

STONEMOR PARTNERS LP
Form 10-Q
November 06, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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.

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Large accelerated filer

Accelerated filer x

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 x

The number of the registrant's outstanding common units at November 1, 2012 was 19,538,051.

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

| | September 30, 2012 | December 31, 2011 |
|---|-------------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,128 | \$ 12,058 |
| Accounts receivable, net of allowance | 48,109 | 48,837 |
| Prepaid expenses | 4,727 | 4,266 |
| Other current assets | 15,548 | 16,670 |
| Total current assets | 76,512 | 81,831 |
| Long-term accounts receivable, net of allowance | 69,631 | 68,419 |
| Cemetery property | 309,340 | 298,938 |
| Property and equipment, net of accumulated depreciation | 79,567 | 73,777 |
| Merchandise trusts, restricted, at fair value | 372,775 | 344,515 |
| Perpetual care trusts, restricted, at fair value | 282,651 | 254,679 |
| Deferred financing costs, net of accumulated amortization | 9,681 | 8,817 |
| Deferred selling and obtaining costs | 73,904 | 68,542 |
| Deferred tax assets | 605 | 415 |
| Goodwill | 40,393 | 31,907 |
| Other assets | 14,878 | 16,918 |
| Total assets | \$ 1,329,937 | \$ 1,248,758 |
| Liabilities and partners capital | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 22,914 | \$ 26,428 |
| Accrued interest | 5,688 | 1,632 |
| Current portion, long-term debt | 1,770 | 1,487 |
| Total current liabilities | 30,372 | 29,547 |
| Other long-term liabilities | 1,884 | 2,830 |
| Long-term debt | 236,118 | 193,835 |
| Deferred cemetery revenues, net | 484,941 | 441,678 |
| Deferred tax liabilities | 15,191 | 16,968 |
| Merchandise liability | 128,452 | 128,942 |
| Perpetual care trust corpus | 282,651 | 254,679 |
| Total liabilities | 1,179,609 | 1,068,479 |
| Commitments and contingencies | | |

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| | | |
|---|--------------|--------------|
| Partners' capital | | |
| General partner | 944 | 2,192 |
| Common partners | 149,384 | 178,087 |
| Total partners' capital | 150,328 | 180,279 |
| Total liabilities and partners' capital | \$ 1,329,937 | \$ 1,248,758 |

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 unit data)

(unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|---------------|------------------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | |
| Cemetery | | | | |
| Merchandise | \$ 29,943 | \$ 28,738 | \$ 87,424 | \$ 81,277 |
| Services | 11,134 | 13,295 | 34,481 | 35,697 |
| Investment and other | 12,294 | 10,793 | 35,769 | 30,495 |
| Funeral home | | | | |
| Merchandise | 3,548 | 3,041 | 11,135 | 9,137 |
| Services | 5,278 | 4,458 | 14,483 | 13,057 |
| Total revenues | 62,197 | 60,325 | 183,292 | 169,663 |
| Costs and Expenses: | | | | |
| Cost of goods sold (exclusive of depreciation shown separately below): | | | | |
| Perpetual care | 1,616 | 1,373 | 4,398 | 4,097 |
| Merchandise | 6,030 | 5,787 | 16,904 | 15,272 |
| Cemetery expense | 14,252 | 15,312 | 41,819 | 42,860 |
| Selling expense | 11,290 | 12,192 | 36,200 | 33,923 |
| General and administrative expense | 7,015 | 7,111 | 21,403 | 20,569 |
| Corporate overhead (including \$216 and \$195 in unit-based compensation for the three months ended September 30, 2012 and 2011, and \$625 and \$576 for the nine months ended September 30, 2012 and 2011, respectively) | 6,546 | 5,628 | 20,905 | 17,572 |
| Depreciation and amortization | 2,199 | 1,886 | 6,759 | 6,374 |
| Funeral home expense | | | | |
| Merchandise | 1,196 | 982 | 3,726 | 3,197 |
| Services | 3,739 | 3,107 | 10,446 | 8,456 |
| Other | 2,161 | 1,779 | 6,295 | 5,222 |
| Acquisition related costs | 1,085 | 1,189 | 2,198 | 3,147 |
| Total cost and expenses | 57,129 | 56,346 | 171,053 | 160,689 |
| Operating profit | 5,068 | 3,979 | 12,239 | 8,974 |
| Expenses related to refinancing | | | | 453 |
| Gain on termination of operating agreement | | | 1,737 | |
| Gain on acquisition | | | 122 | |
| Early extinguishment of debt | | | | 4,010 |
| Interest expense | 5,273 | 4,824 | 15,109 | 14,266 |
| Net loss before income taxes | (205) | (845) | (1,011) | (9,755) |
| Income tax expense (benefit) | | | | |
| State | (18) | 69 | 224 | (829) |
| Federal | (1,248) | (691) | (2,157) | (2,304) |

