

STONEMOR PARTNERS LP  
Form 10-Q/A  
May 18, 2009

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

**Washington, D.C. 20549**

**FORM 10-Q/A**

**(Amendment No. 1)**

(Mark One)

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

For the quarterly period ended March 31, 2009

or

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

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

Commission File Number: 000-50910

**STONEMOR PARTNERS L.P.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**311 Veterans Highway, suite B**

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

**80-0103159**  
(I.R.S. Employer

Identification No.)

**19056**  
(Zip Code)

**(215) 826-2800**

(Registrant's telephone number, including area code)

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**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  Smaller reporting company   
(Do not check if 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 May 11, 2009 was 9,771,443

**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-Q/A ( Amended Report ) to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009 ( Original Report ), initially filed with the Securities and Exchange Commission on May 11, 2009, is being filed to correct the number of outstanding common units at May 11, 2009 to 9,771,443 from 11,891,335 as reported on the cover page of the Original Report.

In addition, we are amending the Liquidity and Capital Resources Long-Term Debt section in Item 2 of Part I of the Original Report to include the following statement:

Reference is also made to the description of the Amended and Restated Credit Agreement, as amended, and the Amended and Restated Note Purchase Agreement, as amended, in Part II, Item 7 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which description is incorporated by reference herein.

We believe that the corrections described above and certain conforming changes made in the Amended Report, are not, individually or in the aggregate, material to our business, financial condition or results of operations.

In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Report has been amended to contain currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended, which certifications are filed herewith as Exhibits 31.1 and 31.2, respectively.

This Amended Report only amends the Original Report to the extent described above, and no other information in the Original Report is amended hereby. None of the items amended herein nor any other item in the Original Report has been updated to reflect events, results or developments concerning our business, financial condition or results of operations occurring after the date of the Original Report or to modify or update those disclosures affected by subsequent events. Except for the foregoing amended items, this Amended Report continues to describe conditions as of the date of the Original Report. Among other things, and without limiting the foregoing, forward looking statements made in the Original Report have not been revised to reflect events, results or developments that occurred or facts that became known to us after the date of the Original Report, and such forward looking statements should be read in their historical context.

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**Part I Financial Information**

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

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

This discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements included in Part I, Item 1 of the Quarterly Report on Form 10-Q (including the notes thereto) filed with the SEC on May 11, 2009.

**Forward-Looking Statements**

Certain statements contained in this Quarterly Report on Form 10-Q, including, but not limited to, information regarding the status and progress of our operating activities, the plans and objectives of our management, assumptions regarding our future performance and plans, and any financial guidance provided, as well as certain information in other filings with the SEC and elsewhere, are forward-looking statements within the meaning of Section 27A(i) of the Securities Act of 1933 and Section 21E(i) of the Securities Exchange Act of 1934. The words

believe, may, will, estimate, continue, anticipate, intend, project, expect, predict, and similar expressions identify these forward-looking statements. These forward-looking statements are made subject to certain risks and uncertainties that could cause actual results to differ materially from those stated, including, but not limited to, the following: uncertainties associated with future revenue and revenue growth; the effect of the current economic downturn; the impact of the company's significant leverage on its operating plans; the ability of the company to service its debt and pay distributions; the decline in the fair value of certain equity and debt securities held in the company's trusts; the company's ability to attract, train and retain an adequate number of sales people; uncertainties associated with the volume and timing of pre-need sales of cemetery services and products; increased use of cremation; changes in political or regulatory environments, including potential changes in tax accounting and trust policies; the company's ability to successfully implement a strategic plan relating to producing operating improvement, strong cash flows and further deleveraging; uncertainties associated with the integration or the anticipated benefits of the company's recent acquisitions; the company's ability to complete and fund additional acquisitions; information disclosed within this Quarterly Report on Form 10-Q; and various other uncertainties associated with the deathcare 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, 2008 and the Quarterly Report on Form 10-Q filed with the SEC on May 11, 2009. We assume no obligation to update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

### **Organization and Capitalization**

We were organized on April 2, 2004 to own and operate the cemetery and funeral home business conducted by Cornerstone and its subsidiaries. On September 20, 2004, in connection with our initial public offering of common units representing limited partner interests, Cornerstone contributed to us substantially all of its assets, liabilities and businesses, and then converted into CFSI LLC, a limited liability company. This transfer represented a reorganization of entities under common control and was recorded at historical cost. In exchange for these assets, liabilities and businesses, CFSI LLC received 564,782 common units and 4,239,782 subordinated units representing limited partner interests in us.

Cornerstone was founded in 1999 by members of our management team and a private equity investment firm, which we refer to as McCown De Leeuw, in order to acquire a group of 123 cemetery properties and 4 funeral homes. Since that time, Cornerstone, succeeded by us, acquired 111 additional cemeteries and 55 funeral homes, built two funeral homes, exited from one management contract and sold one cemetery and one funeral home.

On September 20, 2004, we completed our initial public offering of 3,675,000 common units at a price of \$20.50 per unit representing a 42.5% interest in us. On September 23, 2004, we sold an additional 551,250 common units to the underwriters in connection with the exercise of their over-allotment option and redeemed an equal number of common units from CFSI LLC at a cost of \$5.3 million, making a total of 4,239,782 common units outstanding. Total gross proceeds from these sales were \$86.6 million, before offering costs and underwriting discounts. Net proceeds, after deducting underwriting discounts but before paying offering costs, from these sales of common units was \$80.8 million.

Concurrent with the initial public offering, our wholly owned subsidiary, StoneMor Operating LLC, and its subsidiaries, all as borrowers, issued and sold \$80.0 million in aggregate principal amount of senior secured notes in a private placement and entered into a \$12.5 million revolving credit facility and a \$22.5 million acquisition facility with a group of banks. The net proceeds of the initial public offering and the sale of senior secured notes were used to repay the debt and associated accrued interest of approximately \$135.1 million of CFSI LLC and \$15.7 million of fees and expenses associated with the initial public offering and the sale of senior secured notes. The remaining funds have been used for general partnership purposes, including the construction of mausoleum crypts and lawn crypts, the purchases of equipment needed to install burial vaults and the acquisition of cemetery and funeral home locations.

On December 21, 2007, we completed a secondary public offering of 2,650,000 common units at a price of \$20.26 per unit representing a 22.2% interest in us, making a total of 8,505,725 common units outstanding. In conjunction with this offering, our general partner contributed \$1.1 million to maintain its 2% general partner interest. Total gross proceeds from these sales were \$54.8 million, before offering costs and underwriting discounts. Net proceeds, after deducting underwriting discounts but before paying offering costs, from these sales of common units were \$51.8 million.

Concurrent with the secondary public offering, our wholly owned subsidiary, StoneMor Operating LLC and its subsidiaries (collectively StoneMor LLC ), all as borrowers, issued \$17.5 million in aggregate principal amount of senior secured notes. The net proceeds of the public offering and the sale of senior secured notes and borrowings of \$6.3 million under our acquisition line of credit were used to purchase 45 cemeteries and 30 funeral homes from Service Corporation International.

