate entities; and

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

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

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

The Company has included \$8.2 million and \$8.3 million of investments held in trust by the West Virginia Funeral Directors Association at June 30, 2015 and December 31, 2014, respectively, in its merchandise trust assets. As required by law, the Company deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recorded at their account value, which approximates their fair value.

**Table of Contents**

The cost and market value associated with the assets held in the merchandise trusts at June 30, 2015 and December 31, 2014 were as follows:

<b>As of June 30, 2015</b>	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
		<b>(in thousands)</b>		
Short-term investments	\$ 18,782	\$	\$	\$ 18,782
Fixed maturities:				
U.S. State and local government agency	85	13		98
Corporate debt securities	12,697	4	(381)	12,320
Other debt securities	7,033		(18)	7,015
Total fixed maturities	19,815	17	(399)	19,433
Mutual funds - debt securities	256,287	873	(16,100)	241,060
Mutual funds - equity securities	142,481	37	(9,743)	132,775
Equity securities	59,550	926	(6,772)	53,704
Other invested assets	5,306		(329)	4,977
Total managed investments	\$ 502,221	\$ 1,853	\$ (33,343)	\$ 470,731
West Virginia Trust Receivable	8,196			8,196
Total	\$ 510,417	\$ 1,853	\$ (33,343)	\$ 478,927

<b>As of December 31, 2014</b>	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
		<b>(in thousands)</b>		
Short-term investments	\$ 52,521	\$	\$	\$ 52,521
Fixed maturities:				
U.S. State and local government agency	270		(1)	269
Corporate debt securities	9,400	23	(447)	8,976
Other debt securities	7,157		(18)	7,139
Total fixed maturities	16,827	23	(466)	16,384
Mutual funds - debt securities	150,477	869	(8,666)	142,680
Mutual funds - equity securities	167,353	12,568	(463)	179,458
Equity securities	81,639	4,167	(5,507)	80,299
Other invested assets	5,400		(241)	5,159
Total managed investments	\$ 474,217	\$ 17,627	\$ (15,343)	\$ 476,501

West Virginia Trust Receivable	8,319			8,319
<b>Total</b>	<b>\$ 482,536</b>	<b>\$ 17,627</b>	<b>\$ (15,343)</b>	<b>\$ 484,820</b>

The contractual maturities of debt securities as of June 30, 2015 are presented below:

<b>As of June 30, 2015</b>	<b>Less than 1 year</b>	<b>1 year through 5 years</b>	<b>6 years through 10 years</b>	<b>More than 10 years</b>
		<b>(in thousands)</b>		
U.S. State and local government agency	\$	\$ 30	\$ 66	\$ 2
Corporate debt securities		8,986	3,334	
Other debt securities		7,015		
<b>Total fixed maturities</b>	<b>\$</b>	<b>\$ 16,031</b>	<b>\$ 3,400</b>	<b>\$ 2</b>

**Table of Contents****Temporary Declines in Fair Value**

The Company evaluates declines in fair value below cost of each individual asset held in the merchandise trusts on a quarterly basis.

An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at June 30, 2015 and December 31, 2014 is presented below:

As of June 30, 2015	Less than 12 months		12 Months or more		Total		Number of Securities in Loss Position
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
(in thousands, except number of securities data)							
Fixed maturities:							
Corporate debt securities	\$ 6,824	\$ 144	\$ 4,437	\$ 237	\$ 11,261	\$ 381	61
Other debt securities			5,786	18	5,786	18	10
Total fixed maturities	6,824	144	10,223	255	17,047	399	71
Mutual funds - debt securities	32,615	1,414	205,405	14,686	238,020	16,100	42
Mutual funds - equity securities	117,450	9,293	14,682	450	132,132	9,743	8
Equity securities	35,820	5,206	9,654	1,566	45,474	6,772	78
Other invested assets			4,878	329	4,878	329	1
Total	\$ 192,709	\$ 16,057	\$ 244,842	\$ 17,286	\$ 437,551	\$ 33,343	200

As of December 31, 2014	Less than 12 months		12 Months or more		Total		Number of Securities in Loss Position
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
(in thousands, except number of securities data)							
Fixed maturities:							
U.S. State and local government agency	\$ 143	\$ 1	\$	\$	\$ 143	\$ 1	3
Corporate debt securities	5,905	342	1,506	105	7,411	447	58
Other debt securities	2,370	8	4,769	10	7,139	18	13
Total fixed maturities	8,418	351	6,275	115	14,693	466	74
Mutual funds - debt securities	32,072	1,039	95,629	7,627	127,701	8,666	34
Mutual funds - equity securities	4,147	463			4,147	463	2
Equity securities	44,563	4,641	3,909	866	48,472	5,507	60
Other invested assets			4,881	241	4,881	241	1

Total	\$ 89,200	\$ 6,494	\$ 110,694	\$ 8,849	\$ 199,894	\$ 15,343	171
-------	-----------	----------	------------	----------	------------	-----------	-----

There were 200 and 171 securities in an unrealized loss position in merchandise trusts as of June 30, 2015 and December 31, 2014, respectively, of which 67 and 39, respectively, were in an unrealized loss position for more than twelve months. For all securities in an unrealized loss position, the Company evaluated the severity of the impairment, the length of time that a security has been in a loss position, the security's performance relative to the overall performance for the sector in which the security resides, and has concluded the decline in fair value below the asset's cost was temporary in nature. In addition, the Company is not aware of any circumstances that would prevent the future market value recovery for these securities.

#### **Other-Than-Temporary Impairment of Trust Assets**

During the three months ended June 30, 2015, the Company determined that there were no other than temporary impairments to the investment portfolio in the merchandise trusts. During the six months ended June 30, 2015, the Company determined that there were two securities with an aggregate cost basis of approximately \$0.6 million and an aggregate fair value of approximately \$0.4 million, resulting in an impairment of \$0.2 million, wherein such impairment was considered to be other-than-temporary. During the three and six months ended June 30, 2014, the Company determined that there were two securities with an aggregate cost basis of approximately \$0.2 million and an aggregate fair value of approximately \$0.1 million, resulting in an impairment of \$0.1 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of these assets to their current value and offset this change against deferred revenue. This reduction in deferred revenue will be reflected in earnings in future periods as the underlying merchandise is delivered or the underlying service is performed.

**Table of Contents**

A reconciliation of the Company's merchandise trust activities for the six months ended June 30, 2015 is presented below:

Fair Value at 12/31/2014	Contribution	Distribution	Interest/Dividend	Capital Gain Distributions	Realized Gain/Loss (1)	Taxes	Fees	Unrealized Change in Fair Value	Fair Value at 6/30/2015
(in thousands)									
\$484,820	31,667	(21,231)	8,391	(741)	14,453	(3,026)	(1,632)	(33,774)	\$ 478,927

(1) Includes \$4.2 million representing the net effect of other-than-temporary impairment charges and the release of previously realized impairment charges, as a result of sales and maturities of impaired securities. The Company made net contributions into the trusts of approximately \$10.4 million during the six months ended June 30, 2015. During the six months ended June 30, 2015, purchases and sales of securities available for sale included in trust investments were approximately \$468.8 million and \$456.2 million, respectively.

## 6. PERPETUAL CARE TRUSTS

At June 30, 2015, the Company's perpetual care trusts consisted of the following types of assets:

Money market funds that invest in low risk short term securities;

Publicly traded mutual funds that invest in underlying debt securities;

Publicly traded mutual funds that invest in underlying equity securities;

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

Fixed maturity debt securities issued by various corporate entities;

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

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

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



**Table of Contents**

The cost and market value associated with the assets held in the perpetual care trusts at June 30, 2015 and December 31, 2014 were as follows:

<b>As of June 30, 2015</b>	<b>Cost</b>	<b>Gross Unrealized Gains (in thousands)</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Short-term investments	\$ 13,122	\$	\$	\$ 13,122
Fixed maturities:				
U.S. Government and federal agency	101	14		115
U.S. State and local government agency	27			27
Corporate debt securities	24,130	153	(638)	23,645
Other debt securities	371			371
<b>Total fixed maturities</b>	<b>24,629</b>	<b>167</b>	<b>(638)</b>	<b>24,158</b>
Mutual funds - debt securities	217,589	3,065	(10,213)	210,441
Mutual funds - equity securities	78,559	3,663	(236)	81,986
Equity securities	1,957	472	(26)	2,403
<b>Total</b>	<b>\$ 335,856</b>	<b>\$ 7,367</b>	<b>\$ (11,113)</b>	<b>\$ 332,110</b>

<b>As of December 31, 2014</b>	<b>Cost</b>	<b>Gross Unrealized Gains (in thousands)</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Short-term investments	\$ 26,644	\$	\$	\$ 26,644
Fixed maturities:				
U.S. Government and federal agency	100	16		116
U.S. State and local government agency	78	1		79
Corporate debt securities	24,275	104	(913)	23,466
Other debt securities	371			371
<b>Total fixed maturities</b>	<b>24,824</b>	<b>121</b>	<b>(913)</b>	<b>24,032</b>
Mutual funds - debt securities	128,735	379	(5,220)	123,894
Mutual funds - equity securities	103,701	23,003	(1,268)	125,436
Equity securities	30,617	14,704	(247)	45,074
Other invested assets	25			25
<b>Total</b>	<b>\$ 314,546</b>	<b>\$ 38,207</b>	<b>\$ (7,648)</b>	<b>\$ 345,105</b>

The contractual maturities of debt securities as of June 30, 2015 were as follows:

<b>As of June 30, 2015</b>	<b>Less than 1 year</b>	<b>1 year through 5 years</b>	<b>6 years through 10 years</b>	<b>More than 10 years</b>
	<b>(in thousands)</b>			
U.S. Government and federal agency	\$	\$ 115	\$	\$
U.S. State and local government agency	27			
Corporate debt securities	262	17,204	6,160	19
Other debt securities	371			
<b>Total fixed maturities</b>	<b>\$ 660</b>	<b>\$ 17,319</b>	<b>\$ 6,160</b>	<b>\$ 19</b>

**Table of Contents****Temporary Declines in Fair Value**

The Company evaluates declines in fair value below cost of each individual asset held in the perpetual care trusts on a quarterly basis.

An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at June 30, 2015 and December 31, 2014 is presented below:

As of June 30, 2015	Less than 12 months		12 Months or more		Total		Number of Securities in Loss Position
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
(in thousands, except number of securities data)							
Fixed maturities:							
Corporate debt securities	\$ 10,190	\$ 274	\$ 6,033	\$ 364	\$ 16,223	\$ 638	64
<b>Total fixed maturities</b>	<b>10,190</b>	<b>274</b>	<b>6,033</b>	<b>364</b>	<b>16,223</b>	<b>638</b>	<b>64</b>
Mutual funds - debt securities	77,446	1,967	126,253	8,246	203,699	10,213	35
Mutual funds - equity securities	11,136	236			11,136	236	2
Equity securities	203	17	819	9	1,022	26	7
<b>Total</b>	<b>\$ 98,975</b>	<b>\$ 2,494</b>	<b>\$ 133,105</b>	<b>\$ 8,619</b>	<b>\$ 232,080</b>	<b>\$ 11,113</b>	<b>108</b>

As of December 31, 2014	Less than 12 months		12 Months or more		Total		Number of Securities in Loss Position
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
(in thousands, except number of securities data)							
Fixed maturities:							
Corporate debt securities	\$ 14,434	\$ 798	\$ 2,519	\$ 115	\$ 16,953	\$ 913	83
<b>Total fixed maturities</b>	<b>14,434</b>	<b>798</b>	<b>2,519</b>	<b>115</b>	<b>16,953</b>	<b>913</b>	<b>83</b>
Mutual funds - debt securities	30,345	768	86,814	4,452	117,159	5,220	31
Mutual funds - equity securities	13,035	1,268			13,035	1,268	5
Equity securities	3,866	245	620	2	4,486	247	29
<b>Total</b>	<b>\$ 61,680</b>	<b>\$ 3,079</b>	<b>\$ 89,953</b>	<b>\$ 4,569</b>	<b>\$ 151,633</b>	<b>\$ 7,648</b>	<b>148</b>

There were 108 and 148 securities in an unrealized loss position in perpetual care trusts as of June 30, 2015 and December 31, 2014, respectively, of which 42 and 20, respectively, were in an unrealized loss position for more than twelve months. For all securities in an unrealized loss position, the Company evaluated the severity of the impairment, the length of time that a security has been in a loss position, the security's performance relative to the overall

performance for the sector in which the security resides, and has concluded the decline in fair value below the asset's cost was temporary in nature. In addition, the Company is not aware of any circumstances that would prevent the future market value recovery for these securities.

**Other-Than-Temporary Impairment of Trust Assets**

During the three and six months ended June 30, 2015, the Company determined that there were no other than temporary impairments to the investment portfolio in the perpetual care trusts.

During the three and six months ended June 30, 2014, the Company determined that there were 2 securities with an aggregate cost basis of approximately \$1.3 million and an aggregate fair value of approximately \$0.8 million, resulting in an impairment of \$0.5 million, wherein such impairment was considered to be other-than-temporary. Accordingly, the Company adjusted the cost basis of these assets to their current value and offset this change against the liability for perpetual care trust corpus.

**Table of Contents**

A reconciliation of the Company's perpetual care trust activities for the six months ended June 30, 2015 is presented below:

Fair Value at 12/31/2014	Contributions	Distributions	Interest/Dividends	Capital Gain Distributions	Realized Gain/Loss (1)	Taxes	Fees	Unrealized Change in Fair Value	Fair Value at 6/30/2015
(in thousands)									
\$ 345,105	5,766	(6,253)	8,144	35	15,296	(605)	(1,073)	(34,305)	\$ 332,110

(1) Includes \$12.0 million representing the net effect of other-than-temporary impairment charges and the release of previously realized impairment charges, as a result of sales and maturities of impaired securities. The Company made net withdrawals from the trusts of approximately \$0.5 million during the six months ended June 30, 2015. During the six months ended June 30, 2015, purchases and sales of securities available for sale included in trust investments were approximately \$281.3 million and \$276.7 million, respectively.