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| | | | | |
|--|----------|----------|----------|------------|
| Total income tax expense (benefit) | (1,266) | (622) | (1,933) | (3,133) |
| Net income (loss) | \$ 1,061 | \$ (223) | \$ 922 | \$ (6,622) |
| General partner's interest in net income (loss) for the period | \$ 21 | \$ (4) | \$ 18 | \$ (132) |
| Limited partners' interest in net income (loss) for the period | \$ 1,040 | \$ (219) | \$ 904 | \$ (6,490) |
| Net income (loss) per limited partner unit (basic and diluted) | \$.05 | \$ (.01) | \$.05 | \$ (.35) |
| Weighted average number of limited partners' units outstanding - basic | 19,491 | 19,353 | 19,412 | 18,807 |
| Weighted average number of limited partners' units outstanding - diluted | 19,743 | 19,353 | 19,672 | 18,807 |
| Distributions declared per unit | \$.590 | \$.585 | \$ 1.760 | \$ 1.755 |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

| | Partners' Capital | | |
|------------------------------|--------------------------------|----------------------------|--------------|
| | Common Unit Holders | General Partner | Total |
| Balance, December 31, 2011 | \$ 178,087 | \$ 2,192 | \$ 180,279 |
| Issuance of common units | 4,104 | | 4,104 |
| Compensation related to UARs | 381 | | 381 |
| General partner contribution | | 89 | 89 |
| Net income | 904 | 18 | 922 |
| Cash distribution | (34,092) | (1,355) | (35,447) |
| Balance, September 30, 2012 | \$ 149,384 | \$ 944 | \$ 150,328 |

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)**

| | For the nine months ended September 30, | |
|--|--|-------------|
| | 2012 | 2011 |
| Operating activities: | | |
| Net income (loss) | \$ 922 | \$ (6,622) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Cost of lots sold | 6,180 | 5,004 |
| Depreciation and amortization | 6,759 | 6,374 |
| Unit-based compensation | 625 | 576 |
| Accretion of debt discounts | 1,230 | 950 |
| Gain on acquisition | (122) | |
| Gain on termination of operating agreement | (1,737) | |
| Write-off of deferred financing fees | | 453 |
| Fees paid related to early extinguishment of debt | | 4,010 |
| Changes in assets and liabilities that provided (used) cash: | | |
| Accounts receivable | (2,333) | (5,509) |
| Allowance for doubtful accounts | 3,743 | 3,597 |
| Merchandise trust fund | (8,177) | (11,681) |
| Prepaid expenses | (368) | 586 |
| Other current assets | (344) | (6,024) |
| Other assets | 125 | 244 |
| Accounts payable and accrued and other liabilities | 2,207 | (1,290) |
| Deferred selling and obtaining costs | (5,363) | (6,398) |
| Deferred cemetery revenue | 35,440 | 31,560 |
| Deferred taxes (net) | (2,341) | (2,476) |
| Merchandise liability | (5,649) | (2,285) |
| Net cash provided by operating activities | 30,797 | 11,069 |
| Investing activities: | | |
| Cash paid for cemetery property | (5,417) | (4,258) |
| Purchase of subsidiaries | (25,676) | (10,300) |
| Cash paid for property and equipment | (3,321) | (4,601) |
| Net cash used in investing activities | (34,414) | (19,159) |
| Financing activities: | | |
| Cash distribution | (35,447) | (32,827) |
| Additional borrowings on long-term debt | 63,500 | 27,800 |
| Repayments of long-term debt | (26,137) | (74,490) |
| Proceeds from public offering | | 103,207 |
| Proceeds from general partner contribution | 89 | 2,246 |
| Fees paid related to early extinguishment of debt | | (4,010) |
| Cost of financing activities | (2,318) | (1,236) |
| Net cash provided by (used in) financing activities | (313) | 20,690 |