## Overview

### *Cemetery Operations*

We are the second largest owner and operator of cemeteries in the United States. As of March 31, 2009, we operated 232 cemeteries in 26 states and Puerto Rico. We own 218 of these cemeteries and operate the remaining 14 under long-term management agreements with non-profit cemetery corporations that own the cemeteries. As a result of the agreements and other control arrangements, we consolidate the results of the 14 managed cemeteries in our consolidated financial statements.

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. Cemetery operations accounted for approximately 85.3% of our revenues during the three months ended March 31, 2009 compared to 85.8% during the same period last year.

Our results of operations for our Cemetery Operations segments 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;

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, other than perpetual care 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, which we recognize as revenues as the income is earned in the trust; and

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

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

the merchandise is complete and ready for installation; or

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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*

Deferred revenues from pre-need sales and related merchandise trust earnings are reflected on our balance sheet in deferred cemetery revenues, net. Total deferred cemetery revenues, net, also includes deferred revenues from pre-need sales that were entered into by entities we acquired prior to the time we acquired them. This includes both



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

Pre-need products and services are typically sold on an installment basis with terms ranging from 12 months to 84 months. 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.

Pre-need sales contracts normally contain provisions for both principal and interest. For pre-need sales wherein the contracts do not bear a market rate of interest, the Company imputes such interest (at a rate of 9.00% during the year ended December 31, 2008 and 4.75% during the three months ended March 31, 2009) in order to segregate the principal and interest component of the total contract value.

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 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. Interest income from pre-need sales, including imputed interest, accounted for 3.5% during the three months ended March 31, 2009 as compared to 3.0% during the same period last year.

#### *At-need Sales*

At-need sales of products and services are generally required to be paid for in full with cash at the time of sale. At that time, we first deposit any amount required to be placed in perpetual care trusts. We are not required to deposit any amounts from our at-need sales into merchandise trusts.

#### *Expenses*

We analyze and categorize our operating expenses as follows:

##### 1. Cost of goods sold

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.

##### 2. Selling expenses

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

##### 3. Cemetery Expenses

Cemetery expenses represent the cost to maintain and repair our cemetery properties and consists 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.



4. General and administrative expenses

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

5. Depreciation and amortization

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

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

6. Acquisition Related Costs

As of January 1, 2009, we adopted Statement of Financial Accounting Standards 141 (R), *Business Combinations* ( SFAS 141 R ). Amongst other things, SFAS 141 R requires that costs incurred in acquisition related activities be expensed as incurred. Acquisition related costs include legal fees and other third party costs incurred in acquisition related activities.

***Funeral Home Operations***

As of March 31, 2009, we owned and operated 58 funeral homes. These properties are located within the contiguous United States and in Puerto Rico. Twenty six of our 58 funeral homes are located on the grounds of cemeteries that we own.

We derive revenues at our funeral homes from the sale of funeral home merchandise, including caskets and related funeral merchandise, and services, including removal and preparation of remains, the use of our facilities for visitation, worship and performance of funeral services and transportation services. We sell these services and merchandise almost exclusively at the time of need utilizing salaried licensed funeral directors. Funeral home revenues accounted for approximately 14.7% of our revenues during the three months ended March 31, 2009 compared to 14.2% during the same period last year.

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 and the cost of caskets.

***Corporate***

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

**Recent Developments**

On April 30, 2009, we (along with certain of our subsidiaries) and StoneMor GP LLC entered into the Second Amendment to Amended and Restated Credit Agreement by and among us, StoneMor GP LLC and such certain subsidiaries, the lenders, and Bank of America, N.A., as Administrative Agent (the Second Amendment ).

In connection with the Second Amendment, on April 30, 2009, we also entered into the Second Amendment to Amended and Restated Note Purchase Agreement by us and certain subsidiaries, StoneMor GP LLC and the noteholders (the Second Amendment to NPA ).

The terms and conditions of the Second Amendment and the Second Amendment NPA are discussed more fully in Note 7 of the Unaudited Condensed Consolidated Financial Statements and under the heading Liquidity and Capital Resources included in this Management's Discussion and Analysis of this Quarterly Report on Form 10-Q.

**Current Market Conditions and Economic Developments**

There has been significant instability in various financial markets and in economic conditions. Amongst other things, there has been a decline in the fair value of equity and (to a lesser degree) fixed-maturity debt securities and a contraction in the credit market as well as an overall downturn in economic activity.

***Market Disruption***

Current economic conditions make it difficult for companies to obtain funding in either the debt or equity markets. The current constraints in the capital markets may affect our ability to obtain funding through new

borrowings or the issuance of equity in the public market. In addition, we expect that, to the extent we are successful in arranging new debt financing, we will incur increased costs associated with these debt financings. In light of the current market conditions and our working capital needs, we have taken steps to preserve our liquidity position including, but not limited to, reducing discretionary capital expenditures (including acquisitions), maintaining our cash distribution rate at the same level as the prior quarter and continuing to actively manage operating and administrative costs. We have temporarily curtailed our acquisition strategy to conserve cash to avoid dilutive equity issuances as we attempt to manage our business under the current economic conditions.

We will continue to evaluate a variety of financing sources, including new debt financings and equity offerings, in order to fund acquisition opportunities and working capital needs and to refinance outstanding indebtedness. We believe that the size and scope of our operations, our stable revenue stream and our cash flow profile will be significant positive factors in our efforts to obtain new debt or equity funding; however, there is no assurance that we will be successful in obtaining financing if current capital market conditions continue for an extended period of time or if markets deteriorate further from current conditions. Furthermore, the terms, size and cost of any financing alternative could be less favorable and could be impacted by the timing and magnitude of our funding requirements, market conditions, and other uncertainties.

#### ***Effect on Revenues***

Our overall business model is strong and is expected to remain so. This business model is constructed so that revenues are generated from at-need sales of cemetery merchandise and services and funeral home merchandise as well as pre-need sales of cemetery merchandise and services and income generated from our merchandise and perpetual care trusts.

During November and December of 2008 we noticed some softening in pre-need sales in certain areas of the country. This softening, which was probably a result of economic conditions, resulted in reduced grave marker and mausoleum sales in these areas. We have seen some rebound during the three months ended March 31, 2009. This is reflected by the value of pre-need contracts written during the three months ended March 31, 2009 exceeding the value of pre-need contracts written during the same period last year by approximately \$2.1 million and at-need cemetery revenues for the three months ended March 31, 2009 exceeding at-need cemetery revenues for the same period last year by approximately \$0.4 million.

It is possible that the current economic downturn could have an adverse effect on future pre-need sales of cemetery merchandise and services and to a much lesser extent at-need cemetery and funeral home revenues. We have taken a number of measures to counter a possible decrease in pre-need sales and possible increase in customer defaults or cancellations, including increased customer follow-up and employee training related thereto and extended collection department hours. We will continue to monitor the situation closely. Any downturn in these sales would have a less proportional impact on earnings than on revenues as such sales have higher cost of goods sold and lower profit margins than either at-need sales of cemetery merchandise and services and funeral home merchandise and services.