## 7. GOODWILL AND INTANGIBLE ASSETS

### Goodwill

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

There have been no changes in the goodwill balance during the period and a summary by reportable segment is as follows:

	Cemeteries			Funeral Homes	Total
	Southeast	Northeast	West		
(in thousands)					
Goodwill as of June 30, 2015 and December 31, 2014	\$ 8,950	\$ 3,288	\$ 11,948	\$ 34,650	\$ 58,836

### Other Acquired Intangible Assets

The Company has other acquired intangible assets, most of which have been recognized as a result of acquisitions and long-term lease, management and operating agreements. All of the intangible assets are amortized as a component of depreciation and amortization in the unaudited condensed consolidated statement of operations. The major classes of intangible assets are as follows:

As of  
June 30, 2015

As of  
December 31, 2014

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Intangible Asset</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Intangible Asset</b>
--	----------------------------------	-------------------------------------	---------------------------------	----------------------------------	-------------------------------------	---------------------------------

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Intangible Asset</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Intangible Asset</b>
<b>(in thousands)</b>						
<b>Amortized intangible assets:</b>						
Lease and management agreements	\$ 59,758	\$ (1,079)	\$ 58,679	\$ 59,758	\$ (581)	\$ 59,177
Underlying contract value	6,239	(936)	5,303	6,239	(858)	5,381
Non-compete agreements	5,250	(2,625)	2,625	5,250	(2,126)	3,124
Other intangible assets	1,439	(155)	1,284	1,439	(131)	1,308
<b>Total intangible assets</b>	<b>\$ 72,686</b>	<b>\$ (4,795)</b>	<b>\$ 67,891</b>	<b>\$ 72,686</b>	<b>\$ (3,696)</b>	<b>\$ 68,990</b>

See Note 7 of the Company's 2014 Form 10-K for a discussion of the Company's intangible assets, including its contract-based intangible asset pertaining to the lease and management agreements with the Archdiocese of Philadelphia.

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

The Company had the following outstanding debt:

	As of	
	June 30, 2015	December 31, 2014
	(in thousands)	
7.875% Senior Notes, due June 2021	\$ 175,000	\$ 175,000
Credit Facility, due December 2019:		
Working Capital Draws	126,902	85,902
Acquisition Draws	25,000	25,000
Notes payable - acquisition debt	776	861
Notes payable - acquisition non-competes	2,295	2,765
Insurance and vehicle financing	4,037	1,632
 Total	 334,010	 291,160
Less current portion	4,552	2,251
Less unamortized bond and note payable discounts	3,252	3,531
 Long-term portion	 \$ 326,206	 \$ 285,378

This note includes a summary of material terms of the Company's senior notes and revolving credit facility. For a more detailed description of the Company's long-term debt agreements, see the Company's 2014 Form 10-K.

**7.875% Senior Notes due 2021**

On May 28, 2013, the Company issued \$175.0 million aggregate principal amount of 7.875% Senior Notes due 2021 (the "Senior Notes"). The Company pays 7.875% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year, since December 1, 2013. The net proceeds from the offering were used to retire a \$150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 and the remaining proceeds were used for general corporate purposes. The Senior Notes were issued at 97.832% of par resulting in gross proceeds of \$171.2 million with an original issue discount of approximately \$3.8 million. The Company incurred debt issuance costs and fees of approximately \$4.6 million. These costs and fees are deferred and are amortized over the life of the Senior Notes. Based on trades made on June 30, 2015, the Company has estimated the fair value of its Senior Notes to be in excess of par and trading at a premium of 5.06%, which would imply a fair value of \$183.9 million at June 30, 2015. The Senior Notes are valued using Level 2 inputs as defined by the Fair Value Measurements and Disclosures topic of the ASC in Note 15. As of June 30, 2015, the Company was in compliance with all applicable covenants of the Senior Notes.

**Credit Facility**

On December 19, 2014, the Partnership entered into the Fourth Amended and Restated Credit Agreement (the "Credit Agreement").

The Credit Agreement provides for a single revolving credit facility of \$180.0 million (the "Credit Facility") maturing on December 19, 2019. Additionally the Credit Agreement provides for an uncommitted ability to increase the Credit

Facility by an additional \$70.0 million. The summary of the material terms of the Credit Agreement is set forth below. Capitalized terms, which are not defined in the following description, shall have the meaning assigned to such terms in the Credit Agreement.

At June 30, 2015, amounts outstanding under the Credit Facility bore interest at rates between 4.0% and 6.0%. The interest rates on the Credit Facility are calculated as follows:

For Eurodollar Rate Loans, the outstanding principal amount thereof bears interest for each Interest Period at a rate per annum equal to the Eurodollar Rate for the Interest Period plus the Applicable Rate for Eurodollar Rate Loans; and



---

**Table of Contents**

For Base Rate Loans and Swing Line Loans, the outstanding principal amount thereof bears interest from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate for Base Rate Loans.

In addition, the Borrowers must pay a Letter of Credit Fee for each Letter of Credit equal to the Applicable Rate for Letter of Credit Fees times the daily amount to be drawn under such Letter of Credit. The Applicable Rate is determined based on the Consolidated Leverage Ratio of the Partnership and its Subsidiaries, and ranges from 2.25% to 4.00% for Eurodollar Rate Loans and Letter of Credit Fees, and 1.25% to 3.00% for Base Rate Loans. The current Applicable Rate for each of: (i) Eurodollar Rate Loans and Letter of Credit Fees is 3.75% and (ii) Base Rate Loans is 2.75% based on the current Consolidated Leverage Ratio. The Credit Agreement also requires the Borrowers to pay a quarterly unused commitment fee, which is calculated based on the amount by which the commitments under the Credit Agreement exceeds the usage of such commitments.

The Credit Agreement contains financial covenants, pursuant to which the Borrowers and the Guarantors will not permit:

Consolidated EBITDA for any Measurement Period to be less than the sum of (i) \$80.0 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after June 30, 2014;

the Consolidated Debt Service Coverage Ratio to be less than 2.50 to 1.0 for any Measurement Period; and

the Consolidated Leverage Ratio to be greater than 4.00 to 1.0 for any period.

The covenants include, among other limitations, limitations on: (i) liens, (ii) the creation or incurrence of debt, (iii) investments and acquisitions, (iv) dispositions of property, (v) dividends, distributions and redemptions, and (vi) transactions with Affiliates.

The Credit Agreement provides that two types of draws are permitted with respect to the Credit Facility: Acquisition Draws and Working Capital Draws. The proceeds of Acquisition Draws may be utilized by the Borrowers to finance Permitted Acquisitions, the purchase and construction of mausoleums and related costs or the net amount of Merchandise Trust deposits made after the Closing Date under the Credit Agreement, irrespective of whether such amounts relate to new or existing cemeteries or funeral homes. The proceeds of Working Capital Draws, Letters of Credit and Swing Line Loans may be utilized by the Borrowers to finance working capital requirements, Capital Expenditures and for other general corporate purposes. The borrowing of Working Capital Advances is subject to a borrowing formula of 85% of Eligible Receivables. This limit was \$137.3 million at June 30, 2015.

Each Acquisition Draw is subject to equal quarterly amortization of the principal amount of such draw, with annual principal payments comprised of ten percent (10%) of the related draw amount, commencing on the second anniversary of such draw, with the remaining principal due on the Maturity Date, subject to certain mandatory prepayment requirements. Working Capital Draws are due on the Maturity Date, subject to certain mandatory prepayment requirements.

Effective July 10, 2015, the Company entered into the First Amendment (the First Amendment ) to the Credit Agreement to allow the Company to apply Net Cash Proceeds received from certain: (i) Dispositions of property by any Credit Party or any of its Subsidiaries, (ii) sales or issuances of Equity Interests by the Company or any of its Subsidiaries and (iii) Extraordinary Receipts received by or paid to or for the account of any Credit Party or any of its

Subsidiaries and not otherwise included in clause (i) and (ii) above that are required to be prepaid to the Lenders, to Acquisition Draws or Working Capital Draws, at the Company's discretion. Prior to the execution of the First Amendment, the Credit Agreement required that the Net Cash Proceeds from the transactions described above be applied to Acquisition Draws before they could be applied to Working Capital Draws.

As of June 30, 2015, there were \$151.9 million of outstanding borrowings under the Credit Facility. The Credit Facility approximates fair value as it consists of multiple current LIBOR borrowings with maturities of 90 days or less, with amounts that can be rolled-over or reborrowed at market rates. It is valued using Level 2 inputs. As of June 30, 2015, the Company complied with all applicable financial covenants.

The Company routinely incurs debt financing costs and fees when borrowing under, or making amendments to, the Credit Facility. These costs and fees are deferred and are amortized over the life of the Credit Facility.

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

As of June 30, 2015, the Company's taxable corporate subsidiaries had federal net operating loss carryforwards of approximately \$223.1 million, which will begin to expire in 2017 and \$272.0 million in state net operating loss carryforwards, a portion of which expires annually.

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

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

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 six months ended June 30, 2015 and 2014 is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2015 and 2014, respectively. The Company's effective tax rate differs from its statutory tax rate primarily because the Company's legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

The Company is not currently under examination by any federal or state jurisdictions. The federal statute of limitations and certain state statutes of limitations are open from 2011 forward. Management believes that the accrual for tax liabilities is adequate for all open years. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. Based on present information, it is the opinion of the Company's management that there are no pending assessments that will result in a material effect on the Company's consolidated financial statements over the next twelve months.

**10. DEFERRED CEMETERY REVENUES, NET**

At June 30, 2015 and December 31, 2014, deferred cemetery revenues, net, consisted of the following:

	<b>As of</b>	
	<b>June 30,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>	
Deferred cemetery revenue	\$ 497,991	\$ 456,632
Deferred merchandise trust revenue	124,374	104,717
Deferred merchandise trust unrealized gains (losses)	(31,490)	2,284
Deferred pre-acquisition margin	138,457	140,378

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Deferred cost of goods sold	(68,050)	(60,603)
Deferred cemetery revenues, net	\$ 661,282	\$ 643,408
Deferred selling and obtaining costs	\$ 105,278	\$ 97,795

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

**Table of Contents****11. COMMITMENTS AND CONTINGENCIES*****Legal***

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

***Leases***

At June 30, 2015, 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 twenty-five years and options to renew at varying terms. Expenses under these operating leases were \$0.8 million and \$1.5 million for the three and six months ended June 30, 2015, respectively, and \$0.6 million and \$1.2 million for the three and six months ended June 30, 2014, respectively.

On June 5, 2015, the Company entered into a lease agreement for a new corporate office location in Trevoze, Pennsylvania. The lease term will commence on February 1, 2016 and will expire on July 31, 2028, with certain contractual renewal options. The Company does not expect this new lease to have a significant impact on its cash flows.

The operating leases will result in future payments in the following approximate amounts from June 30, 2015 and beyond:

	<b>(in thousands)</b>
2015	\$ 1,476
2016	2,699
2017	3,000
2018	3,004
2019	2,828
2020	1,675
Thereafter	10,471
Total	\$ 25,153

***Other***

See Note 13 of the Company's 2014 Form 10-K for a discussion of the Company's future commitments related to its agreements with the Archdiocese of Philadelphia.

**12. PARTNERS' CAPITAL**

The table below reflects the activity relating to the number of common units outstanding for the six months ended June 30, 2015:

	<b>Six months ended June 30, 2015</b>
Outstanding, beginning of period	29,203,595
Unit distributions	104,533
Unit-based compensation	4,564
Outstanding, end of period	29,312,692

***Unit-Based Compensation***

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

**Table of Contents**

Compensation expense recognized related to unit appreciation rights and restricted phantom unit awards for the three and six months ended June 30, 2015 and 2014 are summarized in the table below:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Unit appreciation rights	\$ 19	\$ 20	\$ 40	\$ 39
Restricted phantom units	256	246	507	498
<b>Total unit-based compensation expense</b>	<b>\$ 275</b>	<b>\$ 266</b>	<b>\$ 547</b>	<b>\$ 537</b>

As of June 30, 2015, there was approximately \$0.1 million in non-vested unit appreciation rights expense outstanding. These unit appreciation rights will be expensed through 2018.

The diluted weighted average number of limited partners units outstanding presented on the unaudited condensed consolidated statement of operations does not include 193,172 and 187,758 units for the three and six months ended June 30, 2015, respectively, and 267,580 units for the three months ended June 30, 2014, as their effects would be anti-dilutive.

During the six months ended June 30, 2015, 4,564 common units were issued under the StoneMor Partners L.P. Long-Term Incentive Plan, as amended. See Note 11 of the Company's 2014 Form 10-K for a description of the Company's Long-Term Incentive Plans.

***Other Unit Issuances***

Pursuant to a Common Unit Purchase Agreement, dated May 19, 2014, by and between the Company and American Cemeteries Infrastructure Investors, LLC, a Delaware limited liability company (ACII), the Company issued 54,622 and 49,911 common units to ACII in lieu of cash distributions of approximately \$1.4 million and \$1.4 million on February 16, 2015 and May 15, 2015, respectively. Refer to the Company's 2014 Form 10-K, Note 17, for a detailed discussion of the Common Unit Purchase Agreement.

**13. ACQUISITIONS****First Quarter 2014 Acquisition**

On January 16, 2014, certain subsidiaries of the Company (collectively the Buyer) entered into an Asset Purchase and Sale Agreement with Carriage Cemetery Services, Inc. (the Seller). Pursuant to the Agreement, the Buyer acquired one cemetery in Florida, including certain related assets, and assumed certain related liabilities. In consideration for the net assets acquired, the Buyer paid the Seller \$0.2 million in cash.

The table below reflects the Company's final assessment of the fair value of net assets acquired and the resulting gain on bargain purchase.





**Table of Contents**

	<b>Final Assessment (in thousands)</b>
<b>Assets:</b>	
Accounts receivable	\$ 47
Cemetery property	470
Property and equipment	140
Merchandise trusts, restricted, at fair value	2,607
Perpetual care trusts, restricted, at fair value	691
<b>Total assets</b>	<b>3,955</b>
<b>Liabilities:</b>	
Deferred margin	1,035
Merchandise liabilities	956
Deferred tax liability	641
Perpetual care trust corpus	691
Other liabilities	20
<b>Total liabilities</b>	<b>3,343</b>
<b>Fair value of net assets acquired</b>	<b>612</b>
<b>Consideration paid</b>	<b>200</b>
<b>Gain on bargain purchase</b>	<b>\$ 412</b>

**Second Quarter 2014 Acquisition**

On June 10, 2014, certain subsidiaries of the Company (collectively the Buyers) closed the transaction under the Asset Sale Agreements (the Agreements), with certain subsidiaries of Service Corporation International (collectively the Sellers) to acquire nine funeral homes, twelve cemeteries and certain related assets in Central Florida, North Carolina, Southeastern Pennsylvania and Virginia. In consideration for the net assets acquired, the Buyers paid the Sellers \$53.8 million in cash.