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| | | |
|--|----------|-----------|
| Net increase (decrease) in cash and cash equivalents | (3,930) | 12,600 |
| Cash and cash equivalents Beginning of period | 12,058 | 7,535 |
| Cash and cash equivalents End of period | \$ 8,128 | \$ 20,135 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the period for interest | \$ 9,731 | \$ 9,897 |
| Cash paid during the period for income taxes | \$ 3,978 | \$ 2,242 |
| Non-cash investing and financing activities | | |
| Acquisition of assets by financing | \$ 199 | \$ 237 |
| Issuance of limited partner units for cemetery acquisition | \$ 4,103 | \$ 264 |
| Acquisition of asset by assumption of directly related liability | \$ 2,048 | \$ |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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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 September 30, 2012, the Partnership operated 276 cemeteries, 258 of which are owned, in 26 states and Puerto Rico and owned and operated 85 funeral homes in 18 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 September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 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, 2011 condensed consolidated balance sheet data was derived from audited financial statements included in the Company s 2011 Annual Report on Form 10-K (2011 Form 10-K) and has been adjusted to include the effects of retrospective adjustments resulting from the Company s 2011 acquisitions, but does not include all disclosures required by GAAP, which are presented in the Company s 2011 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 18 cemeteries under long-term 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 2 cemeteries under long-term operating agreements that do not qualify as acquisitions for accounting purposes. 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 each 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 operating 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.

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 trust and perpetual care trust, allowance for cancellations, unit-based compensation, merchandise liability, deferred sales revenue, deferred margin, deferred merchandise trust investment earnings, deferred obtaining costs 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.

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

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

| | As of | |
|---|-----------------------|----------------------|
| | September 30, 2012 | December 31, 2011 |
| | (in thousands) | |
| Customer receivables | \$ 156,224 | \$ 151,517 |
| Unearned finance income | (18,017) | (16,679) |
| Allowance for contract cancellations | (20,467) | (17,582) |
| | 117,740 | 117,256 |
| Less: current portion, net of allowance | 48,109 | 48,837 |
| Long-term portion, net of allowance | \$ 69,631 | \$ 68,419 |

Activity in the allowance for contract cancellations is as follows:

| | For the nine months ended September 30, | |
|-------------------------------|---|-----------|
| | 2012 | 2011 |
| | (in thousands) | |
| Balance - Beginning of period | \$ 17,582 | \$ 15,832 |
| Provision for cancellations | 14,858 | 13,799 |
| Charge-offs - net | (11,973) | (10,315) |
| Balance - End of period | \$ 20,467 | \$ 19,316 |

3. CEMETERY PROPERTY

Cemetery property consists of the following:

| | As of | |
|----------------------------------|-----------------------|----------------------|
| | September 30, 2012 | December 31, 2011 |
| | (in thousands) | |
| Developed land | \$ 71,128 | \$ 64,266 |
| Undeveloped land | 168,724 | 164,723 |
| Mausoleum crypts and lawn crypts | 69,488 | 69,949 |
| Total | \$ 309,340 | \$ 298,938 |

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

Major classes of property and equipment follow:

| | As of | |
|--------------------------------|-----------------------|----------------------|
| | September 30, 2012 | December 31, 2011 |
| | (in thousands) | |
| Building and improvements | \$ 82,565 | \$ 75,076 |
| Furniture and equipment | 40,180 | 36,863 |
| | 122,745 | 111,939 |
| Less: accumulated depreciation | (43,178) | (38,162) |
| Property and equipment - net | \$ 79,567 | \$ 73,777 |

Depreciation expense was \$1.7 million and \$5.2 million for the three and nine months ended September 30, 2012, respectively, as compared to \$1.4 million and \$4.3 million during the same periods last year.

5. MERCHANDISE TRUSTS

At September 30, 2012, the Company's merchandise 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 Real Estate Investment Trusts (REITs), 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.

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

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such merchandise, the Company may be required to fund this shortfall.

The Company has included \$7.4 million and \$6.9 million of investments held in trust by the West Virginia Funeral Directors Association at September 30, 2012 and December 31, 2011, 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 fair value.