A material decrease in our sales could cause us to breach certain of our financial covenants, such as the leverage ratio and the interest coverage ratio, under our credit facilities and senior secured notes. Any such breach could allow the lenders to accelerate (or create cross-default under) our debt which would have a material adverse effect on our business, financial condition or results of operations. We are currently in discussion with bank lenders regarding these ratios.

A material decrease in our sales could cause a decrease in our borrowing base under our credit facilities. Our borrowing base is recalculated each month and is based (in part) on our outstanding accounts receivables and the age thereof. See *Liquidity and Capital Resources* Long-Term Debt Acquisition Credit Facility and Revolving Credit Facility for a description of the calculation of our borrowing base. Accordingly, if our sales were to decrease and as a result our accounts receivables decrease (or if the age of our accounts receivables or cancellations increase), then our borrowing base may decrease.

We believe that the sale of both at-need cemetery merchandise and services and funeral home merchandise and services is relatively resistant to changes in economic conditions. We have not seen any material effect on these sales due to the current economic downturn. At-need cemetery merchandise and services sales and funeral home merchandise and services and sales accounted for 54.2% of our total revenues for the three months ended March 31, 2009 as compared to 52.1% during the same period last year.

### ***Decline in Market Value of Trust Assets***

A critical issue for us has been the decline in the fair value of equity and (to a lesser degree) fixed maturity debt securities held in our trusts as described below.

We have a substantial portfolio of invested assets in both our merchandise trust and the perpetual care trust. Both trusts have a mix of cash and cash equivalents, fixed maturity debt securities and equity securities. The fair value of trust assets declined substantially in the second half of 2008 and the first quarter of 2009 relative to prior years (see Notes 5 and 6 of the Unaudited Condensed Consolidated Financial Statements).

Funds in our trusts are managed by third-party investment managers who are in turn monitored by a third-party investment advisor selected by our Trust and Compliance Committee. The third-party investment advisor is providing the committee with consistent updates on the performance of the investments. We will continue to monitor performance closely. See Item 3. Quantitative and Qualitative Disclosure About Market Risk for more information.

The perpetual care trust and merchandise trust serve vastly different purposes and the risks and implications of changes in trust asset values are dissimilar.

### ***Perpetual Care Trust***

Pursuant to state law, a portion of the proceeds from the sale of cemetery property must be deposited into a perpetual care trust.

The perpetual care trust principal does not belong to us and must remain in the trust into perpetuity. We consolidate the trust into our financial statements in accordance with Financial Accounting Standards Board Interpretation No. 46 revised ( FIN 46R ), *Consolidation of Variable Interest Entities: an Interpretation of Accounting Research Bulletin ( ARB ) No. 51* because the trust is considered a variable interest entity for which we are the primary beneficiary.

The fair value of trust assets is recorded as an asset on our balance sheet and is entirely offset by a liability. This liability is recorded as a Perpetual care trust corpus . Changes in fair value of trust assets are recognized by adjusting both the trust asset and the offsetting liability. Impairment of the value of trust assets, whether temporary or other-than-temporary, will not impact periodic earnings or comprehensive income nor will it impact our financial position or liquidity at any point in time.

Our primary risk related to the assets in the perpetual care trust relate to the interest and dividends paid and released to us and used to defray cemetery maintenance costs. Any reduction in this income stream could have a material effect on our financial condition, results of operations and liquidity. We have not seen any material degradation of this revenue stream due to the recent economic downturn. Interest income earned on perpetual care trust assets was approximately \$3.4 million during the three months ended March 31, 2009 as compared to \$3.2 million during the same period last year.

### ***Merchandise Trust***

Pursuant to state law, a portion of the proceeds from the sale of pre-need cemetery and funeral home merchandise and services must be deposited into a merchandise trust.

Unlike the perpetual care trust, the principal in the merchandise trust will ultimately revert to us. This will occur once we have met the various requirements for its release which is generally the delivery of merchandise or performance of underlying services. Accordingly, changes in the fair value of trust assets, both temporary and other-than-temporary, may ultimately impact our periodic earnings, comprehensive income and financial position or liquidity at any point in time.

Managing the cash flow associated with the release of trust assets and investment income is a critical component of our overall corporate strategy. Our investment strategy reflects the fact that the release of trust assets and the resultant cash flow is critical to our ability to meet our profitability goals and liquidity needs. Accordingly, we set such strategy to balance the potential for return with the need to maintain asset value.

The recent decline in the market value of the assets in the merchandise trust could ultimately impair our profitability and resulting financial position and liquidity should we be forced to liquidate such assets at an amount significantly below our original expectation, which is ultimately asset cost.

We mitigate this risk by ensuring that a sufficient portion of trust assets is invested in cash and cash equivalents that do not have significant risk to principal. We can then manage trust assets so that released amounts are liquidated from this pool as opposed to any pool of impaired assets.

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At March 31, 2009, the merchandise trust had approximately \$14.6 million in cash and cash equivalents. This amount functions as a cushion that mitigates the risk of liquidating impaired assets. In evaluating the sufficiency of

this amount as to its effectiveness in mitigating the risk of liquidating impaired assets, we have considered the net inflows and outflows of cash into the trust in recent prior periods. These net inflows and outflows are a function of both sales originations and the corresponding trust deposits and meeting the criteria for releasing funds. Total net cash outflows from the merchandise trust for the three months ended March 31, 2009 were approximately \$1.5 million.

Absent a substantial downturn in pre-need sales, we believe that the cash and cash equivalent allocation of Merchandise Trust assets is sufficient to mitigate the risk of liquidating impaired assets in the near future.

### **2009 Expense Reduction Initiative**

So that we may help protect our cash balances and related distributions, we have recently instituted our 2009 Expense Reduction Initiative. This initiative is a proactive measure designed to reduce our overall expense base in 2009 by approximately \$5.0 million.

We have carefully designed this plan so that there is no negative impact on our ability to market and sell our merchandise and services or service the needs of our customer base.

Among the more material components of the 2009 Expense Reduction Initiative are the following:

reductions in personnel costs by implementing an employee furlough program;

reductions in various sales incentive programs;

reductions in various commission overrides;

reductions in advertising expenses; and

reductions in certain corporate overhead items.

### **Net Income, Operating Cash Flows and Partner Distributions**

The table below details net income, operating cash flows and partner distributions made during the three months ended March 31, 2008 and 2009 respectively:

|                                 | <b>Three months ended<br/>March 31,</b> |             |
|---------------------------------|---|-------------|
|                                 | <b>2008</b>                             | <b>2009</b> |
|                                 | <b>(in thousands)</b>                   |             |
| Net income (loss)               | \$ 458                                  | \$ (865)    |
| Operating cash flows (deficits) | (869)                                   | 3,210       |
| Partner distributions           | 6,206                                   | 6,813       |

Cash flows from operations during the three months ended March 31, 2009 (\$3.4 million) significantly outpaced our net loss (\$0.9 million) during the same period. This is in large part attributable to the fact that various cash inflows for payments of amounts due under pre-need sales contracts were not as of yet recognized as revenues as we had not met the delivery criteria for revenue recognition. Although there is no assurance, we expect that the trend of operating cash flows outpacing net income will continue into the foreseeable future.