The Company recorded an intangible asset of \$1.2 million for a favorable interest in a lease at one of the acquired North Carolina funeral home businesses. This asset will be amortized over the full remaining term of the lease agreement, which is approximately 36 years, with renewals. This asset was previously reported as a component of Other assets on the consolidated balance sheet.

The table below reflects the Company's final assessment of the fair value of net assets acquired and the resulting goodwill from purchase. There was no change to the amounts retrospectively adjusted in the fourth quarter of 2014. The Company acquired goodwill of \$2.8 million, \$3.3 million and \$2.4 million in the Company's Cemetery Operations Southeast, Cemetery Operations Northeast and Funeral Homes operating segments, respectively.

**Table of Contents**

	<b>Final Assessment (in thousands)</b>
<b>Assets:</b>	
Accounts receivable	\$ 6,188
Cemetery property	26,029
Property and equipment	15,776
Merchandise trusts, restricted, at fair value	31,534
Perpetual care trusts, restricted, at fair value	16,913
Intangible assets	1,170
Other assets	178
<b>Total assets</b>	<b>97,788</b>
<b>Liabilities:</b>	
Deferred margin	13,570
Merchandise liabilities	19,905
Deferred tax liability	2,010
Perpetual care trust corpus	16,913
Other liabilities	63
<b>Total liabilities</b>	<b>52,461</b>
<b>Fair value of net assets acquired</b>	<b>45,327</b>
<b>Consideration paid</b>	<b>53,800</b>
<b>Goodwill from purchase</b>	<b>\$ 8,473</b>

**Agreements with the Archdiocese of Philadelphia**

On May 28, 2014, certain subsidiaries of the Company ( Tenant ) and the Archdiocese of Philadelphia, an archdiocese governed by Canon Law of the Roman Catholic Church ( Landlord ) closed a Lease Agreement (the Lease ) and a Management Agreement (the Management Agreement ), pursuant to which Tenant will operate 13 cemeteries in Pennsylvania for a term of 60 years. The Company joined the Lease and the Management Agreement as a guarantor of all of Tenant 's obligations under this operating arrangement.

Landlord agreed to lease to Tenant eight cemetery sites in the Philadelphia area. The Lease granted Tenant a sole and exclusive license (the License ) to maintain and construct improvements in the operation of the cemeteries and to sell burial rights and all related merchandise and services, subject to the terms and conditions of the Lease. The Management Agreement enabled Tenant, subject to certain closing conditions, to serve as the exclusive operator of the remaining five cemeteries. The Lease may be terminated pursuant to the terms of the Lease, including, but not limited to, by notice of termination given by Landlord to Tenant at any time during Lease year 11 (a Lease Year 11 Termination ) or by either party due to the default or bankruptcy of the other party in accordance with the termination provisions of the Lease. If the Lease is terminated by Landlord or Tenant pursuant to the terms of the Lease, the Management Agreement will also be terminated.

At closing, Tenant paid to Landlord an up-front rental payment of \$53.0 million (the Up-Front Rent ). Tenant shall also pay to Landlord aggregate fixed rent of \$36.0 million (the Fixed Rent ) for the Cemeteries in the following amounts:

Lease Years 1-5	None
Lease Years 6-20	\$1,000,000 per Lease Year
Lease Years 21-25	\$1,200,000 per Lease Year
Lease Years 26-35	\$1,500,000 per Lease Year
Lease Years 36-60	None

**Table of Contents**

The Fixed Rent for Lease Years 6 through 11 (the Deferred Fixed Rent ) shall be deferred. If Landlord terminates the Lease pursuant to a Lease Year 11 Termination or Tenant terminates the Lease as a result of a Landlord's default prior to the end of Lease Year 11 (collectively, a Covered Termination ), the Deferred Fixed Rent shall be forfeited by Landlord and shall be retained by Tenant. If the Lease is not terminated by a Covered Termination, the Deferred Fixed Rent shall become due and payable 30 days after the end of Lease Year 11.

If Landlord terminates the Lease pursuant to a Lease Year 11 Termination, Landlord must repay to Tenant all \$53.0 million of the Up-Front Rent. If the Lease is terminated for cause at any time, Landlord must repay to Tenant the unamortized portion of the Up-Front Rent: (i) based on a 60 year amortization schedule if terminated by Tenant due to Landlord's default and (ii) based on a 30 year amortization schedule if terminated by Landlord due to Tenant's default.

Generally, 51% of gross revenues from any source received by Tenant on account of the Cemeteries but unrelated to customary operations of the Cemeteries less Tenant's and Landlord's reasonable costs and expenses applicable to such unrelated activity shall be paid to Landlord as additional rent. In addition, Tenant shall have the right to request from time to time that Landlord sell (to a party that is independent and not an affiliate of StoneMor or any party that is a Tenant) all or portions of undeveloped land at the leased Cemeteries. If Landlord approves the sale of such undeveloped land, Tenant shall pay to Landlord, as additional rent, 51% of the net proceeds of any such sale.

The table below reflects the assets and liabilities recognized:

	<b>(in thousands)</b>
<b>Assets:</b>	
Accounts receivable	\$ 1,610
Intangible asset	59,758
<b>Total assets</b>	<b>61,368</b>
<b>Liabilities:</b>	
Obligation for lease and management agreements	36,000
Discount on obligation for lease and management agreements	(27,632)
<b>Obligation for lease and management agreements, net</b>	<b>8,368</b>
<b>Total liabilities</b>	<b>8,368</b>
<b>Total net assets</b>	<b>\$ 53,000</b>

The Company recorded the underlying value of the Lease and Management Agreements as a contract-based intangible asset at the present value of the consideration, less the fair value of net assets received, consisting of acquired accounts receivable. A liability of \$8.4 million was also recorded for the present value of the Fixed Rent, which is equal to the \$36.0 million gross amount due to the Archdiocese of Philadelphia in the future, net of a discount \$27.6 million. The discounted values were determined using an effective annual rate of 8.3%, which represents an estimate of the return an investor would require to make this type of investment in the Company over the rent payment period.

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

If the transactions noted above had been consummated at the beginning of the comparable prior annual reporting period, on a pro forma basis, for the three and six months ended June 30, 2015 and 2014, consolidated revenues, consolidated net income (loss), and net income (loss) per limited partner unit (basic and diluted) would have been as follows:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(in thousands, except per unit data)</b>			
Revenue	\$ 80,825	\$ 77,196	\$ 148,242	\$ 149,386
Net income (loss)	(4,848)	573	(13,731)	1,327
Net income (loss) per limited partner unit (basic and diluted)	\$ (.16)	\$ .02	\$ (.46)	\$ .05

## **Table of Contents**

These pro forma results are unaudited, have been prepared for comparative purposes only, and may include certain adjustments such as increased interest on the acquisition of debt, changes in the timing of financing events and the recognition of gains on acquisitions. They do not purport to be indicative of the results of operations which actually would have resulted had these transactions been in effect at the beginning of the comparable prior annual reporting period or of future results of operations of the location.

The properties acquired in 2014 have contributed \$10.7 million and \$20.7 million of revenue, for the three and six months ended June 30, 2015, respectively, and \$1.4 million and \$3.0 million of operating profit for the three and six months ended June 30, 2015, respectively. These properties contributed \$2.2 million and \$2.3 million of revenue, for the three and six months ended June 30, 2014, respectively, and less than \$0.1 million of operating profit for both the three and six months ended June 30, 2014.

## **Other 2014 Acquisitions**

See Note 13 of the Company's 2014 Form 10-K for a discussion of the Company's other 2014 acquisitions. There have been no changes during the period to assessments of the fair value of net assets acquired in the other 2014 acquisitions. Those amounts may be retrospectively adjusted as additional information is received.

## **14. SEGMENT INFORMATION**

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

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

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

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

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



**Table of Contents**

Segment information is as follows:

As of and for the three months ended June 30, 2015:

	Southeast	Cemeteries Northeast	West	Funeral Homes (in thousands)	Corporate	Adjustment	Total
<b>Revenues</b>							
Sales	\$ 27,574	\$ 16,064	\$ 13,486	\$	\$	\$ (17,419)	\$ 39,705
Service and other	12,646	11,430	10,055			(6,505)	27,626
Funeral home				15,734		(2,240)	13,494
<b>Total revenues</b>	<b>40,220</b>	<b>27,494</b>	<b>23,541</b>	<b>15,734</b>		<b>(26,164)</b>	<b>80,825</b>
<b>Costs and expenses</b>							
Cost of sales	6,374	3,574	2,581			(2,722)	9,807
Cemetery	8,150	6,917	4,212				19,279
Selling	8,934	5,432	4,290		1,082	(3,969)	15,769
General and administrative	4,622	2,575	1,995				9,192
Corporate overhead					10,093		10,093
Depreciation and amortization	810	637	457	802	238		2,944
Funeral home				12,675		(526)	12,149
Acquisition related costs, net of recoveries					336		336
<b>Total costs and expenses</b>	<b>28,890</b>	<b>19,135</b>	<b>13,535</b>	<b>13,477</b>	<b>11,749</b>	<b>(7,217)</b>	<b>79,569</b>
<b>Operating profit (loss)</b>	<b>\$ 11,330</b>	<b>\$ 8,359</b>	<b>\$ 10,006</b>	<b>\$ 2,257</b>	<b>\$ (11,749)</b>	<b>\$ (18,947)</b>	<b>\$ 1,256</b>
<b>Total assets</b>	<b>\$ 643,341</b>	<b>\$ 428,476</b>	<b>\$ 438,130</b>	<b>\$ 166,040</b>	<b>\$ 30,383</b>	<b>\$</b>	<b>\$ 1,706,370</b>
Amortization of cemetery property	\$ 1,472	\$ 769	\$ 350	\$	\$	\$ (252)	\$ 2,339
Long lived asset additions	\$ 2,740	\$ 1,024	\$ 436	\$ 253	\$ 101	\$	\$ 4,554
Goodwill	\$ 8,950	\$ 3,288	\$ 11,948	\$ 34,650	\$	\$	\$ 58,836



**Table of Contents**

As of and for the six months ended June 30, 2015:

	Southeast	Cemeteries Northeast	West	Funeral Homes (in thousands)	Corporate	Adjustment	Total
<b>Revenues</b>							
Sales	\$ 51,864	\$ 28,549	\$ 24,181	\$	\$	\$ (34,945)	\$ 69,649
Service and other	24,532	20,189	19,055			(13,937)	49,839
Funeral home				33,149		(4,395)	28,754
<b>Total revenues</b>	<b>76,396</b>	<b>48,738</b>	<b>43,236</b>	<b>33,149</b>		<b>(53,277)</b>	<b>148,242</b>
<b>Costs and expenses</b>							
Cost of sales	11,642	5,903	4,721			(5,376)	16,890
Cemetery	14,984	12,770	7,790				35,544
Selling	18,081	10,437	8,442		1,282	(8,563)	29,679
General and administrative	9,292	5,115	4,114				18,521
Corporate overhead					18,827		18,827
Depreciation and amortization	1,610	1,244	956	1,601	485		5,896
Funeral home				25,286		(987)	24,299
Acquisition related costs, net of recoveries					685		685
<b>Total costs and expenses</b>	<b>55,609</b>	<b>35,469</b>	<b>26,023</b>	<b>26,887</b>	<b>21,279</b>	<b>(14,926)</b>	<b>150,341</b>
<b>Operating profit (loss)</b>	<b>\$ 20,787</b>	<b>\$ 13,269</b>	<b>\$ 17,213</b>	<b>\$ 6,262</b>	<b>\$ (21,279)</b>	<b>\$ (38,351)</b>	<b>\$ (2,099)</b>
<b>Total assets</b>	<b>\$ 643,341</b>	<b>\$ 428,476</b>	<b>\$ 438,130</b>	<b>\$ 166,040</b>	<b>\$ 30,383</b>	<b>\$</b>	<b>\$ 1,706,370</b>
Amortization of cemetery property	\$ 2,602	\$ 1,254	\$ 740	\$	\$	\$ (669)	\$ 3,927
Long lived asset additions	\$ 4,245	\$ 1,770	\$ 933	\$ 471	\$ 185	\$	\$ 7,604
Goodwill	\$ 8,950	\$ 3,288	\$ 11,948	\$ 34,650	\$	\$	\$ 58,836

**Table of Contents**

As of and for the three months ended June 30, 2014:

	Cemeteries			Funeral			
	Southeast	Northeast	West	Homes	Corporate	Adjustment	Total
	(in thousands)						
<b>Revenues</b>							
Sales	\$ 24,565	\$ 10,945	\$ 13,878	\$	\$	\$ (11,428)	\$ 37,960
Service and other	9,362	7,885	7,212			(2,364)	22,095
Funeral home				13,066		(1,588)	11,478
<b>Total revenues</b>	<b>33,927</b>	<b>18,830</b>	<b>21,090</b>	<b>13,066</b>		<b>(15,380)</b>	<b>71,533</b>
<b>Costs and expenses</b>							
Cost of sales	5,425	2,343	2,742			(1,860)	8,650
Cemetery	7,129	4,688	4,324				16,141
Selling	8,598	4,069	4,227		304	(2,337)	14,861
General and administrative	4,614	1,909	2,357				8,880
Corporate overhead					6,546		6,546
Depreciation and amortization	661	338	533	743	238		2,513
Funeral home				9,635		(199)	9,436
Acquisition related costs, net of recoveries					1,240		1,240
<b>Total costs and expenses</b>	<b>26,427</b>	<b>13,347</b>	<b>14,183</b>	<b>10,378</b>	<b>8,328</b>	<b>(4,396)</b>	<b>68,267</b>
<b>Operating profit (loss)</b>	<b>\$ 7,500</b>	<b>\$ 5,483</b>	<b>\$ 6,907</b>	<b>\$ 2,688</b>	<b>\$ (8,328)</b>	<b>\$ (10,984)</b>	<b>\$ 3,266</b>
<b>Total assets</b>	<b>\$ 647,511</b>	<b>\$ 423,077</b>	<b>\$ 454,896</b>	<b>\$ 165,027</b>	<b>\$ 29,869</b>	<b>\$</b>	<b>\$ 1,720,380</b>
Amortization of cemetery property	\$ 1,213	\$ 838	\$ 579	\$	\$	\$ (248)	\$ 2,382
Long lived asset additions	\$ 24,956	\$ 70,868	\$ 1,403	\$ 8,764	\$ 208	\$	\$ 106,199
Goodwill	\$ 8,950	\$ 3,288	\$ 11,948	\$ 33,024	\$	\$	\$ 57,210