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The cost and market value associated with the assets held in merchandise trusts at September 30, 2012 and December 31, 2011 were as follows:

| As of September 30, 2012 | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|---------------------------------------|--|-----------------------|
| | | (in thousands) | | |
| Short-term investments | \$ 48,722 | \$ | \$ | \$ 48,722 |
| Fixed maturities: | | | | |
| U.S. Government and federal agency | | | | |
| U.S. State and local government agency | 23 | | | 23 |
| Corporate debt securities | 8,673 | 195 | (127) | 8,741 |
| Other debt securities | 4,320 | | (7) | 4,313 |
| Total fixed maturities | 13,016 | 195 | (134) | 13,077 |
| Mutual funds - debt securities | 97,886 | 2,699 | (500) | 100,085 |
| Mutual funds - equity securities | 128,537 | 6,099 | (3,264) | 131,372 |
| Equity securities | 65,897 | 3,100 | (3,498) | 65,499 |
| Other invested assets | 6,569 | 18 | | 6,587 |
| Total managed investments | \$ 360,627 | \$ 12,111 | \$ (7,396) | \$ 365,342 |
| West Virginia Trust Receivable | 7,433 | | | 7,433 |
| Total | \$ 368,060 | \$ 12,111 | \$ (7,396) | \$ 372,775 |
| | | | | |
| As of December 31, 2011 | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | | (in thousands) | | |
| Short-term investments | \$ 38,312 | \$ | \$ | \$ 38,312 |
| Fixed maturities: | | | | |
| U.S. Government and federal agency | | | | |
| U.S. State and local government agency | 23 | | | 23 |
| Corporate debt securities | 10,537 | 19 | (791) | 9,765 |
| Other debt securities | 1,100 | | | 1,100 |
| Total fixed maturities | 11,660 | 19 | (791) | 10,888 |
| Mutual funds - debt securities | 68,291 | 1,711 | (2,581) | 67,421 |
| Mutual funds - equity securities | 148,209 | 1,939 | (8,860) | 141,288 |
| Equity securities | 71,760 | 3,723 | (3,131) | 72,352 |
| Other invested assets | 7,326 | 34 | | 7,360 |
| Total managed investments | \$ 345,558 | \$ 7,426 | \$ (15,363) | \$ 337,621 |
| West Virginia Trust Receivable | 6,894 | | | 6,894 |
| Total | \$ 352,452 | \$ 7,426 | \$ (15,363) | \$ 344,515 |

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The contractual maturities of debt securities as of September 30, 2012 are as follows:

| As of September 30, 2012 | Less than 1 year | 1 year through 5 years | 6 years through 10 years | More than 10 years |
|--|---------------------|---------------------------|-----------------------------|-----------------------|
| | (in thousands) | | | |
| U.S. Government and federal agency | \$ | \$ | \$ | \$ |
| U.S. State and local government agency | 23 | | | |
| Corporate debt securities | | 5,866 | 2,742 | 133 |
| Other debt securities | 4,313 | | | |
| Total fixed maturities | \$ 4,336 | \$ 5,866 | \$ 2,742 | \$ 133 |

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An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at September 30, 2012 and December 31, 2011 is presented below:

| As of September 30, 2012 | Less than 12 months | | 12 Months or more | | Total | |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |
| Fixed maturities: | | | | | | |
| U.S. Government and federal agency | \$ | \$ | \$ | \$ | \$ | \$ |
| U.S. State and local government agency | | | | | | |
| Corporate debt securities | 1,065 | 29 | 1,716 | 98 | 2,781 | 127 |
| Other debt securities | 4,313 | 7 | | | 4,313 | 7 |
| Total fixed maturities | 5,378 | 36 | 1,716 | 98 | 7,094 | 134 |
| Mutual funds - debt securities | 13,885 | 128 | 4,255 | 372 | 18,140 | 500 |
| Mutual funds - equity securities | 23,238 | 2,304 | 25,658 | 960 | 48,896 | 3,264 |
| Equity securities | 20,562 | 1,205 | 9,330 | 2,293 | 29,892 | 3,498 |
| Other invested assets | | | | | | |
| Total | \$ 63,063 | \$ 3,673 | \$ 40,959 | \$ 3,723 | \$ 104,022 | \$ 7,396 |