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

In conjunction with our September 2006 acquisition of 21 cemeteries and 14 funeral homes from Service Corporation International and as part of ongoing strategic planning and ongoing marketing studies of our potential customers, in the third quarter of 2007 we reorganized and



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disaggregated our single reportable segment 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 reorganization 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.

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.

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

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

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

Our discussion and analysis of our financial condition and results of operations are based upon our historical consolidated financial statements. We prepared these financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements required us to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We based our estimates, judgments and assumptions on historical experience and known facts and other assumptions that we believed to be reasonable under the circumstances. In future periods, we expect to make similar estimates, judgments and assumptions on the same basis as we have historically. Our actual results in future periods may differ from these estimates under different assumptions and conditions. We believe that the following accounting policies or estimates had or will have the greatest potential impact on our condensed consolidated financial statements for the periods discussed and for future periods.

#### ***Revenue Recognition***

We sell our merchandise and services on both an at-need and pre-need basis. All at-need sales are recognized as revenues and recorded in earnings at the time that merchandise is delivered and services are performed.

Revenues from pre-need sales of cemetery interment rights in constructed burial property are deferred until at least 10% of the sales price has been collected, at which time they are fully earned.

Revenues from pre-need sales of cemetery interment rights in unconstructed burial property, such as mausoleum crypts and lawn crypts are recognized using the percentage-of-completion method of accounting, with no revenue being recognized until at least 10% of the sales price has been received. The percentage-of-completion method of accounting requires us to make certain estimates as of our reporting dates. These estimates are made based upon information available at the reporting date and are updated on a specific identification method at the end of each reporting period. Periodic earnings are calculated based upon the total sales price, estimated costs to complete and the percentage completed during a given reporting period.

Revenues from pre-need sales of cemetery merchandise and services are deferred until the merchandise is delivered or the services are performed, at which time they are fully earned.

Investment earnings, including realized gains and losses, generated by assets in our merchandise trusts are deferred until the associated merchandise is delivered or the services are performed.

In order to appropriately match revenue and expenses, we defer certain pre-need cemetery and prearranged funeral direct obtaining costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business until such time that the associated revenue is recognized.

#### ***Accounts Receivable Allowance for Cancellations***

At the time of a pre-need sale, we record an account receivable in an amount equal to the total contract value less any cash deposit paid net of an estimated allowance for cancellations.

The allowance for cancellations is established based upon our estimate of expected cancellations and historical experiences and is currently approximately 10% of total contract values. Future cancellation rates may differ from this current estimate. We will continue to evaluate cancellation rates and will make changes to the estimate should the need arise. Actual cancellations did not vary significantly from the estimates

of expected cancellations at December 31, 2008 and March 31, 2009, respectively.

***Merchandise Trust Assets***

Assets held in our merchandise trusts are carried at fair value. Any change in unrealized gains and losses are reflected in the carrying value of the assets and is recognized as deferred revenue. Any and all investment income streams, including interest, dividends or gains and losses from the sale of trust assets are offset against deferred revenue until such time that we deliver the underlying merchandise. Investment income generated from our merchandise trust is included in Cemetery revenues investment and other.

We evaluate whether or not the assets in the merchandise trust have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its market value.

Any reduction in the cost basis of assets held in our merchandise trust due to an other-than-temporary impairment is offset against deferred revenue.

***Perpetual Care Trust Assets***

Pursuant to state law, a portion of the proceeds from the sale of cemetery property is required to be paid into perpetual care trusts. All principal must remain in this trust into perpetuity while interest and dividends may be released and used to defray cemetery maintenance costs, which are expensed as incurred.

Assets in our perpetual care trust are carried at fair value. Any change in unrealized gains and losses are reflected in the carrying value of the assets and is offset against perpetual care trust corpus.

We evaluate whether or not the assets in our perpetual care trust have an other-than-temporary impairment on a security-by-security basis. This assessment is made based upon a number of criteria including the length of time a security has been in a loss position, changes in market conditions and concerns related to the specific issuer. If a loss is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its market value.

Any reduction in the cost basis of assets held in our perpetual care trust due to an other-than-temporary impairment is offset against perpetual care trust corpus. There is no impact on earnings.

***Impairment of Long-Lived Assets***

We monitor the recoverability of long-lived assets, including cemetery property, property and equipment and other assets, based on estimates using factors such as current market value, future asset utilization, business and regulatory climate and future undiscounted cash flows expected to result from the use of the related assets. Our policy is to evaluate an asset for impairment when events or circumstances indicate that a long-lived asset's carrying value may not be recovered. An impairment charge is recorded to write-down the asset to its fair value if the sum of future undiscounted cash flows is less than the carrying value of the asset.

***Property and Equipment***

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

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

These estimates could be impacted in the future by changes in market conditions or other factors.

***Income Taxes***

Our corporate subsidiaries are subject to both federal and state income taxes. We record deferred tax assets and liabilities to recognize temporary differences between the bases of assets and liabilities in our tax and GAAP balance sheets and for federal and state net operating loss carryforwards and alternative minimum tax credits.

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We record a valuation allowance against our deferred tax assets if we deem that it is more likely than not that some portion or all of the recorded deferred tax assets will not be realizable in future periods.

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

As of December 31, 2008, our taxable corporate subsidiaries had a federal net operating loss carryover of approximately \$66.2 million, which will begin to expire in 2019 and a state net operating loss carry-forward of approximately \$104.3 million, a portion of which expires annually through 2028. Our ability to use such federal net operating losses may be limited by changes in the ownership of our units deemed to result in an ownership change under the applicable provisions of the Internal Revenue Code of 1986, as amended.

For additional information about, among other things, our pre-need sales, at-need sales, trusting requirements, cash flow, expenses and operations, please see Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and our other reports and statements filed with the SEC.

### Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R requires that acquirers in a business combination identify and record at fair value all of the assets and liabilities acquired as well as any non-controlling interest resulting from such business combination. Goodwill will be recognized when the fair value of consideration paid or transferred to the acquiree plus the fair value of any non-controlling interest exceeds the fair value of identified assets acquired less the fair value of liabilities assumed. A gain from a bargain purchase will be recognized when the fair value of consideration paid or transferred to the acquiree plus the fair value of any non-controlling interest is less than the fair value of identified assets acquired less the fair value of liabilities assumed. Gains from bargain purchases will be recognized in earnings in the period in which the acquisition occurs. SFAS 141R also requires that costs incurred in a business transaction be recorded as an expense as opposed to part of the cost of the acquisition.

There are three options with regards to accumulated costs incurred and currently capitalized for acquisitions that had not as of yet been finalized prior to the adoption of SFAS 141R:

Immediately expense such costs.

Continue to carry such costs as an asset and immediately expense such costs upon the adoption of SFAS 141R.

Account for the change as a change in accounting principle and restate prior year financial statements to reflect these costs as expenses in the period in which they occurred.