As of and for the six months ended June 30, 2014:

	Cemeteries			Funeral			
	Southeast	Northeast	West	Homes	Corporate	Adjustment	Total
	(in thousands)						
<b>Revenues</b>							
Sales	\$ 46,666	\$ 18,355	\$ 23,699	\$	\$	\$ (21,886)	\$ 66,834
Service and other	20,988	18,489	18,135			(11,751)	45,861
Funeral home				26,320		(3,095)	23,225

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Total revenues	67,654	36,844	41,834	26,320		(36,732)	135,920
<b>Costs and expenses</b>							
Cost of sales	10,217	4,021	5,519			(3,603)	16,154
Cemetery	13,524	7,923	8,023				29,470
Selling	15,846	6,871	7,461		849	(4,977)	26,050
General and administrative	8,710	3,401	4,414				16,525
Corporate overhead					14,002		14,002
Depreciation and amortization	1,294	574	1,054	1,479	480		4,881
Funeral home				19,139		(417)	18,722
Acquisition related costs, net of recoveries					1,589		1,589
Total costs and expenses	49,591	22,790	26,471	20,618	16,920	(8,997)	127,393
<b>Operating profit (loss)</b>	\$ 18,063	\$ 14,054	\$ 15,363	\$ 5,702	\$ (16,920)	\$ (27,735)	\$ 8,527
Total assets	\$ 647,511	\$ 423,077	\$ 454,896	\$ 165,027	\$ 29,869	\$	\$ 1,720,380
Amortization of cemetery property	\$ 2,464	\$ 1,421	\$ 1,802	\$	\$	\$ (582)	\$ 5,105
Long lived asset additions	\$ 26,520	\$ 71,310	\$ 2,444	\$ 8,821	\$ 260	\$	\$ 109,355
Goodwill	\$ 8,950	\$ 3,288	\$ 11,948	\$ 33,024	\$	\$	\$ 57,210

Results of individual operating segments are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting

**Table of Contents**

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

**Table of Contents**

**15. FAIR VALUE MEASUREMENTS**

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

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

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

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

On the Company's unaudited condensed consolidated balance sheet, current assets, long-term accounts receivable and current liabilities are recorded at amounts that approximate fair value.

The following table displays the Company's assets measured at fair value as of June 30, 2015 and December 31, 2014.

**Table of Contents****As of June 30, 2015****Merchandise Trust**

	Level 1	Level 2 (in thousands)	Total
<b>Assets</b>			
Short-term investments	\$ 18,782	\$	\$ 18,782
Fixed maturities:			
U.S. state and local government agency		98	98
Corporate debt securities		12,320	12,320
Other debt securities		7,015	7,015
Total fixed maturity investments		19,433	19,433
Mutual funds - debt securities	241,060		241,060
Mutual funds - equity securities - real estate sector	18,023		18,023
Mutual funds - equity securities - energy sector	11,267		11,267
Mutual funds - equity securities - MLP s	18,421		18,421
Mutual funds - equity securities - other	85,064		85,064
Equity securities:			
Master limited partnerships	23,926		23,926
Global equity securities	29,778		29,778
Other invested assets		4,977	4,977
Total	\$ 446,321	\$ 24,410	\$ 470,731

**Perpetual Care Trust**

	Level 1	Level 2 (in thousands)	Total
<b>Assets</b>			
Short-term investments	\$ 13,122	\$	\$ 13,122
Fixed maturities:			
U.S. government and federal agency	115		115
U.S. state and local government agency		27	27
Corporate debt securities		23,645	23,645
Other debt securities		371	371
Total fixed maturity investments	115	24,043	24,158

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Mutual funds - debt securities	210,441		210,441
Mutual funds - equity securities - real estate sector	15,969		15,969
Mutual funds - equity securities - energy sector	17,976		17,976
Mutual funds - equity securities - MLP s	34,990		34,990
Mutual funds - equity securities - other	13,051		13,051
Equity securities:			
Master limited partnerships	1,312		1,312
Global equity securities	1,091		1,091
Total	\$ 308,067	\$ 24,043	\$ 332,110

**Table of Contents****As of December 31, 2014****Merchandise Trust**

	Level 1	Level 2 (in thousands)	Total
<b>Assets</b>			
Short-term investments	\$ 52,521	\$	\$ 52,521
Fixed maturities:			
U.S. state and local government agency		269	269
Corporate debt securities		8,976	8,976
Other debt securities		7,139	7,139
Total fixed maturity investments		16,384	16,384
Mutual funds - debt securities	142,680		142,680
Mutual funds - equity securities - real estate sector	58,672		58,672
Mutual funds - equity securities - energy sector	7,733		7,733
Mutual funds - equity securities - MLP s	22,927		22,927
Mutual funds - equity securities - other	90,126		90,126
Equity securities:			
Master limited partnerships	50,091		50,091
Global equity securities	30,208		30,208
Other invested assets		5,159	5,159
Total	\$ 454,958	\$ 21,543	\$ 476,501

**Perpetual Care Trust**

	Level 1	Level 2 (in thousands)	Total
<b>Assets</b>			
Short-term investments	\$ 26,644	\$	\$ 26,644
Fixed maturities:			
U.S. government and federal agency	116		116
U.S. state and local government agency		79	79
Corporate debt securities		23,466	23,466
Other debt securities		371	371
Total fixed maturity investments	116	23,916	24,032



Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Mutual funds - debt securities	123,894		123,894
Mutual funds - equity securities - real estate sector	41,753		41,753
Mutual funds - equity securities - energy sector	14,829		14,829
Mutual funds - equity securities - MLP s	43,596		43,596
Mutual funds - equity securities - other	25,258		25,258
Equity securities:			
Master limited partnerships	43,207		43,207
Global equity securities	1,867		1,867
Other invested assets		25	25
Total	\$ 321,164	\$ 23,941	\$ 345,105

Level 1 securities primarily consist of actively publicly traded money market funds, mutual funds and equity securities.

Level 2 securities primarily consist of corporate and other fixed income debt securities. The Company obtains pricing information for these securities from an independent pricing vendor. The pricing vendor uses various pricing models for each asset class that are consistent with what other market participants would use. The inputs and

**Table of Contents**

assumptions to the pricing vendor's model are derived from market observable sources including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and other market-related data. Since many fixed income securities do not trade on a daily basis, the pricing vendor uses available information as applicable such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Thus, certain securities may not be priced using quoted prices, but rather determined from market observable information. These investments are included in Level 2. The Company reviews the information provided by the pricing vendor on a regular basis. In addition, the pricing vendor has an established process in place for the identification and resolution of potentially erroneous prices.

There were no level 3 assets.

**16. SUBSEQUENT EVENTS**

On July 10, 2015, the Company completed a follow-on public offering of 2,415,000 common units at a public offering price of \$29.63 per unit. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately \$67.8 million. The proceeds were used to pay down outstanding indebtedness under our Credit Facility.

Effective July 10, 2015, the Company entered into the First Amendment to the Credit Agreement. Refer to Note 8 for a more detailed discussion.

The Company completed two acquisitions subsequent to June 30, 2015. The acquisitions included one cemetery and four funeral homes located in Illinois and Florida. The aggregate purchase price for these acquisitions was \$6.6 million. At this time, the Company does not have the information necessary to assess the fair value of net assets acquired and make a preliminary purchase price allocation.

## Table of Contents

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

The words we, us, our, StoneMor, the Partnership, the Company and similar words refer to StoneMor Partner and its subsidiaries.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### **Forward-Looking Statements**

Certain statements contained in this Quarterly Report on Form 10-Q, including, but not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management, assumptions regarding our future performance and plans, and any financial guidance provided or guidance related to our future distributions, as well as certain information in our other filings with the SEC and elsewhere are forward-looking statements.

Generally, the words believe, may, will, estimate, continue, anticipate, intend (including, but not limited to to maintain or increase our distributions), project, expect, predict and similar 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 or implied. Our major risk is related to uncertainties associated with the cash flow from our pre-need and at-need sales, our trusts, and financings, which may impact our ability to meet our financial projections, our ability to service our debt and pay distributions, and our ability to increase our distributions.**

Our additional risks and uncertainties, include, but are not limited to, the following: uncertainties associated with future revenue and revenue growth; uncertainties associated with the integration or anticipated benefits of our recent acquisitions or any future acquisitions; our ability to complete and fund additional acquisitions; the effect of economic downturns; the impact of our significant leverage on our operating plans; the decline in the fair value of certain equity and debt securities held in our trusts; our ability to attract, train and retain an adequate number of sales people; uncertainties associated with the volume and timing of pre-need sales of cemetery services and products; increased use of cremation; changes in the death rate; changes in the political or regulatory environments, including potential changes in tax accounting and trusting policies; our ability to successfully implement a strategic plan relating to achieving operating improvements, strong cash flows and further deleveraging; our ability to successfully compete in the cemetery

## **Table of Contents**

and funeral home industry; litigation or legal proceedings that could expose us to significant liabilities and damage our reputation; the effects of cyber security attacks due to our significant reliance on information technology; uncertainties relating to the financial condition of third-party insurance companies that fund our pre-need funeral contracts; and various other uncertainties associated with the death care industry and our operations in particular.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 ( 2014 Form 10-K ), our Current Report on Form 8-K filed with the SEC on July 6, 2015 and our other reports filed with the SEC. Except as required under applicable law, we assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

## **Overview**

### ***Cemetery Operations***

We are currently the second largest owner and operator of cemeteries in the United States. As of June 30, 2015, we operated 303 cemeteries in 27 states and Puerto Rico. We own 272 of these cemeteries and we manage or operate the remaining 31 under lease, operating or management agreements. As a result of the agreements, other control arrangements and applicable accounting rules, we have treated 16 of these cemeteries as acquisitions for accounting purposes.

We operate 15 cemeteries under long-term lease, operating or management agreements that do not qualify as acquisitions for accounting purposes. As a result, we did not consolidate all of the existing assets and liabilities related to these cemeteries. We have consolidated the existing assets and liabilities of these cemeteries merchandise and perpetual care trusts as variable interest entities since we control and receive the benefits and absorb any losses from operating these trusts. Under these long-term lease, operating or management agreements, which are subject to certain termination provisions, we are the exclusive operator of these cemeteries. We earn revenues related to sales of merchandise, services, and interment rights and incur expenses related to such sales and the maintenance and upkeep of these cemeteries. Upon termination of these contracts, we will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. We have also recognized the existing merchandise liabilities assumed as part of these agreements.

We sell cemetery products and services both at the time of death, which we refer to as at-need, and prior to the time of death, which we refer to as pre-need. Revenues from cemetery operations accounted for approximately 83.3% and 80.6% of our total revenues during the three and six months ended June 30, 2015, respectively, as compared to 84.0% and 82.9% during the same periods last year. The change in the contribution to total revenues was primarily due to one large land sale from the first quarter of 2014, as well as higher contributions during the current period from our 2014 funeral home acquisitions.

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

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

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

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

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

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

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

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

## Table of Contents

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

the merchandise is complete and ready for installation; or

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

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

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

## Pre-need Sales

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

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

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

Contracts related to pre-need installment sales are usually for a period not to exceed 60 months, with payments of principal and interest required. Pre-need sales contracts normally contain provisions for both principal and interest. For those contracts that do not bear a market rate of interest, we impute such interest based upon the prime rate plus 150 basis points, which resulted in a rate of 4.75% for the three and six months ended June 30, 2015 and 2014.

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

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

#### At-need Sales

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

## **Table of Contents**

### **Expenses**

We analyze and categorize our operating expenses as follows:

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

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

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

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

#### 2. Cemetery Expenses

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

#### 3. General and administrative expenses

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

#### 4. Depreciation and amortization

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

#### 5. Acquisition related costs

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

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

As of June 30, 2015, we owned and operated 98 funeral homes. These properties are located in 19 states and Puerto Rico. Forty-five of our funeral homes are located on the grounds of cemeteries that we own.



We derive revenues at our funeral homes from the sale of funeral home merchandise, including caskets and related funeral merchandise, and services, including removal and preparation of remains, the use of our facilities for visitation, worship and performance of funeral services and transportation services. We sell these services and merchandise generally at the time of need utilizing salaried licensed funeral directors. Our funeral home operations also include revenues related to the sale of term and final expense whole life insurance in markets where we do not own a funeral home, as well as pre-need whole life insurance in markets where we own a funeral home. Funeral home revenues accounted for approximately 16.7% and 19.4% of our total revenues during the three and six months ended June 30, 2015, respectively, as compared to 16.0% and 17.1% during the same periods last year.

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

## **Table of Contents**

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

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

## ***Corporate***

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

## ***2015 Developments***

Significant business developments for 2015 include the following:

On June 5, 2015, we entered into a lease agreement for a new corporate office location in Trevoze, Pennsylvania. The lease term will commence on February 1, 2016 and will expire on July 31, 2028, with certain contractual renewal options.

On July 10, 2015, we completed a follow-on public offering of 2,415,000 common units at a public offering price of \$29.63 per unit. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately \$67.8 million. The proceeds were used to pay down outstanding indebtedness under our Credit Facility.

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

As of June 30, 2015, the amortized cost of the assets in our merchandise trusts exceeded their market value by 6.6%, compared to December 31, 2014 when the market value of the assets exceeded their amortized cost by 0.5%. As of June 30, 2015, the amortized cost of the assets in our perpetual care trusts exceeded their market value by 1.1% as compared to December 31, 2014 when the market value of the assets exceeded their amortized cost by 9.7%. Changes in the cost to market ratios are due in part to the repositioning of assets within our merchandise and perpetual care trust portfolios, as well as declines in market conditions.

As of June 30, 2015, the majority of our long-term debt consisted of \$175.0 million in Senior Notes due 2021, the offering of which took place in May of 2013, and \$151.9 million of borrowings under our credit facility, which expires in 2019. As of June 30, 2015, we had \$28.1 million of total availability under our revolving credit facility. The revolving credit facility provides for both acquisition draws, which are used primarily to finance acquisitions, acquisition related costs and mausoleum construction costs, and working capital draws, which are used to finance all other corporate costs. As of June 30, 2015, we had approximately \$126.9 million of working capital draws, which are limited to a borrowing formula of 85% of eligible account receivables. This limit was \$137.3 million at June 30, 2015.