| As of December 31, 2011 | Less than 12 months | | 12 Months or more | | Total | |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |
| Fixed maturities: | | | | | | |
| U.S. Government and federal agency | \$ | \$ | \$ | \$ | \$ | \$ |
| U.S. State and local government agency | | | | | | |
| Corporate debt securities | 4,007 | 351 | 4,459 | 440 | 8,466 | 791 |
| Other debt securities | | | | | | |
| Total fixed maturities | 4,007 | 351 | 4,459 | 440 | 8,466 | 791 |
| Mutual funds - debt securities | 19,691 | 1,109 | 31,916 | 1,472 | 51,607 | 2,581 |
| Mutual funds - equity securities | 32,631 | 970 | 59,010 | 7,890 | 91,641 | 8,860 |
| Equity securities | 20,349 | 1,941 | 5,775 | 1,190 | 26,124 | 3,131 |
| Other invested assets | | | | | | |
| Total | \$ 76,678 | \$ 4,371 | \$ 101,160 | \$ 10,992 | \$ 177,838 | \$ 15,363 |

A reconciliation of the Company's merchandise trust activities for the nine months ended September 30, 2012 is presented below:

| Fair Value @ 12/31/2011 | Contributions | Distributions | Interest/Dividends | Capital | | | Taxes | Fees | Unrealized Change in Fair Value | Fair Value @ 9/30/2012 |
|-------------------------|---------------|---------------|--------------------|--------------------|---------------------|--|-------|------|---------------------------------|------------------------|
| | | | | Gain Distributions | Realized Gain/ Loss | | | | | |
| | | | | | (in thousands) | | | | | |

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| | | | | | | | | | |
|------------|--------|----------|--------|-----|-------|---------|---------|--------|-----------|
| \$ 344,515 | 46,695 | (46,816) | 12,240 | 110 | 8,750 | (3,511) | (1,860) | 12,652 | \$372,775 |
|------------|--------|----------|--------|-----|-------|---------|---------|--------|-----------|

The Company made net withdrawals from the trusts of approximately \$0.1 million during the nine months ended September 30, 2012. During the nine months ended September 30, 2012, purchases and sales of securities available for sale included in trust investments were approximately \$404.7 million and \$403.5 million, respectively. Contributions include \$12.0 million of assets that were acquired through acquisitions during the nine months ended September 30, 2012. Distributions include \$5.8 million of assets that were divested as a result of the termination of an operating agreement during the nine months ended September 30, 2012.

Other-than-temporary Impairments of Trust Assets

During the nine months ended September 30, 2012, the Company determined that there were six securities with an aggregate cost basis of approximately \$1.6 million and an aggregate fair value of approximately \$0.8 million, resulting in an impairment of \$0.8 million, wherein such impairment was considered to be other-than-temporary. During the three months

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ended September 30, 2012, the Company determined that there were no other than temporary impairments to the investment portfolio for merchandise trusts. During the nine months ended September 30, 2011, the Company determined that there was a single security 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. During the three months ended September 30, 2011, the Company determined that there were no other than temporary impairments to the investment portfolio for merchandise trusts. 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.

6. PERPETUAL CARE TRUSTS

At September 30, 2012, 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 REITs, 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 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.

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The cost and market value associated with the assets held in perpetual care trusts at September 30, 2012 and December 31, 2011 were as follows:

| As of September 30, 2012 | Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses | Fair Value |
|--|-------------------|--|-------------------------------|-------------------|
| Short-term investments | \$ 20,912 | \$ | \$ | \$ 20,912 |
| Fixed maturities: | | | | |
| U.S. Government and federal agency | 408 | 105 | | 513 |
| U.S. State and local government agency | 66 | 81 | | 147 |
| Corporate debt securities | 23,441 | 784 | (327) | 23,898 |
| Other debt securities | 371 | | | 371 |
| Total fixed maturities | 24,286 | 970 | (327) | 24,929 |
| Mutual funds - debt securities | 104,648 | 3,822 | (537) | 107,933 |
| Mutual funds - equity securities | 93,917 | 6,138 | (2,329) | 97,726 |
| Equity Securities | 23,346 | 8,201 | (396) | 31,151 |
| Other invested assets | | | | |
| Total | \$ 267,109 | \$ 19,131 | \$ (3,589) | \$ 282,651 |