We adopted SFAS 141R as of January 1, 2009. At December 31, 2008, there was approximately \$1.4 million in accumulated acquisition costs that had been capitalized and were included in Other current assets on our balance sheet. These costs have been expensed in the first quarter of 2009 and are included in our income statement as part of Acquisition related costs.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *Establishing the Fair Value Option for Financial Assets and Liabilities* (SFAS 159), to permit all entities to choose to elect to measure eligible financial instruments at fair value. SFAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS 157). We adopted this guidance effective January 1, 2008 and did not elect the fair value option for any of our eligible assets or liabilities as of this date.

In February 2008, the FASB Emerging Issues Task Force issued EITF Issue No. 07-04, *Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships* (EITF 07-04). EITF 07-04 specifies when a master limited partnership that contains incentive distribution rights (IDRs) should classify said IDRs as a separate class of units for which a separate earnings per unit calculation should be made. We Company adopted EITF 07-04 in the first quarter of 2009. The adoption of EITF 07-04 has no impact on the calculation of earnings per share as allocated to common unit holders.



In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statement* amendments of ARB No. 51 ( SFAS 160 ). SFAS 160 states that accounting and reporting for minority interests will be recharacterized as non-controlling interests and classified as a component of equity. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. We adopted this guidance effective January 1, 2009. This adoption caused us to reclassify amounts previously shown as Non-controlling interests in perpetual care trusts to Perpetual care trust corpus and to include this amount in total liabilities rather than as a Commitment and contingency. The adoption of this standard had no effect on our financial position, results of operations or liquidity.

In December 2008, the FASB issued FASB Staff Position No. FAS 140-4 and FIN 46 (R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* ( FSP FAS 140-4 ). FSP FAS 140-4 requires public entities to provide additional disclosures about transfers of financial assets. It also requires public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. We adopted this guidance effective January 1, 2009. This adoption had no effect on our financial position, results of operations or liquidity.

In December 2008, the FASB issued FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active* ( FSP FAS 157-3 ). The purpose of FSP FAS 157-3 was to clarify the application of SFAS 157 for a market that is not active. FSP FAS 157-3 did not change the objective of SFAS 157, which is the determination of the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. Our adoption of FSP FAS 157-3 for the year ended December 31, 2008 had no effect on our financial position, results of operations or liquidity.



**Results of Operations**

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

|                                      | <b>Three months ended March 31,</b> |                 |
|--------------------------------------|-------------------------------------|-----------------|
|                                      | <b>2008</b>                         | <b>2009</b>     |
|                                      | <b>(in thousands)</b>               |                 |
| <b>Statement of Operations Data:</b> |                                     |                 |
| Revenues:                            |                                     |                 |
| Cemetery                             |                                     |                 |
| Pre-need merchandise                 | \$ 12,026                           | \$ 9,572        |
| Pre-need services                    | 2,244                               | 2,703           |
| Pre-need investment and other        | 6,185                               | 6,750           |
| At-need merchandise                  | 8,927                               | 9,704           |
| At-need services                     | 6,990                               | 6,535           |
| At-need investment and other         | 524                                 | 585             |
| Other                                | 356                                 | 481             |
| Funeral home                         |                                     |                 |
| Merchandise                          | 2,389                               | 2,609           |
| Services                             | 3,772                               | 3,659           |
| <b>Total</b>                         | <b>43,413</b>                       | <b>42,598</b>   |
| Costs and Expenses:                  |                                     |                 |
| Cost of goods sold:                  |                                     |                 |
| Perpetual care                       | 1,101                               | 1,005           |
| Merchandise                          | 4,624                               | 3,795           |
| Cemetery expense                     | 9,487                               | 9,439           |
| Selling expense                      | 8,205                               | 7,826           |
| General and administrative expense   | 5,229                               | 5,479           |
| Corporate overhead                   | 5,450                               | 5,366           |
| Depreciation and amortization        | 965                                 | 1,310           |
| Funeral home expense                 |                                     |                 |
| Merchandise                          | 981                                 | 967             |
| Services                             | 2,221                               | 2,406           |
| Other                                | 1,417                               | 1,428           |
| Acquisition related costs            |                                     | 1,586           |
| Gain on sale of funeral home         |                                     | 475             |
| Interest expense                     | 3,104                               | 3,169           |
| Income taxes                         | 171                                 | 162             |
| <b>Net income (loss)</b>             | <b>\$ 458</b>                       | <b>\$ (865)</b> |

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

|   | <b>Three months ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2008</b>                         | <b>2009</b> |
| <b>Operating Data:</b>                        |                                     |             |
| Interments performed                          | 10,540                              | 9,712       |
| Cemetery revenues per interment performed     | \$ 3,534                            | \$ 3,741    |
| Interment rights sold (1):                    |                                     |             |
| Lots  | 5,736                               | 5,325       |
| Mausoleum crypts (including pre-construction) | 556                                 | 564         |
| Niches  | 259                                 | 253         |

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|   |    |        |           |
|---|----|--------|-----------|
| Total interment rights sold   |    | 6,551  | 6,142     |
| Number of contracts written   |    | 19,698 | 20,829    |
| Aggregate contract amount, in thousands (excluding interest)          | \$ | 44,741 | \$ 48,444 |
| Average amount per contract (excluding interest)                      | \$ | 2,271  | \$ 2,326  |
| Number of pre-need contracts written                                  |    | 8,358  | 9,620     |
| Aggregate pre-need contract amount, in thousands (excluding interest) | \$ | 26,823 | \$ 29,423 |
| Average amount per pre-need contract (excluding interest)             | \$ | 3,209  | \$ 3,059  |
| Number of at-need contracts written                                   |    | 11,340 | 11,209    |
| Aggregate at-need contract amount, in thousands                       | \$ | 17,918 | \$ 19,021 |
| Average amount per at-need contract                                   | \$ | 1,580  | \$ 1,697  |

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

**Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008****Cemetery Revenues**

Cemetery revenues were \$36.3 million in the first quarter of 2009, a decrease of \$1.0 million, or 2.7%, as compared to \$37.3 million in the first quarter of 2008

**Pre-need Revenues**

Cemetery revenues from pre-need sales, including interest income from pre-need installment contracts and investment income from trusts, were \$19.0 million in the first quarter of 2009, a decrease of \$1.5 million, or 7.3%, as compared to \$20.5 million in the first quarter of 2008.

Cemetery revenues from pre-need sales are recognized when the underlying merchandise is delivered or service is performed. Periodic changes in pre-need revenues is not necessarily indicative of changes in either the volume or pricing on pre-need contracts originated during the period but rather changes in the timing of when merchandise is delivered or services are performed.