On July 10, 2015, we completed a follow-on public offering of 2,415,000 common units at a public offering price of \$29.63 per unit. Net proceeds of the offering, after deducting underwriting discounts and offering expenses, were approximately \$67.8 million. The proceeds were used to pay down outstanding indebtedness under our Credit Facility.

The aggregate values of pre-need and at-need contracts written were \$90.2 million and \$168.5 million for the three and six months ended June 30, 2015, respectively, as compared to \$77.9 million and \$141.6 million during the same periods last year.

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

Debt covenants in the Credit Agreement specifically relate to a certain measure of Consolidated EBITDA and certain coverage and leverage ratios as defined in the Credit Agreement described below.

Consolidated EBITDA is a non-GAAP financial measure and is primarily related to the current period value of contracts written, investment income from the merchandise and perpetual care trusts, and current expenses incurred.

We have two primary debt covenants that are dependent upon our financial results, the Consolidated Leverage Ratio and the Consolidated Debt Service Coverage Ratio. The Consolidated Leverage Ratio relates to the ratio of Consolidated

## **Table of Contents**

Funded Indebtedness to Consolidated EBITDA. Our Consolidated Leverage Ratio was 3.62 at June 30, 2015 compared to a maximum allowed ratio of 4.00. The Consolidated Debt Service Coverage Ratio relates to the ratio of Consolidated EBITDA to Consolidated Debt Service. Our Consolidated Debt Service Coverage Ratio was 4.40 at June 30, 2015 compared to a minimum allowed ratio of 2.50.

## **Segment Reporting and Related Information**

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

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

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

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

Our Corporate segment includes various home office expenses, miscellaneous selling, cemetery and general administrative expenses that are not allocable to other operating segments, certain depreciation and amortization expenses and acquisition related costs.

## **Critical Accounting Policies and Estimates**

The unaudited condensed consolidated financial statements are prepared in conformity with GAAP. The preparation of these consolidated financial statements required us to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods (see Note 1 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q). Our critical accounting policies are those that are both important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgment. These critical accounting policies are discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2014 Form 10-K. There have been no significant changes to our critical accounting policies since the filing of our 2014 Form 10-K.

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

We account for and analyze the results of operations for our segments on a basis of accounting that is different from GAAP. We reconcile these non-GAAP accounting results of operations to GAAP based amounts at the consolidated

level. This reconciliation is included in Note 14 to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

The method of accounting we utilize to analyze our overall results of operations, including segment results, provides for a production-based view of our business. Under the production-based view, we recognize revenues at their contract value at the point in time in which the contract is written, less a historic cancellation reserve. All related costs are expensed in the period the contract is recognized as revenue. In contrast, GAAP requires that we defer all revenues, and the direct costs associated with these revenues, until we meet certain delivery and performance requirements. The nature of our business is such that there is no meaningful relationship between the time that elapses from the date a contract is executed and the date the underlying merchandise is delivered or the service, delivery and performance requirements are met. Further, certain factors affecting this time period, such as weather and supplier issues, are out of our control. As a

**Table of Contents**

result, during a period of growth, operating profits as defined by GAAP will tend to lag behind operating profits on a production-based view because of the required deferral of revenues. Our performance-based view ignores these delays and presents results based upon the underlying value of contracts written. We believe this is the most reliable indicator of our performance for a given period as the value of contracts written less a historical cancellation reserve reflects the economic value added during a given period of time. Accordingly, the ensuing segment discussion is on a basis of accounting that differs from GAAP. See Note 1 to the consolidated financial statements included in the 2014 Form 10-K for a more detailed discussion of our accounting policies under GAAP.

**Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014****Cemetery Segments****Cemetery Operations Southeast**

In June of 2014, we have acquired nine properties in our Cemetery Operations Southeast segment. The results of operations for these acquired properties have less impact on the results for the three months ended June 30, 2014 as compared to the results for the three months ended June 30, 2015. The acquisitions contributed approximately \$3.8 million of the revenues and \$2.4 million of the costs and expenses for the three months ended June 30, 2015 as compared to \$0.5 million and \$0.3 million, respectively, for the same period last year.

The table below compares the results of operations for our Cemetery Operations Southeast for the three months ended June 30, 2015 to the same period last year:

	2015	Three months ended June 30,		
		2014	Change (\$)	Change (%)
		(in thousands)		
		(non-GAAP)		
Total revenues	\$ 40,220	\$ 33,927	\$ 6,293	18.5%
Total costs and expenses	28,890	26,427	2,463	9.3%
Operating profit	\$ 11,330	\$ 7,500	\$ 3,830	51.1%

**Revenues**

The increase in revenues was primarily related to increases of \$1.4 million in the value of pre-need contracts written, \$1.6 million in the value of at-need contracts written, \$0.5 million in interest and other income and \$2.8 million in income from our trusts. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

**Total costs and expenses**

The net increase in costs and expenses was primarily related to:

A \$1.1 million increase in the cost of goods sold primarily attributable to the increase in the value of contracts written and changes in product mix.

A \$1.0 million increase in cemetery expenses primarily due to increases of \$0.3 million in labor costs and \$0.5 million in repairs and maintenance costs.

A \$0.3 million increase in selling expenses due to increases of \$0.6 million in commissions and personnel costs and \$0.1 million in travel expenses, partially offset by a \$0.4 million decrease in advertising and marketing expenses.

A \$0.1 million increase in depreciation expense.

**Cemetery Operations Northeast**

During the second quarter of 2014, we acquired three properties and separately obtained the rights from the Archdiocese of Philadelphia to operate thirteen properties in our Cemetery Operations Northeast segment. The results

**Table of Contents**

of operations for these acquired properties have less impact on the results for the three months ended June 30, 2014 as compared to the results for the three months ended June 30, 2015. These properties have contributed approximately \$10.6 million of the revenues and \$7.2 million of the costs and expenses of the segment for the three months ended June 30, 2015 as compared to \$2.0 million and \$1.9 million, respectively, for the same period last year.

The table below compares the results of operations for our Cemetery Operations Northeast for the three months ended June 30, 2015 to the same period last year:

	<b>Three months ended June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>Change (\$)</b>	<b>Change (%)</b>
	<b>(in thousands)</b>			
	<b>(non-GAAP)</b>			
Total revenues	\$ 27,494	\$ 18,830	\$ 8,664	46.0%
Total costs and expenses	19,135	13,347	5,788	43.4%
Operating profit	\$ 8,359	\$ 5,483	\$ 2,876	52.5%

**Revenues**

The increase in revenues was primarily related to increases of \$4.7 million in the value of pre-need contracts written, \$2.5 million in the value of at-need contracts written, \$0.9 million in interest and other income and \$0.6 million in income from our trusts. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

**Total costs and expenses**

The net increase in costs and expenses was mostly attributable to the new properties and was primarily related to:

A \$1.2 million increase in the cost of goods sold primarily attributable to the increase in the value of contracts written and changes in product mix.

A \$2.2 million increase in cemetery expenses primarily due to increases of \$1.2 million in labor costs, \$0.7 million in repairs and maintenance expense, \$0.1 million in utility and fuel costs and \$0.1 million in real estate tax expense.

A \$1.4 million increase in selling expenses primarily attributable to a \$1.1 million increase in commissions and personnel costs and a \$0.2 million increase in advertising and marketing costs.

A \$0.7 million increase in general and administrative expenses primarily due to increases of \$0.1 million in insurance costs, \$0.3 million in personnel costs and \$0.1 million in professional fees.



A \$0.3 million increase in depreciation and amortization expense, most of which was attributable to the amortization of the intangible assets relating to the lease and management agreements with the Archdiocese of Philadelphia.

**Table of Contents****Cemetery Operations West**

The table below compares the results of operations for our Cemetery Operations West for the three months ended June 30, 2015 to the same period last year:

	<b>Three months ended June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>Change (\$)</b>	<b>Change (%)</b>
	<b>(in thousands)</b>			
	<b>(non-GAAP)</b>			
Total revenues	\$ 23,541	\$ 21,090	\$ 2,451	11.6%
Total costs and expenses	13,535	14,183	(648)	-4.6%
Operating profit	\$ 10,006	\$ 6,907	\$ 3,099	44.9%

**Revenues**

The increase in revenues was primarily related to increases of \$0.1 million in the value of at-need contracts written, \$0.2 million in interest and other income and \$2.7 million in income from our trusts, partially offset by a \$0.5 million decrease in the value of pre-need contracts written. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

**Total costs and expenses**

The net decrease in costs and expenses was primarily related to:

A \$0.1 million decrease in the cost of goods sold primarily attributable to the change in the value of contracts written and changes in product mix.

A \$0.1 million decrease in cemetery expenses primarily related to a decrease of \$0.2 million in repair and maintenance costs, partially offset by a \$0.1 million increase in real estate tax expense.

A \$0.3 million decrease in general and administrative expenses primarily related to a decrease of \$0.2 million in professional fees.

A \$0.1 million decrease in depreciation expense.

**Funeral Homes Segment**

In the second quarter of 2014, we acquired nine funeral homes and in the fourth quarter of 2014, we acquired two funeral homes. Therefore, the results of operations for these properties have either less or no impact on the results for the three months ended June 30, 2014, but are included in the results for the three months ended June 30, 2015. The additions have contributed approximately \$2.7 million of the revenues and \$2.2 million of the costs and expenses

of the segment for the three months ended June 30, 2015 as compared to \$0.6 million and \$0.3 million, respectively, for the same period last year.

The table below compares the results of operations for our Funeral Homes segment for the three months ended June 30, 2015 to the same period last year:

	2015	Three months ended June 30,		
		2014	Change (\$)	Change (%)
		(in thousands)		
		(non-GAAP)		
Total revenues	\$ 15,734	\$ 13,066	\$ 2,668	20.4%
Total costs and expenses	13,477	10,378	3,099	29.9%
Operating profit	\$ 2,257	\$ 2,688	\$ (431)	-16.0%

### Revenues

The increase in revenues was primarily attributable to increases of \$1.2 million in the value of pre-need contracts written, \$1.2 million in the value of at-need contracts written, and \$0.5 million in insurance-related revenues, partially offset by a \$0.2 million decrease in other income.

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

The net increase in costs and expenses was primarily attributable to increases of \$1.3 million in personnel costs, \$0.6 million in merchandise costs, \$0.2 million in facility related costs, \$0.4 million in other service and supplies expense, and \$0.6 million in expenses related to insurance sales.

**Corporate Segment**

The table below compares expenses incurred by the Corporate segment for the three months ended June 30, 2015 to the same period last year:

	<b>Three months ended June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>Change (\$)</b>	<b>Change (%)</b>
	<b>(in thousands)</b>			
	<b>(non-GAAP)</b>			
Selling, cemetery and general and administrative expenses	\$ 1,082	\$ 304	\$ 778	100.0%
Depreciation and amortization	238	238		0.0%
Acquisition related costs, net of recoveries	336	1,240	(904)	-72.9%
Corporate expenses				
Corporate personnel expenses	3,678	3,117	561	18.0%
Other corporate expenses	6,415	3,429	2,986	87.1%
<b>Total corporate overhead</b>	<b>10,093</b>	<b>6,546</b>	<b>3,547</b>	<b>54.2%</b>
<b>Total corporate expenses</b>	<b>\$ 11,749</b>	<b>\$ 8,328</b>	<b>\$ 3,421</b>	<b>41.1%</b>

The increase in corporate expenses was primarily driven by an increase in corporate overhead of \$3.5 million, which included increases of \$0.6 million in corporate personnel costs, \$1.9 million in professional fees, \$0.2 million in information technology costs, and \$0.5 million in advertising expenses, with the remaining increase in general corporate costs. There was also an increase in corporate selling expenses, which included an increase of \$0.7 million in personnel costs. These increases were partially offset by a \$0.9 million decrease in acquisition related costs. Acquisition costs may vary from period to period depending on the amount of acquisition activity that takes place.

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

As discussed in the segment sections of this Management's Discussion and Analysis of Financial Condition and Results of Operations, revenues and their associated costs as reported at the segment level are not deferred.

Periodic consolidated revenues recorded in accordance with GAAP reflect the amount of total merchandise and services that were delivered during the period. Accordingly, period over period changes to revenues can be impacted by:

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

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

The table below analyzes results of operations and the changes therein for the three months ended June 30, 2015 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/or changes in the timing of when merchandise and services were delivered. Since March 31, 2014, we acquired 12 cemeteries and 11 funeral homes, and obtained the rights from the Archdiocese of Philadelphia to operate 13 cemetery properties. The results of operations for these properties have either less or no impact on the results for the three months ended June 30, 2014, but are included in the results for the three months ended June 30, 2015. These properties are contributing a significant portion of the increases to revenues and costs and expenses in the table below.

**Table of Contents**

	Three months ended June 30, 2015 (in thousands)			Three months ended June 30, 2014 (in thousands)			Change in Change in	
	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	GAAP results (\$)	GAAP results (%)
<b>Revenues</b>								
Pre-need cemetery revenues	\$ 44,012	\$ (16,187)	\$ 27,825	\$ 38,409	\$ (12,659)	\$ 25,750	\$ 2,075	8.1%
At-need cemetery revenues	27,435	(1,200)	26,235	23,110	1,595	24,705	1,530	6.2%
Investment income from trusts	15,641	(6,562)	9,079	9,612	(3,138)	6,474	2,605	40.2%
Interest income	2,184		2,184	2,034		2,034	150	7.4%
Funeral home revenues	15,734	(2,240)	13,494	13,066	(1,588)	11,478	2,016	17.6%
Other cemetery revenues	1,983	25	2,008	682	410	1,092	916	83.9%
Total revenues	106,989	(26,164)	80,825	86,913	(15,380)	71,533	9,292	13.0%
<b>Costs and expenses</b>								
Cost of goods sold	12,529	(2,722)	9,807	10,510	(1,860)	8,650	1,157	13.4%
Cemetery expense	19,279		19,279	16,141		16,141	3,138	19.4%
Selling expense	19,738	(3,969)	15,769	17,198	(2,337)	14,861	908	6.1%
General and administrative expense	9,192		9,192	8,880		8,880	312	3.5%
Corporate overhead	10,093		10,093	6,546		6,546	3,547	54.2%
Depreciation and amortization	2,944		2,944	2,513		2,513	431	17.2%
Funeral home expense	12,675	(526)	12,149	9,635	(199)	9,436	2,713	28.8%
Acquisition related costs, net of recoveries	336		336	1,240		1,240	(904)	-72.9%
Total costs and expenses	86,786	(7,217)	79,569	72,663	(4,396)	68,267	11,302	16.6%
Operating profit	\$ 20,203	\$ (18,947)	\$ 1,256	\$ 14,250	\$ (10,984)	\$ 3,266	\$ (2,010)	-61.5%

**Revenues**

Pre-need cemetery revenues were \$27.8 million for the three months ended June 30, 2015, an increase of \$2.0 million, or 8.1%, as compared to \$25.8 million during the same period last year. The increase was primarily caused by an increase of \$5.6 million in the value of cemetery contracts written, partially offset by an increase of \$3.6 million in

deferred revenue.

