STONEMOR PARTNERS LP
Form 10-Q
February 12, 2019
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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 June 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________.

Commission File Number: 001-32270

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware	**80-0103159**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3600 Horizon Boulevard	
Trevose, Pennsylvania	**19053**
(Address of principal executive offices)	**(Zip Code)**

(215) 826-2800

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

The number of the registrant s outstanding common units at February 8, 2019 was 37,958,645.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STONEMOR PARTNERS L.P.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 14,979	$ 6,821
Accounts receivable, net of allowance	66,837	79,116
Prepaid expenses	9,180	4,580
Assets held for sale	1,343	1,016
Other current assets	17,930	21,453
Total current assets	110,269	112,986
Long-term accounts receivable, net of allowance	95,421	105,935
Cemetery property	335,037	333,404
Property and equipment, net of accumulated depreciation	113,229	114,090
Merchandise trusts, restricted, at fair value	511,852	515,456
Perpetual care trusts, restricted, at fair value	340,364	339,928
Deferred selling and obtaining costs	112,025	126,398
Deferred tax assets	92	84
Goodwill	24,862	24,862
Intangible assets, net	62,342	63,244
Other assets	25,161	19,695
Total assets	$ 1,730,654	$ 1,756,082
Liabilities and Partners Capital		
Current liabilities:		
Accounts payable and accrued liabilities	$ 51,926	$ 43,023
Accrued interest	1,912	1,781
Current portion, long-term debt	2,139	1,002
Total current liabilities	55,977	45,806
Long-term debt, net of deferred financing costs	320,495	317,693
Deferred revenues, net	933,159	912,626
Deferred tax liabilities	6,623	9,638
Perpetual care trust corpus	340,364	339,928
Other long-term liabilities	43,464	38,695

Total liabilities	1,700,082	1,664,386
Commitments and contingencies		
Partners capital (deficit):		
General partner interest	(3,615)	(2,959)
Common limited partners interest	34,187	94,655
Total partners capital	30,572	91,696
Total liabilities and partners capital	$ 1,730,654	$ 1,756,082

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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STONEMOR PARTNERS L.P.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenues:				
Cemetery:				
Interments	$ 20,789	$ 19,641	$ 40,414	$ 37,620
Merchandise	17,116	18,834	33,743	37,131
Services	17,737	18,619	34,228	35,132
Investment and other	12,038	13,652	21,538	26,390
Funeral home:				
Merchandise	6,522	6,749	13,951	14,585
Services	7,369	8,457	15,642	18,040
Total revenues	81,571	85,952	159,516	168,898
Costs and Expenses:				
Cost of goods sold	13,086	12,043	26,521	25,562
Cemetery expense	21,007	20,124	38,421	36,821
Selling expense	17,166	15,623	33,422	32,082
General and administrative expense	10,163	9,753	21,121	19,710
Corporate overhead	15,165	16,067	26,992	27,171
Depreciation and amortization	3,071	3,391	6,116	6,846
Funeral home expenses:				
Merchandise	1,108	1,623	3,586	3,383
Services	5,582	5,454	11,100	11,153
Other	3,961	4,987	9,001	10,332
Total costs and expenses	90,309	89,065	176,280	173,060
Other losses		(1,071)	(5,205)	(1,071)
Interest expense	(8,107)	(6,741)	(15,220)	(13,447)
Loss before income taxes	(16,845)	(10,925)	(37,189)	(18,680)
Income tax benefit (expense)	(172)	(657)	2,249	(1,463)
Net loss	$ (17,017)	$ (11,582)	$ (34,940)	$ (20,143)
General partner s interest	$ (177)	$ (121)	$ (364)	$ (210)
Limited partners interest	$ (16,840)	$ (11,461)	$ (34,576)	$ (19,933)
Net loss per limited partner unit (basic and diluted)	$ (0.44)	$ (0.30)	$ (0.91)	$ (0.53)
	37,958	37,957	37,958	37,938

Weighted average number of limited partners units outstanding (basic and diluted)

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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STONEMOR PARTNERS L.P.

CONDENSED CONSOLIDATED STATEMENT OF PARTNERS CAPITAL (UNAUDITED)

(dollars in thousands)

		Partners Capital		
	Outstanding Common Units	Common Limited Partners	General Partner	Total
December 31, 2017	37,957,936	$ 94,655	$ (2,959)	$ 91,696
Cumulative effect of accounting change		(27,805)	(292)	(28,097)
Common unit awards under incentive plans	709	1,913		1,913
Net loss		(34,576)	(364)	(34,940)
June 30, 2018	37,958,645	$ 34,187	$ (3,615)	$ 30,572