The following table reconciles the value of actual sales made plus interest income from pre-need installment contracts and investment income from trusts to cemetery revenues for the three months ended September 30, 2007 and 2008:

|  | Three months ended March 31, |               |
|--|------------------------------|---------------|
|  | 2008                         | 2009          |
|  | (in thousands)               |               |
| Total value of contracts written                                     | \$ 21,056                    | \$ 23,105     |
| Interest income on pre-need sales                                    | 1,309                        | 1,505         |
| Investment income from merchandise trusts                            | 2,295                        | 1,877         |
| Investment income from perpetual care trusts                         | 3,163                        | 3,372         |
| <b>Subtotal</b>  | <b>27,823</b>                | <b>29,859</b> |
| Increase in deferred revenues on sales                               | (6,097)                      | (9,996)       |
| Increase in deferred revenues on merchandise trust investment income | (1,271)                      | (838)         |
| <br>Pre-need revenues  | <br>\$ 20,455                | <br>\$ 19,025 |

The total value of contracts written increased by \$2.0 million, or 9.5%, to \$23.1 million in the first quarter of 2009 as compared to \$21.1 million during the same period last year. Major increases included grave openings and closings (\$1.0 million), vaults (\$0.8 million) and markers (\$0.6 million). The increases were primarily related to an increase in the value of contracts written at cemeteries acquired in 2007 and 2008.

Interest income on pre-need sales increased \$0.2 million, or 15.3%, to \$1.5 million in the first quarter of 2009 as compared to \$1.3 million during the same period last year. The increase was primarily due to the increased volume of sales and accounts receivable outstanding.

Investment income from the merchandise trust decreased by \$0.4 million, or 17.4%, to \$1.9 million in the first quarter of 2009 as compared to \$2.3 million during the same period last year. The decrease was primarily due to a decrease in the average cost basis of trust assets during the three months ended March 31, 2009 as opposed to the same period last year.

Investment income from the perpetual care trust increased by \$0.2 million, or 6.3%, to \$3.4 million in the first quarter of 2009 as compared to \$3.2 million during the same period last year. The increase was primarily due to a slight increase on the yield in average invested assets during the three months ended March 31, 2009 as compared to the same period last year.

### **At-need Revenues**

Cemetery revenues from at-need sales increased \$0.4 million, or 2.4%, to \$16.8 million in the first quarter of 2009 as compared to \$16.4 million during the same period last year. Major increases included markers and bases (\$0.7 million) and mausoleums (\$0.2 million) offset by a reduction in grave openings and closings (\$0.4 million). The increases were primarily related to an increase in sales at cemeteries acquired in 2007 and 2008.

### **Other Revenues**

Other cemetery revenues increased by \$0.1 million, or 25.0%, to \$0.5 million during the first quarter of 2009 as compared to \$0.4 million during the same period last year.

### **Operating Expenses**

#### **Costs of Goods Sold**

Cost of goods sold was \$4.8 million in the first quarter of 2009, a decrease of \$0.9 million, or 15.8%, as compared to \$5.7 million during the same period last year. As a percentage of cemetery revenues, cost of goods sold was 13.2% in the first quarter of 2009 a decrease of 2.1 points from 15.3% in the same period last year. The decrease in cost of goods sold as a percentage of cemetery revenue was attributable to a change in product mix delivered during the first quarter of 2009 as compared to the same period last year.

#### **Selling Expense**

Total selling expense was \$7.8 million in the first quarter of 2009, a decrease of \$0.4 million, or 4.9%, as compared to \$8.2 million in the same period last year. The decrease was primarily due to a decrease in other personnel costs (\$0.3 million) and advertising (\$0.1 million). Sales commissions as a percentage of pre-need revenues was 14.1% for the three months ended March 31, 2009 as compared to 15.6% during the same period last year. This decrease was primarily caused by a decrease in commission rates paid in accordance with our 2009 Expense Reduction Initiative.

#### **Cemetery Expense**

Cemetery expense was \$9.4 million in the first quarter of 2009, a decrease of \$0.1 million, or 1.1%, as compared to \$9.5 million in the same period last year. The slight decrease was primarily due to a corresponding slight decrease in fuel costs (\$0.1 million). Most other costs were essentially flat.

#### **General and Administrative Expense**

General and administrative expense was \$5.5 million in the first quarter of 2009, an increase of \$0.3 million, or 5.8%, as compared to \$5.2 million in the same period last year. The increase was primarily attributable to an increase in corporate insurance (\$0.2 million) and professional fees (\$0.1 million).

#### **Funeral Home Revenues and Expenses**

Funeral home revenues were \$6.3 million in the first quarter of 2009, an increase of \$0.1 million, or 1.6%, as compared to \$6.2 million in the same period last year. This was primarily due to the implementation of new product offerings, along with a small price increase, offset by a decrease in the overall death rate.

Funeral home expenses were \$4.8 million in the first quarter of 2009, an increase of \$0.2 million, or 4.3%, as compared to \$4.6 million in the same period last year which was related to the December 2007 acquisition of 30 funeral homes.

Overall operating profits from funeral homes were \$1.5 million in the first quarter of 2009, a slight decrease of \$0.1 million, or 6.7%, as compared to \$1.6 million during the same period last year.

#### **Corporate Overhead**

Corporate overhead was \$5.4 million in the first quarter of 2009, a decrease of \$0.1 million, or 1.8%, as compared to \$5.5 million during the same period last year. The decrease was primarily related to a decrease in unit-based compensation costs (\$0.2 million).



### **Depreciation and Amortization**

Depreciation and amortization was \$1.3 million in the first quarter of 2009, an increase of \$0.3 million, or 30.0%, as compared to \$1.0 million during the same period last year. The increase was primarily due to increased depreciation on cemeteries acquired in 2008.

### **Acquisition related costs**

Effective January 1, 2009, we adopted Statement of Financial Accounting Standards 141 (R), *Business Combinations* ( SFAS 141 R ). Amongst other things, SFAS 141 R changed the rules related to acquisition costs (i.e. legal fees) so that these costs are expensed as incurred rather than capitalized as part of the cost of the acquisition.

At December 31, 2008, we had \$1.4 million in accumulated costs that related to acquisitions that had not as of yet been completed. These costs were included in Other current assets on our balance sheet. SFAS 141 R required us to expense these costs upon our adoption of the standard. SFAS 141 R further provided us with the option of either restating prior year financial statements by allocating these amounts to the year in which they were incurred or recording all of these expenses in the first quarter of 2009.

We chose the option of recording all of the expenses in the first quarter of 2009. Accordingly, Acquisition related costs of \$1.6 million included in our operating profit during the first quarter of 2009 includes \$1.4 million of costs incurred and paid in prior years and \$0.2 million of costs incurred in the first quarter of 2009.

### **Operating profit**

Operating profit was \$2.0 million in the first quarter of 2009, a decrease of \$1.7 million, or 45.9%, as compared to \$3.7 million during the same period last year. The decrease was primarily caused by the \$1.6 million in acquisition related costs recorded during the first quarter of 2009 along with a \$0.8 million decrease in revenues offset by a \$0.7 million decrease in other operating expenses.

The decrease in revenues was primarily driven by an increase in the change in deferred revenues on pre-need sales. We deferred \$10.0 million of pre-need sales during the first quarter of 2009 compared to \$6.1 million during the first quarter of 2008.

The decrease in operating expenses was primarily caused by a \$1.0 million decrease in cost of goods sold, a \$0.4 million decrease in selling expenses offset by a \$0.3 increase in both depreciation and amortization and general and administrative expenses and a \$0.2 million increase in funeral home expenses, all of which are discussed above.