At-need cemetery revenues were \$26.2 million for the three months ended June 30, 2015, an increase of \$1.5 million, or 6.2%, as compared to \$24.7 million during the same period last year. The increase was primarily caused by an increase of \$4.3 million in the value of cemetery contracts written, partially offset by an increase of \$2.8 million in deferred revenue.

Investment income from trusts was \$9.1 million for the three months ended June 30, 2015, an increase of \$2.6 million, or 40.2%, as compared to \$6.5 million during the same period last year. On a segment basis, we had an increase of \$6.0 million, which was offset by an adjustment of \$3.4 million related to funds for which we have not met the requirements that would allow us to recognize them as revenue. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

Interest income on accounts receivable was \$2.2 million for the three months ended June 30, 2015, an increase of \$0.2 million, or 7.4%, as compared to \$2.0 million during the same period last year, primarily due to an increase in accounts receivable.

Funeral home revenues were \$13.5 million for the three months ended June 30, 2015, an increase of \$2.0 million, or 17.6%, as compared to \$11.5 million during the same period last year. The increase was primarily driven by the 11 funeral homes we acquired in 2014 and an increase in insurance-related revenues.

Other cemetery revenues were \$2.0 million during the three months ended June 30, 2015 as compared to \$1.1 million in the same period last year.

#### Costs and Expenses

The cost of goods sold was \$9.8 million for the three months ended June 30, 2015, an increase of \$1.1 million, or 13.4%, as compared to \$8.7 million during the same period last year. The ratio of cost of goods sold to pre-need and at-need cemetery revenues was 18.1% during the three months ended June 30, 2015 as compared to 17.1% during the same period last year. The change in the ratio primarily relates to changes in product mix.

Cemetery expenses were \$19.3 million during the three months ended June 30, 2015, an increase of \$3.2 million, or 19.4%, compared to \$16.1 million during the same period last year. Within this category, there were increases of \$1.6 million in personnel costs, \$0.9 million in repairs and maintenance expense, \$0.2 million in real estate tax expense, with the remaining increase in general cemetery costs. Cemetery expenses relate to the current costs of managing and

---

**Table of Contents**

maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 27.0% during the three months ended June 30, 2015 as compared to 26.2% during the same period last year.

Selling expenses were \$15.8 million during the three months ended June 30, 2015, an increase of \$0.9 million, or 6.1%, as compared to \$14.9 million during the same period last year. The ratio of selling expenses to cemetery revenues was 29.2% during the three months ended June 30, 2015 as compared to 29.5% during the same period last year. This is largely due to segment-based increases of \$2.5 million in commissions and personnel costs, partially offset by a \$1.6 million increase in deferred selling expenses. The ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, the majority of our selling expenses are directly related to sales commissions and bonuses, which would be directly related to changes in the value of pre-need and at-need contracts written. As a result, we would expect this ratio to follow relatively consistent trends over the long-term.

General and administrative expenses were \$9.2 million during the three months ended June 30, 2015, an increase of \$0.3 million, or 3.5%, as compared to \$8.9 million during the same period last year. The increase was due to an increase of \$0.6 million in personnel costs, partially offset by a \$0.3 million decrease in professional fees. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our general and administrative costs relative to our overall cemetery operations. An increase in the ratio indicates that general and administrative percentage expense increases related to our cemetery properties exceeded percent increases in the value of contracts written, while a decrease in the ratio indicates that expense growth on a percentage basis did not exceed percentage increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to decrease slightly as many of the expenses in this category are fixed in nature. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues was 12.9% during the three months ended June 30, 2015 as compared to 14.4% during the same period last year.

Total corporate overhead was \$10.1 million for the three months ended June 30, 2015, an increase of \$3.6 million, or 54.2% compared to \$6.5 million during the same period last year. The increase was primarily driven by increases of \$0.6 million in corporate personnel costs, \$1.9 million in professional fees, \$0.2 million in information technology costs, \$0.5 million in advertising expenses, with the remaining increase in general corporate costs.

Depreciation and amortization was \$2.9 million for the three months ended June 30, 2015, an increase of \$0.4 million, or 17.2%, as compared to \$2.5 million during the same period last year. The majority of the increase was attributable to acquired properties and amortization of the intangible assets relating to the lease and management agreements entered into in 2014.



Funeral home expenses were \$12.1 million for the three months ended June 30, 2015, an increase of \$2.7 million, or 28.8%, as compared to \$9.4 million during the same period last year. The increase was primarily attributable to segment based increases of \$1.3 million in personnel costs, \$0.6 million in merchandise costs, \$0.2 million in facility costs, and \$0.6 million in expenses related to insurance sales, partially offset by a \$0.3 million increase in deferred funeral home expenses, with the remaining increase in other general costs.

Acquisition related costs were \$0.3 million for the three months ended June 30, 2015, a decrease of \$0.9 million, or 72.9%, as compared to \$1.2 million during the same period last year. These costs may vary from period to period depending on the amount of acquisition activity that takes place.

**Table of Contents****Non-segment Allocated Results**

Certain statement of operations amounts are not allocated to segment operations. These amounts are those line items that can be found on our unaudited condensed consolidated statement of operations below operating profit (loss) and above net income (loss).

The table below summarizes these items and the changes between the three months ended June 30, 2015 and 2014:

	<b>Three months ended June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>Change (\$)</b>	<b>Change (%)</b>
	<b>(in thousands)</b>			
Gain on settlement agreement, net	\$	\$ 888	\$ (888)	-100.0%
Interest expense	5,770	5,148	622	12.1%
Income tax expense (benefit)	\$ 334	\$ (876)	\$ 1,210	-138.1%

During the three months ended June 30, 2014, we recovered an additional \$1.5 million related to the settlement of claims from locations acquired in 2010. A gain of \$0.9 million has been recorded as gain on settlement agreement, on the unaudited condensed consolidated statement of operation, which was net of legal fees of \$0.6 million.

There was an increase in interest expense on amounts outstanding under the credit facility and an increase in discount accretion expense, primarily relating to the obligation for the lease and management agreements entered into in 2014 with the Archdiocese of Philadelphia. Average amounts outstanding under the credit facility were \$141.6 million and \$84.9 million during the three months ended June 30, 2015 and 2014, respectively.

We had income tax expense of \$0.3 million for the three months ended June 30, 2015, as compared to an income tax benefit of \$0.9 million during the same period last year. Our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.

**Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014****Cemetery Operations Southeast**

In June of 2014, we have acquired nine properties in our Cemetery Operations Southeast segment. The results of operations for these acquired properties have less impact on the results for the six months ended June 30, 2014 as compared to the results for the six months ended June 30, 2015. The acquisitions contributed approximately \$7.4 million of the revenues and \$4.9 million of the costs and expenses for the six months ended June 30, 2015 as compared to \$0.6 million and \$0.5 million, respectively, for the same period last year.

The table below compares the results of operations for our Cemetery Operations Southeast for the six months ended June 30, 2015 to the same period last year:

<b>2015</b>	<b>Six months ended June 30,</b>		
	<b>2014</b>	<b>Change (\$)</b>	<b>Change (%)</b>
	<b>(in thousands)</b>		

	<b>(non-GAAP)</b>			
Total revenues	\$ 76,396	\$ 67,654	\$ 8,742	12.9%
Total costs and expenses	55,609	49,591	6,018	12.1%
Operating profit	\$ 20,787	\$ 18,063	\$ 2,724	15.1%

### Revenues

The increase in revenues was primarily related to increases of \$2.4 million in the value of pre-need contracts written, \$3.3 million in the value of at-need contracts written, \$0.6 million in interest and other income and \$2.4 million in income from our trusts. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

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

The net increase in costs and expenses was primarily related to:

A \$1.4 million increase in cost of goods sold primarily attributable to the increase in the value of contracts written and changes in product mix.

A \$1.5 million increase in cemetery expenses primarily due to increases of \$0.7 million in labor costs, and \$0.5 million in repairs and maintenance costs.

A \$2.2 million increase in selling expenses primarily attributable to an increase of \$2.1 million in commissions and personnel expenses.

A \$0.6 million increase in general and administrative expense primarily due to an increase of \$0.5 million in personnel expenses.

A \$0.3 million increase in depreciation expense.

**Cemetery Operations Northeast**

During the second quarter of 2014, we acquired three properties and separately obtained the rights from the Archdiocese of Philadelphia to operate thirteen properties in our Cemetery Operations Northeast segment. The results of operations for these acquired properties have less impact on the results for the six months ended June 30, 2014 as compared to the results for the six months ended June 30, 2015. The additions have contributed approximately \$19.9 million of the revenues and \$13.5 million of the costs and expenses of the segment for the six months ended June 30, 2015 as compared to \$2.0 million and \$1.9 million, respectively, for the same period last year.

The table below compares the results of operations for our Cemetery Operations Northeast for the six months ended June 30, 2015 to the same period last year:

	2015	Six months ended June 30,		
		2014	Change (\$)	Change (%)
		(in thousands)		
		(non-GAAP)		
Total revenues	\$ 48,738	\$ 36,844	\$ 11,894	32.3%
Total costs and expenses	35,469	22,790	12,679	55.6%
Operating profit	\$ 13,269	\$ 14,054	\$ (785)	-5.6%

**Revenues**

The increase in revenues was primarily related to increases of \$8.9 million in the value of pre-need contracts written and \$6.9 million in the value of at-need contracts written, partially offset by a \$3.4 million decrease in other income and a \$0.5 million decrease in income from our trusts. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

Total costs and expenses

The net increase in costs and expenses was mostly attributable to the new properties and was primarily related to:

A \$1.9 million increase in cost of goods sold primarily attributable to the increase in the value of contracts written and changes in product mix.

A \$4.8 million increase in cemetery expenses primarily attributable to increases of \$3.3 million in labor costs, \$1.0 million in repairs and maintenance expense, \$0.2 million in utility and fuel costs, \$0.2 million in real estate tax expense and \$0.1 million in automobile and equipment related costs.

A \$3.6 million increase in selling expenses primarily attributable to increases of \$2.9 million in commissions and personnel costs and \$0.5 million in advertising and marketing expenses.

A \$1.7 million increase in general and administrative expenses primarily due to increases of \$0.4 million in insurance costs, \$0.2 million in professional fees and \$0.8 million in personnel costs.

**Table of Contents**

A \$0.7 million increase in depreciation expense, \$0.5 million of which was attributable to the amortization of the intangible assets relating to the lease and management agreements with the Archdiocese of Philadelphia.

**Cemetery Operations West**

The table below compares the results of operations for our Cemetery Operations West for the six months ended June 30, 2015 to the same period last year:

	2015	2014	Change (\$)	Change (%)
		Six months ended June 30, (in thousands) (non-GAAP)		
Total revenues	\$ 43,236	\$ 41,834	\$ 1,402	3.4%
Total costs and expenses	26,023	26,471	(448)	-1.7%
Operating profit	\$ 17,213	\$ 15,363	\$ 1,850	12.0%

**Revenues**

The increase in revenues was primarily related to increases of \$0.2 million in the value of pre-need contracts written, \$0.2 million in the value of at-need contracts written, \$0.5 million in interest and other income and \$0.5 million in income from our trusts. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

**Total costs and expenses**

The net decrease in costs and expenses was primarily related to:

A \$0.8 million decrease in cost of goods sold primarily attributable to changes in product mix.

A \$0.2 million decrease in cemetery expenses primarily due to a decrease of \$0.3 million in repairs and maintenance expenses, partially offset by a net increase of \$0.1 million in other cemetery expenses.

A \$1.0 million increase in selling expenses primarily due to a \$0.8 million increase in commission and personnel costs and a \$0.1 million increase in advertising and marketing expenses.

A \$0.3 million decrease in general and administrative expenses primarily due to a decrease of \$0.3 million in legal and professional fees.

A \$0.1 million decrease in depreciation expense.

**Funeral Homes Segment**

In the second quarter of 2014, we acquired nine funeral homes and in the fourth quarter of 2014, we acquired two funeral homes. Therefore, the results of operations for these properties have either less or no impact on the results for the six months ended June 30, 2014, but are included in the results for the six months ended June 30, 2015. The additions have contributed approximately \$5.6 million of the revenues and \$4.3 million of the costs and expenses of the segment for the six months ended June 30, 2015 as compared to \$0.6 million and \$0.3 million, respectively, for the same period last year.

**Table of Contents**

The table below compares the results of operations for our Funeral Homes segment for the six months ended June 30, 2015 to the same period last year:

	2015	Six months ended June 30, 2014		
		Change (\$)		Change (%)
		(in thousands) (non-GAAP)		
Total revenues	\$ 33,149	\$ 26,320	\$ 6,829	25.9%
Total costs and expenses	26,887	20,618	6,269	30.4%
Operating profit	\$ 6,262	\$ 5,702	\$ 560	9.8%

**Revenues**

The increase in revenues was primarily related to increases of \$2.8 million in the value of pre-need contracts written, \$3.4 million in the value of at-need contracts written, and \$0.8 million in insurance-related revenues, partially offset by a \$0.2 million decrease in other income.

**Total costs and expenses**

The increase in costs and expenses was primarily attributable to increases of \$2.3 million in personnel costs, \$1.4 million in merchandise costs, \$0.6 million in other service and supplies costs, \$0.5 million in facility costs, \$0.4 million in general and administrative expenses, \$1.0 million in expenses related to insurance sales, and \$0.1 million in depreciation expense.