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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STONEMOR PARTNERS L.P.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended June 30, 2018	2017
Cash Flows From Operating Activities:		
Net loss	$ (34,940)	$ (20,143)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Cost of lots sold	3,489	5,661
Depreciation and amortization	6,116	6,846
Provision for bad debt	1,644	2,682
Non-cash compensation expense	1,913	488
Non-cash interest expense	3,215	2,195
Non-cash impairment charge and other losses	5,205	872
Changes in assets and liabilities:		
Accounts receivable, net of allowance	1,195	(4,946)
Merchandise trust fund	(4,181)	43,915
Other assets	(1,395)	(3,125)
Deferred selling and obtaining costs	(4,184)	(6,287)
Deferred revenues, net	33,599	(17,633)
Deferred taxes, net	(2,649)	944
Payables and other liabilities	6,377	4,031
Net cash provided by operating activities	15,404	15,500
Cash Flows From Investing Activities:		
Cash paid for capital expenditures	(7,626)	(3,311)
Cash paid for acquisitions	(833)	
Proceeds from divestitures		451
Proceeds from asset sales		401
Net cash used in investing activities	(8,459)	(2,459)
Cash Flows From Financing Activities:		
Cash distributions		(24,545)
Proceeds from borrowings	16,880	62,792
Repayments of debt	(12,896)	(56,256)
Cost of financing activities	(2,771)	(776)
Net cash provided by (used in) financing activities	1,213	(18,785)
Net increase (decrease) in cash and cash equivalents	8,158	(5,744)
Cash and cash equivalents Beginning of period	6,821	12,570

Cash and cash equivalents End of period	$	14,979	$	6,826
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$	12,865	$	11,118
Cash paid during the period for income taxes	$	709	$	2,630
Non-cash investing and financing activities:				
Acquisition of assets by financing	$	688	$	1,384
Classification of assets as held for sale	$	543	$	1,169

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

STONEMOR PARTNERS L.P.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2018

1. GENERAL

Nature of Operations

StoneMor Partners L.P. (the Partnership) is a provider of funeral and cemetery products and services in the death care industry in the United States. As of June 30, 2018, the Partnership operated 322 cemeteries in 27 states and Puerto Rico, of which 291 were owned and 31 were operated under lease, management or operating agreements. The Partnership also owned and operated 92 funeral homes, including 44 located on the grounds of cemetery properties that the Partnership owns, in 17 states and Puerto Rico.

Basis of Presentation

The accompanying condensed consolidated financial statements, which are unaudited except for the balance sheet at December 31, 2017, which has been derived from audited financial statements, have been prepared in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States (GAAP) for interim reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management s opinion, all adjustments necessary for a fair presentation of the Partnership s financial position, results of operations and cash flows for the periods disclosed have been made. These interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and the related notes thereto presented in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for the three and six months ended June 30, 2018 may not necessarily be indicative of the results of operations for the full year ended December 31, 2018.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of each of the Partnership s 100% owned subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Partnership has a variable interest and is the primary beneficiary. The Partnership operates 31 cemeteries under long-term lease, operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated.

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

Reclassifications and Adjustments to Prior Period Financial Statements

Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation, in the consolidated results of operations, primarily to present interment rights separately from merchandise revenues and to reclassify items that were previously recorded in Merchandise Revenues that represented the installation of certain merchandise items which are now presented in Services. There was no effect on the previously reported consolidated results of operations, consolidated financial position or cash flows, except as described below under *Recently Issued Accounting Standard Updates Adopted in the Current Period.*

Uses and Sources of Liquidity

The Partnership s primary sources of liquidity are cash generated from operations and borrowings under its revolving credit facility. As a master limited partnership (MLP), the Partnership s primary cash requirements, in addition to normal operating expenses, are for capital expenditures, net contributions to the merchandise and perpetual care trust funds, debt service and cash distributions. In general, as part of its operating strategy, the Partnership expects to fund:

- working capital deficits through cash generated from operations, additional borrowings, and sales of underperforming properties;
- expansion capital expenditures, net contributions to the merchandise and perpetual care trust funds and debt service obligations through available cash, cash generated from operations, additional borrowings or asset sales. Amounts contributed to the merchandise trust funds will be withdrawn at the time of the delivery of the product or service sold to which the contribution relates (see Summary of Significant Accounting Policies section below regarding revenue recognition), which will reduce the amount of additional borrowings or asset sales needed; and
- any cash distributions the Partnership is permitted and determines to pay in accordance with its partnership agreement and maintenance capital expenditures through available cash and cash flows from operating activities.