### **Other income and expenses**

We sold a single funeral home during the three months ended March 31, 2009. The gain on sale was approximately \$0.5 million.

### **Interest Expense**

Interest expense was \$3.2 million in the first quarter of 2009, an increase of \$0.1 million, or 3.2%, as compared to \$3.1 million in the same period last year. The increase was primarily due to an increase in the average amount of outstanding debt outstanding during the period.

### **Provision (Benefit) for Income Taxes**

The provision for income taxes was approximately \$0.2 million in both the first quarter of 2009 and 2008, respectively.

### **Net Income(loss)**

We had a net loss of \$0.9 million during the first quarter of 2009 compared to net income of \$0.5 million during the same period last year. The decrease was primarily caused by the \$1.4 million non-cash charge for previously capitalized acquisition related costs, \$0.2 million in acquisition expenses incurred during the first quarter of the year and a \$0.1 decrease in operating profits offset by a \$0.5 million gain on the sale of a funeral home, all of which are discussed above.

### **Segment Discussion**

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Revenues, operating earnings and earnings before taxes all increased for Cemetery Operations Southeast and Cemetery Operations-Northeast in the first quarter of 2009 as compared to the same period last year primarily due to corresponding increases from cemeteries acquired in 2007 and 2008. Revenues from Funeral Homes increased in the three months ended March 31, 2009 as compared to the same period last year while operating earnings were relatively flat and earnings before taxes slightly decreased. The decrease in earnings before taxes was attributable to increased depreciation and amortization on Funeral Homes acquired in 2007 and 2008. Revenues, operating earnings and earnings before taxes for Cemetery Operations-West decreased in the first quarter of 2009 compared to the same period last year due to a slight decrease in sales and related expenses.

## **Liquidity and Capital Resources**

### ***Overview***

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

Our primary sources of liquidity are cash flow from operations and amounts available under our credit facilities as described below. In the past, we have been able to increase our liquidity through long-term bank borrowings and the issuance of additional common units and other partnership securities, including debt, subject to the restrictions in our credit facility and under our senior secured notes. Current economic conditions make it difficult for companies to obtain funding in either the debt or equity markets. The current constraints in the capital markets may affect our ability to obtain funding through new borrowings or the issuance of equity in the public market or may significantly increase the cost to obtain such funding.

We believe that cash generated from operations and our borrowing capacity under our Credit Agreement, 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***

On April 30, 2009, we entered into the Second Amendment to Amended and Restated Credit Agreement by and among us and certain of our subsidiaries, the lenders, and Bank of America, N.A., as Administrative Agent (the *Second Amendment* ). In connection with the Second Amendment, on April 30, 2009, we also entered into the Second Amendment to Amended and Restated Note Purchase Agreement by and among us and certain of our subsidiaries and the noteholders (the *Second Amendment to NPA* ).

The following is a summary of the material provisions of the foregoing agreements. This summary is qualified in its entirety by reference to the Second Amendment and the Second Amendment to NPA, which are incorporated by reference in their entirety herein and copies of which are incorporated by reference into this Quarterly Report on Form 10-Q as Exhibits 10.1 and 10.2, respectively. Capitalized terms which are not defined in this Quarterly Report on Form 10-Q shall have the meanings assigned to such terms in the Second Amendment and Second Amendment to NPA or the Credit Agreement and the Note Purchase Agreement, as applicable.

Reference is also made to the description of the Amended and Restated Credit Agreement, as amended, and the Amended and Restated Note Purchase Agreement, as amended, in Part II, Item 7 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which description is incorporated by reference herein.

### **Credit Agreement**

The Second Amendment amended certain terms of the Amended and Restated Credit Agreement, dated August 15, 2007 (the *A&R Credit Agreement* ), as amended by the First Amendment to Amended and Restated Credit Agreement dated November 2, 2007 (together with the *A&R Credit Agreement*, the *Credit Agreement* ). The Credit Agreement provided for a \$65 million senior secured credit facility consisting of a \$25 million Revolving Credit Facility and a \$40 million Acquisition Facility.

The Second Amendment amended the Credit Agreement to, among other matters, increase (i) the Revolving Credit Facility to a maximum aggregate principal amount of \$35 million with the ability to request further increases in a maximum aggregate principal amount of \$10 million, and (ii) the Acquisition Facility to a maximum aggregate principal amount of \$102.85 million, with the ability to request further increases in a maximum aggregate principal amount of \$57 million, subject to a minimum increase amount of \$5 million.

Loans outstanding under the Credit Agreement bore interest at a per annum rate based upon a base rate (the *Base Rate* ) or a Eurodollar rate (the *Eurodollar Rate* ) plus a margin ranging from 0% to .75% over the Base Rate and 2.25% to 3.25% over the Eurodollar rate, as selected by the Borrowers. The Base Rate was the higher of (a) the Federal Funds Rate plus 0.5% or (b) the *prime rate* as set by Bank of America. The Eurodollar Rate equaled the British Bankers Association LIBOR Rate. Margin was determined by the ratio of consolidated funded debt to consolidated EBITDA of the Company.





The Second Amendment amended the definitions of the Base Rate, Eurodollar Rate and Applicable Rate. The definition of the Base Rate was amended to mean the rate per annum equal to the highest of: (i) the Prime Rate, (ii) the sum of 0.5% plus the Federal Funds Rate and (iii) except during a period when the Eurodollar cannot be determined, the Eurodollar Rate plus 1.00%. Under the Second Amendment, with respect to a Eurodollar Rate Loan, the Eurodollar Rate means the rate per annum equal to the greater of: (i) the British Bankers Association LIBOR Rate ( BBA Libor ) or, if such rate is not available, the rate determined by Bank of America, N.A., as the administrative agent, subject to certain conditions, and (ii) 2.00%. With respect to a Base Rate Loan, the Eurodollar Rate means the BBA Libor or, if such rate is not available, the rate determined by Bank of America, N.A., subject to certain conditions.

The Applicable Rate on Eurodollar Rate Loans and Letter of Credit Fees was increased to a percentage per annum ranging from 3.25% to 4.25% and the Applicable Rate on Base Rate Loans was increased to a range from 2.25% to 3.25%, based on our Consolidated Leverage Ratio. The Commitment Fee Rate was increased to a range of 0.500% to 0.750%, based on our Consolidated Leverage Ratio.

The Second Amendment amended financial covenants under the Credit Agreement as follows: (i) for any most recently completed four fiscal quarters, Consolidated EBITDA shall not be less than the sum of \$39 million plus 80% of the aggregate of all Consolidated EBITDA for each Permitted Acquisition completed after April 30, 2009; (ii) for any most recently completed four fiscal quarters ending during the following years, Consolidated Fixed Charge Coverage Ratio shall not be less than 1.15x in 2009 through 2011 and 1.20x in 2012 and thereafter; (iii) for any most recently completed four fiscal quarters through and including March 31, 2010, Consolidated Leverage Ratio shall not be greater than 3.75 to 1.0, and for any period of most recently completed four fiscal quarters ending thereafter, 3.50 to 1.0; and (iv) for any most recently completed four fiscal quarters ending during the following years, the Maintenance Capital Expenditures shall not exceed \$4.2 million in 2009 through 2010, \$4.6 million in 2011 and \$5.2 million in 2012 and thereafter. The Second Amendment also included various representations and other provisions customary for the transaction of this nature as well as certain conforming changes to the Credit Agreement.