| As of December 31, 2011 | Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses | Fair Value |
|--|-------------------|--|-------------------------------|-------------------|
| Short-term investments | \$ 22,607 | \$ | \$ | \$ 22,607 |
| Fixed maturities: | | | | |
| U.S. Government and federal agency | 408 | 105 | | 513 |
| U.S. State and local government agency | 66 | 81 | | 147 |
| Corporate debt securities | 23,359 | 229 | (1,434) | 22,154 |
| Other debt securities | 371 | | | 371 |
| Total fixed maturities | 24,204 | 415 | (1,434) | 23,185 |
| Mutual funds - debt securities | 61,700 | 185 | (1,079) | 60,806 |
| Mutual funds - equity securities | 104,824 | 4,295 | (9,621) | 99,498 |
| Equity Securities | 39,199 | 9,326 | (112) | 48,413 |
| Other invested assets | 327 | 156 | (313) | 170 |
| Total | \$ 252,861 | \$ 14,377 | \$ (12,559) | \$ 254,679 |

The contractual maturities of debt securities as of September 30, 2012 are as follows:

| As of September 30, 2012 | Less than 1 year | 1 year through 5 years | 6 years through 10 years | More than 10 years |
|--------------------------|------------------------|---------------------------|-----------------------------|-----------------------|
| | | | | |

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| | (in thousands) | | | |
|--|----------------|------------------|-----------------|---------------|
| U.S. Government and federal agency | \$ 129 | \$ 384 | \$ | \$ |
| U.S. State and local government agency | 147 | | | |
| Corporate debt securities | 50 | 16,127 | 7,295 | 426 |
| Other debt securities | 371 | | | |
| Total fixed maturities | \$ 697 | \$ 16,511 | \$ 7,295 | \$ 426 |

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An aging of unrealized losses on the Company's investments in fixed maturities and equity securities at September 30, 2012 and December 31, 2011 held in perpetual care trusts is presented below:

| As of September 30, 2012 | Less than 12 months | | 12 Months or more | | Total | |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |
| Fixed maturities: | | | | | | |
| U.S. Government and federal agency | \$ | \$ | \$ | \$ | \$ | \$ |
| U.S. State and local government agency | | | | | | |
| Corporate debt securities | 3,074 | 82 | 4,397 | 245 | 7,471 | 327 |
| Other debt securities | | | | | | |
| Total fixed maturities | 3,074 | 82 | 4,397 | 245 | 7,471 | 327 |
| Mutual funds - debt securities | 5,229 | 228 | 1,033 | 309 | 6,262 | 537 |
| Mutual funds - equity securities | | | 7,904 | 2,329 | 7,904 | 2,329 |
| Equity securities | 3,135 | 396 | | | 3,135 | 396 |
| Other invested assets | | | | | | |
| Total | \$ 11,438 | \$ 706 | \$ 13,334 | \$ 2,883 | \$ 24,772 | \$ 3,589 |

| As of December 31, 2011 | Less than 12 months | | 12 Months or more | | Total | |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |
| Fixed maturities: | | | | | | |
| U.S. Government and federal agency | \$ | \$ | \$ | \$ | \$ | \$ |
| U.S. State and local government agency | | | | | | |
| Corporate debt securities | 7,967 | 727 | 8,471 | 707 | 16,438 | 1,434 |
| Other debt securities | | | | | | |
| Total fixed maturities | 7,967 | 727 | 8,471 | 707 | 16,438 | 1,434 |
| Mutual funds - debt securities | 37,956 | 772 | 1,675 | 307 | 39,631 | 1,079 |
| Mutual funds - equity securities | 21,483 | 3,023 | 44,416 | 6,598 | 65,899 | 9,621 |
| Equity securities | 2,978 | 106 | 351 | 6 | 3,329 | 112 |
| Other invested assets | 170 | 313 | | | 170 | 313 |
| Total | \$ 70,554 | \$ 4,941 | \$ 54,913 | \$ 7,618 | \$ 125,467 | \$ 12,559 |

A reconciliation of the Company's perpetual care trust activities for the nine months ended September 30, 2012 is presented below:

Fair

Value @

12/31/2011 Contributions Distributions Interest/
Dividends