**Corporate Segment**

The table below compares expenses incurred by the Corporate segment for the six months ended June 30, 2015 to the same period last year:

	2015	Six months ended June 30, 2014		
		Change (\$)		Change (%)
		(in thousands) (non-GAAP)		
Selling, cemetery and general and administrative expenses	\$ 1,282	\$ 849	\$ 433	51.0%
Depreciation and amortization	485	480	5	1.0%
Acquisition related costs, net of recoveries	685	1,589	(904)	-56.9%
Corporate expenses				
Corporate personnel expenses	7,389	6,359	1,030	16.2%
Other corporate expenses	11,438	7,643	3,795	49.7%
Total corporate overhead	18,827	14,002	4,825	34.5%



Total corporate expenses	\$ 21,279	\$ 16,920	\$ 4,359	25.8%
--------------------------	-----------	-----------	----------	-------

The increase in corporate expenses was primarily driven by an increase in corporate overhead of \$4.8 million, which included increases of \$2.1 million in professional fees, \$1.0 million in personnel costs, \$0.4 million in advertising expenses, and \$0.4 million in information technology costs, with the remainder attributable to increases in other general expense categories. There was also an increase in corporate selling, which included increases of \$0.2 million in personnel costs and \$0.2 million in advertising expenses. These increases were partially offset by a \$0.9 million decrease in acquisition related costs. Acquisition costs may vary from period to period depending on the amount of acquisition activity that takes place.

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

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

**Table of Contents**

The table below analyzes results of operations and the changes therein for the six months ended June 30, 2015 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/or changes in the timing of when merchandise and services were delivered. During 2014, we acquired 13 cemeteries and 11 funeral homes, and obtained the rights from the Archdiocese of Philadelphia to operate 13 cemetery properties. The results of operations for these properties have either less or no impact on the results for the six months ended June 30, 2014, but are included in the results for the six months ended June 30, 2015. These properties are contributing a significant portion of the increases to revenues and costs and expenses in the table below:

	Six months ended June 30, 2015 (in thousands)			Six months ended June 30, 2014 (in thousands)			Change in	
	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	Segment Results (non-GAAP)	GAAP Adjustments	GAAP Results	GAAP results (\$)	Change in GAAP results (%)
<b>Revenues</b>								
Pre-need cemetery revenues	\$ 79,905	\$ (31,418)	\$ 48,487	\$ 68,385	\$ (21,927)	\$ 46,458	\$ 2,029	4.4%
At-need cemetery revenues	53,411	(3,858)	49,553	42,958	370	43,328	6,225	14.4%
Investment income from trusts	27,626	(14,011)	13,615	25,240	(12,789)	12,451	1,164	9.3%
Interest income	4,384		4,384	4,041		4,041	343	8.5%
Funeral home revenues	33,149	(4,395)	28,754	26,320	(3,095)	23,225	5,529	23.8%
Other cemetery revenues	3,044	405	3,449	5,708	709	6,417	(2,968)	-46.3%
<b>Total revenues</b>	<b>201,519</b>	<b>(53,277)</b>	<b>148,242</b>	<b>172,652</b>	<b>(36,732)</b>	<b>135,920</b>	<b>12,322</b>	<b>9.1%</b>
<b>Costs and expenses</b>								
Cost of goods sold	22,266	(5,376)	16,890	19,757	(3,603)	16,154	736	4.6%
Cemetery expense	35,544		35,544	29,470		29,470	6,074	20.6%
Selling expense	38,242	(8,563)	29,679	31,027	(4,977)	26,050	3,629	13.9%
General and administrative expense	18,521		18,521	16,525		16,525	1,996	12.1%
Corporate overhead	18,827		18,827	14,002		14,002	4,825	34.5%

Edgar Filing: STONEMOR PARTNERS LP - Form 10-Q

Depreciation and amortization	5,896		5,896	4,881		4,881	1,015	20.8%
Funeral home expense	25,286	(987)	24,299	19,139	(417)	18,722	5,577	29.8%
Acquisition related costs, net of recoveries	685		685	1,589		1,589	(904)	-56.9%
Total costs and expenses	165,267	(14,926)	150,341	136,390	(8,997)	127,393	22,948	18.0%
Operating profit (loss)	\$ 36,252	\$ (38,351)	\$ (2,099)	\$ 36,262	\$ (27,735)	\$ 8,527	\$ (10,626)	-124.6%

Revenues

Pre-need cemetery revenues were \$48.5 million for the six months ended June 30, 2015, an increase of \$2.0 million, or 4.4%, as compared to \$46.5 million during the same period last year. The increase was primarily caused by an increase of \$11.5 million in the value of cemetery contracts written, partially offset by an increase of \$9.5 million in deferred revenue.

At-need cemetery revenues were \$49.6 million for the six months ended June 30, 2015, an increase of \$6.3 million, or 14.4%, as compared to \$43.3 million during the same period last year. The increase was primarily caused by an increase of \$10.5 million in the value of cemetery contracts written, partially offset by an increase of \$4.2 million in deferred revenue.

Investment income from trusts was \$13.6 million for the six months ended June 30, 2015, an increase of \$1.1 million, or 9.3%, as compared to \$12.5 million during the same period last year. On a segment basis, we had an increase of \$2.4 million primarily related to an increase in realized gains on our investments, which was offset by an adjustment of \$1.3 million related to funds for which we have not met the requirements that would allow us to recognize them as revenue. Our investment results can vary from period to period based on a number of factors including realized income and the timing of the recognition of gains within the trusts.

Interest income on accounts receivable was \$4.4 million for the six months ended June 30, 2015, an increase of \$0.4 million or 8.5%, as compared to \$4.0 million during the same period last year, primarily due to a larger accounts receivable balance.

Funeral home revenues were \$28.8 million for the six months ended June 30, 2015, an increase of \$5.6 million, or 23.8%, compared to \$23.2 million during the same period last year. The increase was primarily driven by the 11 funeral homes we acquired in 2014 and an increase in insurance related revenues.

Other cemetery revenues were \$3.4 million for the six months ended June 30, 2015, as compared to \$6.4 million during the same period last year. The comparison was affected by the one-time land sale in the first quarter of 2014.

---

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

The cost of goods sold was \$16.9 million for the six months ended June 30, 2015, an increase of \$0.7 million, or 4.6%, as compared to \$16.2 million during the same period last year. The ratio of cost of goods sold to pre-need and at-need cemetery revenues was 17.2% during the six months ended June 30, 2015 as compared to 18.0% during the same period last year. The change in the ratio primarily relates to changes in product mix.

Cemetery expenses were \$35.5 million during the six months ended June 30, 2015, an increase of \$6.0 million, or 20.6%, compared to \$29.5 million during the same period last year. Within this category, there were increases of \$1.2 million in repairs and maintenance expenses, \$4.1 million in personnel costs, \$0.2 million in real estate taxes, with the remaining increase in general cemetery costs. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our operating costs relative to our overall cemetery operations. An increase in the ratio indicates that expense increases related to the operation and maintenance of our cemetery properties exceeded increases in the value of contracts written, while a decrease in the ratio indicates that expense growth did not exceed increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to slightly decline as many of the expenses in this category are fixed in nature. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 26.7% during the six months ended June 30, 2015 as compared to 26.5% during the same period last year.

Selling expenses were \$29.7 million during the six months ended June 30, 2015, an increase of \$3.6 million, or 13.9%, as compared to \$26.1 million during the same period last year. The overall expense increase was primarily caused by increases of \$6.0 million in commissions and personnel costs, \$0.6 million in advertising and marketing expenses, \$0.2 million in supplies and printing costs and \$0.2 million in travel expenses, partially offset by an increase in deferred selling expenses of \$3.6 million. The ratio of selling expenses to cemetery revenues was 30.3% during the six months ended June 30, 2015 as compared to 29.0% during the same period last year. The ratio gives some indication of how effectively the money we invest in selling efforts is translating into sales. However, the majority of our selling expenses are directly related to sales commissions and bonuses, which would be directly related to changes in the value of pre-need and at-need contracts written. As a result, we would expect this ratio to follow relatively consistent trends over the long-term.

General and administrative expenses were \$18.5 million during the six months ended June 30, 2015, an increase of \$2.0 million, or 12.1%, compared to \$16.5 million during the same period last year. The majority of the increase was due to increases of \$1.3 million in personnel costs and \$0.7 million in insurance costs. General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. Changes in this ratio give an indication of our ability to manage and control our general and administrative costs relative to our overall cemetery operations. An increase in the ratio indicates that general and administrative percentage expense increases related to our cemetery properties exceeded percent increases in the value of contracts written, while a decrease in the ratio indicates that expense growth on a percentage basis did not exceed percentage increases in the value of contracts written. In the short-term, this ratio can be positively or negatively impacted by our acquisitions, including such factors as how long it takes us to fully implement our pre-need sales programs and whether there are any unanticipated costs. Over the long-term, we would expect this ratio to decrease slightly as many of the expenses in this category are fixed in nature. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues was 13.9% during the six months ended June 30, 2015 as compared to 14.8%

during the same period last year.

Total corporate overhead was \$18.8 million for the six months ended June 30, 2015, an increase of \$4.8 million, or 34.5% compared to \$14.0 million during the same period last year. The increase in corporate expenses was primarily attributable to increases of \$2.1 million in professional fees, \$1.0 million in personnel costs, \$0.4 million in advertising expenses, \$0.4 million in information technology costs, with the remainder attributable to increases in other general expense categories.

Depreciation and amortization was \$5.9 million during the six months ended June 30, 2015, an increase of \$1.0 million, or 20.8%, as compared to \$4.9 million during the same period last year. The majority of the increase was attributable to acquired properties and amortization of the intangible assets relating to the lease and management agreements entered into during 2014.

**Table of Contents**

Funeral home expenses were \$24.3 million for the six months ended June 30, 2015, an increase of \$5.6 million, or 29.8%, compared to \$18.7 million during the same period last year. The increase was primarily attributable to segment based increases of \$2.3 million in personnel costs, \$1.4 million in merchandise costs, \$0.6 million in other service and supplies costs, \$0.5 million in facility costs, \$0.4 million in general and administrative expenses, \$1.0 million in expenses related to insurance sales. These key increases were partially offset by a \$0.6 million increase in deferred funeral home expenses, with the remaining increase in other general costs.

Acquisition related costs were \$0.7 million for the six months ended June 30, 2015, a decrease of \$0.9 million, or 56.9%, as compared to \$1.6 million during the same period last year. These costs may vary from period to period depending on the amount of acquisition activity that takes place.

**Non-segment Allocated Results**

As previously mentioned, certain statement of operations amounts are not allocated to segment operations. These amounts are those line items that can be found on our unaudited condensed consolidated statement of operations below operating profit (loss) and above net income (loss).

The table below summarizes these items and the changes between the six months ended June 30, 2015 and 2014:

	2015	Six months ended June 30,		
		2014	Change (\$)	Change (%)
		(in thousands)		
Gain on acquisition	\$	\$ 412	\$ (412)	-100.0%
Gain on settlement agreement, net		888	(888)	-100.0%
Interest expense	11,233	10,722	511	4.8%
Income tax expense (benefit)	\$ 399	\$ (1,186)	\$ 1,585	-133.6%

The gain on acquisition recorded during the six months ended June 30, 2014 relates to our first quarter 2014 acquisition. Refer to Note 13 of our unaudited condensed consolidated financial statements in Item 1 of this Form 10-Q for a more detailed discussion.

During the six months ended June 30, 2014, we recovered an additional \$1.5 million related to the settlement of claims from locations acquired in 2010. A gain of \$0.9 million has been recorded as gain on settlement agreement on the unaudited condensed consolidated statement of operations, which was net of legal fees of \$0.6 million.

There was an increase in interest expense on amounts outstanding under the credit facility and an increase in discount accretion expense, primarily relating to the obligation for the lease and management agreements entered into in 2014 with the Archdiocese of Philadelphia. Average amounts outstanding under the credit facility were \$133.3 million and \$92.6 million during the six months ended June 30, 2015 and 2014, respectively.

We had an income tax expense of \$0.4 million for the six months ended June 30, 2015, as compared to an income tax benefit of \$1.2 million during the same period last year. Our effective tax rate differs from our statutory tax rate primarily because our legal entity structure includes different tax filing entities, including a significant number of partnerships that are not subject to paying tax.



**Table of Contents****Supplemental Data**

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>Operating Data:</b>				
Interments performed	14,024	12,188	28,636	23,501
<b>Interment rights sold (1):</b>				
Lots	8,844	10,470	15,894	15,747
Mausoleum crypts (including pre-construction)	715	639	1,333	1,203
Niches	475	520	844	781
<b>Net interment rights sold (1)</b>	<b>10,034</b>	<b>11,629</b>	<b>18,071</b>	<b>17,731</b>
Number of contracts written	32,461	28,822	61,942	52,653
Aggregate contract amount, in thousands (excluding interest)	\$ 90,204	\$ 77,938	\$ 168,508	\$ 141,610
Average amount per contract (excluding interest)	\$ 2,779	\$ 2,704	\$ 2,720	\$ 2,689
Number of pre-need contracts written	15,729	14,331	29,430	26,259
Aggregate pre-need contract amount, in thousands (excluding interest)	\$ 59,977	\$ 52,249	\$ 110,005	\$ 94,011
Average amount per pre-need contract (excluding interest)	\$ 3,813	\$ 3,646	\$ 3,738	\$ 3,580
Number of at-need contracts written	16,732	14,491	32,512	26,394
Aggregate at-need contract amount, in thousands (excluding interest)	\$ 30,227	\$ 25,689	\$ 58,503	\$ 47,599
Average amount per at-need contract (excluding interest)	\$ 1,807	\$ 1,773	\$ 1,799	\$ 1,803

(1) Net of cancellations. Sales of double-depth burial lots are counted as two sales.

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

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



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

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

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

***Long-term Debt***

**7.875% Senior Notes due 2021**

On May 28, 2013, we issued \$175.0 million aggregate principal amount of 7.875% Senior Notes due 2021 (the Senior Notes ). We pay 7.875% interest per annum on the principal amount of the Senior Notes, payable in cash semi-annually in arrears on June 1 and December 1 of each year, since December 1, 2013. The net proceeds from the offering were used to retire our previously outstanding \$150.0 million aggregate principal amount of 10.25% Senior Notes due 2017 and the remaining proceeds were used for general corporate purposes. The Senior Notes were issued at 97.832% of par resulting in gross proceeds of \$171.2 million with an original issue discount of approximately \$3.8 million. We incurred debt issuance costs and fees of approximately \$4.6 million. These costs and fees are deferred and are amortized over the life of the Senior Notes. As of June 30, 2015, we were in compliance with all applicable covenants of the Senior Notes.