In connection with the Second Amendment, we borrowed \$63 million under the new Acquisition Facility commitments, which, together with the \$17 million of the existing availability under the Acquisition Facility, were used to repay \$80 million under the 7.66% Senior Secured Series A Notes due September 20, 2009 ( Series A Notes ). In addition, we borrowed \$5.4 million under the Revolving Credit Facility, which was used to pay the accrued interest on the Series A Notes, fees to Bank of America, N.A., amendment fees to noteholders under the Second Amendment to NPA as well as various other fees and costs incurred in connection with these transactions.

#### **Note Purchase Agreement**

The Second Amendment to NPA amended certain terms of the Amended and Restated Note Purchase Agreement, dated August 15, 2007 (the A&R NPA ), as amended by the First Amendment to Amended and Restated Note Purchase Agreement, dated November 2, 2007 (together with the A&R NPA, the Note Purchase Agreement ). The Note Purchase Agreement provided for the issuance of the Series A Notes in the aggregate principal amount of \$80 million, 9.34% Series B Senior Secured Notes due August 15, 2012 in the aggregate principal amount of \$35 million (the Existing Series B Notes ), the 9.09% Senior Secured Series C Notes due December 21, 2012 in the aggregate principal amount of \$17.5 million (the Existing Series C Notes ) and authorized the issuance of up to \$150 million aggregate principal amount of Shelf Notes.

The Second Amendment to NPA amended the Note Purchase Agreement to, among other matters, amend and restate the Existing Series B Notes and the Existing Series C Notes. The Existing Series B Notes were amended to increase the interest rate to 11.00% (the Series B Notes ). The Existing Series C Notes were amended not only to increase the interest rate to 11.00%, but also to change the maturity date from December 21, 2012 to August 15, 2012 (the Series C Notes ). Under the Second Amendment to NPA, the interest rate on the Series B Notes and Series C Notes will be increased by 1.5% per annum during any period in which any holder of Shelf Notes is required to maintain, in respect to the Shelf Notes, reserves in excess of 3.4% of the principal amount of the Shelf Notes held by such holder, as a result of a decision of an insurance regulatory authority having responsibility for valuation of insurance company assets.

Under the Second Amendment to NPA, we are permitted to incur indebtedness pursuant to the Credit Agreement Documents not greater than \$137.85 million, consisting of an Acquisition Facility not to exceed \$102.85 million and a Revolving Facility not to exceed \$35.0 million, provided that the Aggregate Credit Facility Cap will

be deemed increased up to \$180 million and the Acquisition Facility Cap increased up to \$145 million if we obtain commitments from additional lenders for up to \$42.15 million within 120 days of April 30, 2009. The Aggregate Credit Facility Cap may be increased up to \$205 million, with the Acquisition Facility Cap to be increased up to \$160 million and the Revolving Credit Facility Cap to be increased up to \$45 million with the approval of the holders of at least a majority principal amount of the Shelf Notes, which shall not be unreasonably withheld.

The Second Amendment to NPA included changes to the financial covenants that were similar to changes to the financial covenants under the Second Amendment as described above.

The Second Amendment to NPA also included various representations and other provisions customary for the transaction of this nature as well as certain conforming changes to the definitions, schedules and exhibits of the Note Purchase Agreement.

***Cash Flow from Operating Activities.***

Cash flows provided by operating activities were \$3.2 million for the three months ended March 31, 2009, an increase of \$4.1 million, as compared to a cash deficit of \$0.9 million during the same period last year.

Cash flows from operations during the three months ended March 31, 2009 (\$3.2 million) significantly outpaced our net loss (\$0.9 million) during the same period. This is in large part attributable to the fact that various cash inflows for payments of amounts due under pre-need sales contracts were not as of yet recognized as revenues as we had not as of yet met the delivery criteria for revenue recognition. Although there is no assurance, we expect that the trend of operating cash flows outpacing net income will continue into the foreseeable future.

***Cash Flow from Investing Activities***

Net cash used in investing activities was \$0.9 million during the three months ended March 31, 2009, a decrease of \$3.0 million, or 76.9%, as compared to \$3.9 million during the same period last year. Cash flows used for investing activities during the three months ended March 31, 2009 were primarily utilized for additions to cemetery property and equipment.

***Cash Flow from Financing Activities***

Cash flows from financing activities were \$1.1 million during the three months ended March 31, 2009 as compared to cash used in financing activities of \$0.7 million during the same period last year. Cash flows from financing for the three months ended March 31, 2008 was primarily generated by additional net borrowings of \$8.3 million offset by the payment of partner distributions of \$6.8 million.

***Intercreditor and Collateral Agency Agreement***

In connection with the closing of the credit facility and the private placement of the notes we entered into, along with our general partner, certain of our subsidiaries, the lenders under the new credit facility, the holders of the notes and Bank of America, N.A., as collateral agent, an intercreditor and collateral agency agreement setting forth the rights and obligations of the parties to the agreement as they relate to the collateral securing the new credit facility and the senior secured notes.

***Capital Expenditures***

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

|                                   | <b>Three months ended March 31,</b> |                 |
|-----------------------------------|-------------------------------------|-----------------|
|                                   | <b>2008</b>                         | <b>2009</b>     |
|                                   | <b>(In thousand s)</b>              |                 |
| Maintenance capital expenditures  | \$ 1,635                            | \$ 376          |
| Expansion capital expenditures    | 2,263                               | 1,031           |
| <b>Total capital expenditures</b> | <b>\$ 3,898</b>                     | <b>\$ 1,407</b> |



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

#### **Seasonality**

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

**Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 10.1                  | Second Amendment to Amended and Restated Credit Agreement, dated April 30, 2009, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, certain Subsidiaries of StoneMor Operating LLC, the Lenders and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on May 6, 2009). |
| 10.2                  | Second Amendment to Amended and Restated Note Purchase Agreement, dated April 30, 2009, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, certain Subsidiaries of StoneMor Partners L.P. and the Noteholders (incorporated by reference to Exhibit 10.2 of Registrant's Current Report on Form 8-K filed on May 6, 2009).             |
| 31.1                  | Certification pursuant to Exchange Act Rule 13a-14(a) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors   |
| 31.2                  | Certification pursuant to Exchange Act Rule 13a-14(a) of William R. Shane, Executive Vice President and Chief Financial Officer   |
| 32.1                  | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of Lawrence Miller, Chief Executive Officer, President and Chairman of the Board of Directors*   |
| 32.2                  | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of William R. Shane, Executive Vice President and Chief Financial Officer*   |

\* Previously furnished.

**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

May 18, 2009

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

May 18, 2009

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

Exhibit Index

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\* Previously furnished.