---

**Table of Contents**

**Credit Facility**

On December 19, 2014, we entered into the Fourth Amended and Restated Credit Agreement (the **Credit Agreement** ).

The Credit Agreement provides for a single revolving credit facility of \$180.0 million (the **Credit Facility** ) maturing on December 19, 2019. Additionally the Credit Agreement provides for an uncommitted ability to increase the Credit Facility by an additional \$70.0 million. The summary of the material terms of the Credit Agreement is set forth below. Capitalized terms, which are not defined in the following description, shall have the meaning assigned to such terms in the Credit Agreement.

At June 30, 2015, amounts outstanding under the Credit Facility bore interest at rates between 4.0% and 6.0%. The interest rates on the Credit Facility are calculated as follows:

For Eurodollar Rate Loans, the outstanding principal amount thereof bears interest for each Interest Period at a rate per annum equal to the Eurodollar Rate for the Interest Period plus the Applicable Rate for Eurodollar Rate Loans; and

For Base Rate Loans and Swing Line Loans, the outstanding principal amount thereof bears interest from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate for Base Rate Loans.

In addition, the Borrowers must pay a Letter of Credit Fee for each Letter of Credit equal to the Applicable Rate for Letter of Credit Fees times the daily amount to be drawn under such Letter of Credit. The Applicable Rate is determined based on our Consolidated Leverage Ratio, and ranges from 2.25% to 4.00% for Eurodollar Rate Loans and Letter of Credit Fees, and 1.25% to 3.00% for Base Rate Loans. The current Applicable Rate for each of: (i) Eurodollar Rate Loans and Letter of Credit Fees is 3.75% and (ii) Base Rate Loans is 2.75% based on the current Consolidated Leverage Ratio. The Credit Agreement also requires the Borrowers to pay a quarterly 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 Credit Agreement contains financial covenants, pursuant to which the Borrowers and the Guarantors will not permit:

Consolidated EBITDA for any Measurement Period to be less than the sum of (i) \$80.0 million plus (ii) 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after June 30, 2014;

the Consolidated Debt Service Coverage Ratio to be less than 2.50 to 1.0 for any Measurement Period; and

the Consolidated Leverage Ratio to be greater than 4.00 to 1.0 for any period.

The covenants include, among other limitations, limitations on: (i) liens, (ii) the creation or incurrence of debt, (iii) investments and acquisitions, (iv) dispositions of property, (v) dividends, distributions and redemptions, and (vi) transactions with Affiliates.

As of June 30, 2015, we were in compliance with all applicable financial covenants.

The Credit Agreement provides that two types of draws are permitted with respect to the Credit Facility: Acquisition Draws and Working Capital Draws. The proceeds of Acquisition Draws may be utilized by the Borrowers to finance Permitted Acquisitions, the purchase and construction of mausoleums and related costs or the net amount of Merchandise Trust deposits made after the Closing Date under the Credit Agreement, irrespective of whether such amounts relate to new or existing cemeteries or funeral homes. The proceeds of Working Capital Draws, Letters of Credit and Swing Line Loans may be utilized by the Borrowers to finance working capital requirements, Capital Expenditures and for other general corporate purposes. The borrowing of Working Capital Advances is subject to a borrowing formula of 85% of Eligible Receivables.

Each Acquisition Draw is subject to equal quarterly amortization of the principal amount of such draw, with annual principal payments comprised of ten percent (10%) of the related draw amount, commencing on the second anniversary of such draw, with the remaining principal due on the Maturity Date, subject to certain mandatory prepayment requirements. Working Capital Draws are due on the Maturity Date, subject to certain mandatory prepayment requirements.

Effective July 10, 2015, we entered into the First Amendment (the First Amendment ) to the Credit Agreement to allow us to apply Net Cash Proceeds received from certain: (i) Dispositions of property by any Credit Party or any of its Subsidiaries, (ii) sales or issuances of Equity Interests by us or any of its

---

**Table of Contents**

Subsidiaries and (iii) Extraordinary Receipts received by or paid to or for the account of any Credit Party or any of its Subsidiaries and not otherwise included in clause (i) and (ii) above that are required to be prepaid to the Lenders, to Acquisition Draws or Working Capital Draws, at the Company's discretion. Prior to the execution of the First Amendment, the Credit Agreement required that the Net Cash Proceeds from the transactions described above be applied to Acquisition Draws before they could be applied to Working Capital Draws. We used the proceeds from the follow-on public offering in July 2015 to reduce our Working Capital Draws.

Amounts outstanding under our Credit Facility fluctuated during the six months ended June 30, 2015 and 2014. At the beginning of 2014, we had \$114.0 million outstanding on our Credit Facility. During the first quarter of 2014, we reduced our borrowings on the Credit Facility by \$36.6 million as we had borrowed \$17.0 million prior to February 27, 2014 and then we used the net proceeds from our February 27, 2014 follow-on public offering and other available cash to repay \$53.6 million of amounts outstanding on our Credit Facility. During the second quarter of 2014, we increased our borrowings on the Credit Facility by \$1.0 million resulting in outstanding borrowings of \$78.4 million at June 30, 2014. At the beginning of 2015, we had \$110.9 million outstanding on our Credit Facility. During the first quarter of 2015, we increased our borrowings on the Credit Facility by a net \$12.0 million. During the second quarter of 2015, we increased our borrowings on the Credit Facility by a net \$29.0 million, resulting in outstanding borrowings of \$151.9 million at June 30, 2015. The average amounts borrowed under our Credit Facility were \$133.3 million and \$92.6 million for the six months ended June 30, 2015 and 2014, respectively.

For a more detailed description of our long-term debt agreements, see our 2014 Form 10-K.

***Corporate Office Lease***

On June 5, 2015, the Company entered into a lease agreement for a new corporate office location in Trevoze, Pennsylvania. Refer to Note 11 of our unaudited condensed consolidated financial statements in Item 1 of this Form 10-Q for a more detailed discussion.

***Cash Flow from Operating Activities***

Net cash flows provided by operating activities were \$4.0 million during the six months ended June 30, 2015, compared to net cash flows provided by operating activities of \$6.8 million during the same period last year. Factors contributing to the net decrease in cash flows were contributions to trust and less cash generated from accounts receivable, partially offset by less cash used for accounts payable.

***Cash Flow from Investing Activities***

Net cash used in investing activities was \$7.3 million during the six months ended June 30, 2015 as compared to \$114.0 million during the same period last year. Cash flows used for investing activities during the six months ended June 30, 2015 were for capital expenditures. Cash flows used for investing activities during the six months ended June 30, 2014 were \$54.0 million for the acquisition of 13 cemeteries and 9 funeral homes, \$53.0 million for up-front rent for the transaction with the Archdiocese of Philadelphia and \$7.0 million for other capital expenditures.

***Cash Flow from Financing Activities***

Net cash flows provided by financing activities were \$6.3 million during the six months ended June 30, 2015 as compared to \$110.4 million during the same period last year. Cash flows provided by financing activities for the six months ended June 30, 2015 consisted of \$42.6 million of net increases in long-term debt partially offset by cash distributions to unit holders of \$36.3 million. Cash flows provided by financing activities for the six months ended

June 30, 2014 consisted of \$120.5 million of proceeds from our follow-on public offerings and \$53.4 million of proceeds from our issuance of common units to ACII, partially offset by net repayments of long-term debt of \$35.3 million, and cash distributions to unit holders of \$28.2 million.

***Capital Expenditures***

The following table summarizes total maintenance capital expenditures and expansion capital expenditures, including expenditures for acquisitions described in Note 13 of our unaudited condensed consolidated financial statements in Item 1 of Part I of this Form 10-Q and the construction of mausoleums for the periods presented. Prior period expansion capital expenditures are higher as a result of acquisitions and lease and management agreements completed during the period.

**Table of Contents**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Maintenance capital expenditures	\$ 2,065	\$ 2,774	\$ 3,379	\$ 4,104
Expansion capital expenditures	2,370	108,966	3,871	109,914
<b>Total capital expenditures</b>	<b>\$ 4,435</b>	<b>\$ 111,740</b>	<b>\$ 7,250</b>	<b>\$ 114,018</b>

**Seasonality**

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

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

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

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

**Interest-Bearing Investments**

Our fixed-income securities subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of June 30, 2015, the fair value of fixed-income securities in our merchandise trusts represented 4.1% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 7.3% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was \$19.4 million and \$24.2 million in merchandise trusts and perpetual care trusts, respectively, as of June 30, 2015. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately \$194,000 and \$242,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows. If these securities are held to maturity, no change in fair market value will be realized.

Our money market and other short-term investments subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of June 30, 2015, the fair value of money market and short-term investments in our merchandise trusts represented 3.9% of the fair value of total trust assets while the fair value of

money market and short-term investments in our perpetual care trusts represented 4.0% of the fair value of total trust assets. The aggregate quoted fair value of these money market and short-term investments was \$18.8 million and \$13.1 million in the merchandise trusts and perpetual care trusts, respectively, as of June 30, 2015. Each 1% change in interest rates on these money market and short-term investments would result in changes of approximately \$188,000 and \$131,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows.

### **Marketable Equity Securities**

Our marketable equity securities subject to market risk consist primarily of investments held in our merchandise trusts and perpetual care trusts. These assets consist of investments in both individual equity securities as well as closed and open-ended mutual funds. As of June 30, 2015, the fair value of marketable equity securities in our merchandise trusts represented 11.2% of the fair value of total trust assets while the fair value of marketable equity securities in our perpetual care trusts represented 0.7% of total trust assets. The aggregate quoted fair market value of these marketable equity securities was \$53.7 million and \$2.4 million in our merchandise trusts and perpetual care trusts, respectively, as of June 30, 2015, based on final quoted sales prices. Each 10% change in the average market prices of the equity



## **Table of Contents**

securities would result in a change of approximately \$5.4 million and \$0.2 million in the fair market value of securities held in the merchandise trusts and perpetual care trusts, respectively. As of June 30, 2015, the fair value of marketable closed and open-ended mutual funds in our merchandise trusts represented 78.1% of the fair value of total trust assets, 50.3% of which pertained to fixed-income mutual funds. As of June 30, 2015, the fair value of closed and open-ended mutual funds in our perpetual care trusts represented 88.1% of total trust assets, 63.4% of which pertained to fixed-income mutual funds. The aggregate quoted fair market value of these closed and open-ended mutual funds was \$373.8 million and \$292.4 million, respectively, in the merchandise trusts and perpetual care trusts as of June 30, 2015, based on final quoted sales prices, of which \$241.1 million and \$210.4 million, respectively, pertained to fixed-income mutual funds. Each 10% change in the average market prices of the closed and open-ended mutual funds would result in a change of approximately \$37.4 million and \$29.2 million in the fair market value of securities held in our merchandise trusts and perpetual care trusts, respectively.

## **Investment Strategies and Objectives**

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

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

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

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

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

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

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

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

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 subjects us to increases in interest expense resulting from movements in interest rates. As of June 30, 2015, we had \$151.9 million of borrowings outstanding under our Credit Facility. After these borrowings, our total available borrowing capacity under the Credit Facility is \$28.1 million. The revolving credit facility provides for both acquisition draws, which are used primarily to finance acquisitions, acquisition related costs and mausoleum construction costs, and working capital draws, which are used to finance all other corporate costs. As of June 30, 2015, we had approximately \$126.9 million of working capital draws, which are limited to a borrowing formula of 85% of eligible account receivables. This limit was \$137.3 million at June 30, 2015. The amounts outstanding under the Credit Facility bore interest at rates between 4.0% and 6.0% at June 30, 2015.

## **Table of Contents**

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

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

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

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

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Part II Other Information**

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

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

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

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our 2014 Form 10-K, Current Report on Form 8-K filed with the SEC on July 6, 2015 and other reports that we file with the SEC, which could materially affect our business, financial condition or future results.

The risks described in the 2014 Form 10-K, Current Report on Form 8-K filed with the SEC on July 6, 2015 and other reports that we file with the SEC are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition

and/or operating results.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described in our 2014 Form 10-K, Current Report on Form 8-K filed with the SEC on July 6, 2015 and other reports that we file with the SEC.

**Table of Contents**

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

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

<b>Exhibit Number</b>	<b>Description</b>
10.1	First Amendment to Fourth Amended and Restated Credit Agreement, dated July 10, 2015, by and among StoneMor Operating LLC, its Subsidiaries, StoneMor GP LLC, StoneMor Partners L.P., the Lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.
10.2	General Release of Claims between Timothy K. Yost and StoneMor GP LLC, the general partner of StoneMor Partners L.P., dated May 18, 2015.
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 James M. Pippis, Interim 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 James M. Pippis, Interim Chief Financial Officer (furnished herewith).
101	Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets as of June 30, 2015, and December 31, 2014; (ii) Unaudited Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2015 and 2014; (iii) Unaudited Condensed Consolidated Statement of Partners Capital (Deficit); (iv) Unaudited Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2015 and 2014; and (v) Notes to the Unaudited Condensed Consolidated Financial Statements. Users of this data are advised that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of StoneMor Partners L.P.

**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

August 10, 2015

/s/ Lawrence Miller

Lawrence Miller

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

August 10, 2015

/s/ James M. Pippis

James M. Pippis

Interim Chief Financial Officer (Principal Financial  
Officer)

**Table of Contents****Exhibit Index**

<b>Exhibit Number</b>	<b>Description</b>
10.1	First Amendment to Fourth Amended and Restated Credit Agreement, dated July 10, 2015, by and among StoneMor Operating LLC, its Subsidiaries, StoneMor GP LLC, StoneMor Partners L.P., the Lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.
10.2	General Release of Claims between Timothy K. Yost and StoneMor GP LLC, the general partner of StoneMor Partners L.P., dated May 18, 2015.
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 James M. Pippis, Interim 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 James M. Pippis, Interim Chief Financial Officer (furnished herewith).
101	Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets as of June 30, 2015, and December 31, 2014; (ii) Unaudited Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2015 and 2014; (iii) Unaudited Condensed Consolidated Statement of Partners' Capital (Deficit); (iv) Unaudited Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2015 and 2014; and (v) Notes to the Unaudited Condensed Consolidated Financial Statements. Users of this data are advised that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of StoneMor Partners L.P.