While the Partnership relies heavily on its cash flows from operating activities and borrowings under its credit facility to execute its operational strategy and meet its financial commitments and other short-term financial needs, the Partnership cannot be certain that sufficient capital will be generated through operations or available to the Partnership to the extent required and on acceptable terms. Moreover, although the Partnership s cash flows from operating activities have been positive, the Partnership has experienced negative financial trends which, when considered in the aggregate, raise substantial doubt about the Partnership s ability to continue as a going concern. These negative financial trends include:

- net losses from operations due to an increased competitive environment, an increase in professional fees and compliance costs and an increase in consulting fees associated with the Partnership s adoption of the Accounting Standard Codification (ASC) 606, *Revenue from Contracts with Customers* incurred in the year ended December 31, 2017 and the three and six months ended June 30, 2018;
- a decline in billings coupled with the increase in professional, compliance and consulting expenses, tightened the Partnership s liquidity position and increased reliance on long-term financial obligations, which in turn limited the Partnership s ability to pay distributions;
- the Partnership s failure to comply with certain debt covenants required by the Partnership s credit facility due to the Partnership s inability to complete a timely filing of our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, as well as exceeding of the maximum consolidated leverage ratio financial covenant

for the quarters ended December 31, 2017 and March 31, 2018 exceeding the maximum consolidated secured net leverage ratio financial covenant for the periods ended June 30, 2018, September 30, 2018 and December 31, 2018 and not being able to achieve the minimum consolidated fixed charge coverage ratio for the periods ended June 30, 2018, September 30, 2018 and December 31, 2018. As further disclosed in the credit facility subsection in Note 9, these failures constituted defaults that the Partnership s lenders agreed to waive.

During 2017 and to date in 2018, the Partnership has implemented (and will continue to implement) various actions to improve profitability and cash flows to fund operations. A summary of these actions is as follows:

- continue to manage recurring operating expenses and seek to limit non-recurring operating expenses over the next twelve-month period, which includes the January 2019 Researching Actions as further discussed in Note 17 Subsequent Events;

- complete sales of certain assets and businesses to provide supplemental liquidity; and

- for the reasons disclosed above, the Partnership was not in compliance with certain of its amended credit facility covenants as of December 31, 2017, March 31, 2018, June 30, 2018, September 30, 2018 and December 31, 2018. These failures constituted defaults that the lenders agreed to waive pursuant to the Sixth Amendment and Waiver, the Seventh Amendment and Waiver and the Eighth Amendment and Waiver to the Partnership s credit facility on June 12, 2018, July 13, 2018 and February 4, 2019, respectively, as disclosed in the credit facility subsection in Note 9 Long-Term Debt and in Note 17 Subsequent Events. Moreover, based on the Partnership s forecasted operating performance, cash flows and projected plans to file financial statements on a timely basis consistent with the debt covenants, the Partnership does not believe it is probable that the Partnership will further breach the covenants under its amended credit facility for the next twelve-month period. However, there is no certainty that the Partnership s actual operating performance and cash flows will not be substantially different from forecasted results, and no certainty the Partnership will not need further amendments to its credit facility in the future. Factors that could impact the significant assumptions used by the Partnership in assessing its ability to satisfy its financial covenants include the following:

  - operating performance not meeting reasonably expected forecasts;

  - failing to generate profitable sales;

  - investments in the Partnership s trust funds experiencing significant declines due to factors outside its control;

  - being unable to compete successfully with other cemeteries and funeral homes in the Partnership s markets;

  - the number of deaths in the Partnership s markets declining; and

  - the mix of funeral and cemetery revenues between burials and cremations.

If the Partnership s planned and implemented actions are not realized and the Partnership fails to improve its operating performance and cash flows, or the Partnership is not able to comply with the covenants under its amended credit facility, the Partnership may be forced to limit its business activities, implement further modifications to its operations, further amend its credit facility and/or seek other sources of capital, and the Partnership may be unable to continue as a going concern. Additionally, a failure to generate additional liquidity could negatively impact the Partnership s access to inventory or services that are important to the operation of the Partnership s business. Given the Partnership s level of cash and cash equivalents, to preserve capital resources and liquidity, the Board of Directors of the General Partner concluded that it was not in the best interest of unitholders to pay distributions to unitholders after the first quarter of 2017. In addition, the Partnership s revolving credit facility prohibits the Partnership from making distributions to unitholders. Any of these events may have a material adverse effect on the Partnership s results of operations and financial condition. The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q do not include any adjustments that might result from the outcome of these uncertainties.

Summary of Significant Accounting Policies

Refer to Note 1 to the Partnership s audited consolidated financial statements included in Item 8 of its Annual Report on Form 10-K for the year ended December 31, 2017 for the complete summary of significant accounting policies.

As of June 30, 2018, with the exception of the items noted in the section captioned *Recently Issued Accounting Standard Updates Adopted in the Current Period* below, there have been no significant changes to the Partnership s accounting policies as disclosed in the Annual Report on Form 10-K for the year ended December 31, 2017.

Use of Estimates

The preparation of the Partnership s unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions as described in its Annual Report on Form 10-K for the year ended December 31, 2017. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. As a result, actual results could differ from those estimates.

Revenues

A. Significant Accounting Policy

The Partnership s revenues are derived from contracts with customers through sale and delivery of death care products and services. Primary sources of revenue are derived from (1) cemetery and funeral home operations generated both at the time of death (at-need) and prior to the time of death (pre-need), classified on the Statements of Operations as Interments, Merchandise and Services and (2) investment income which includes income earned on assets maintained in perpetual care and merchandise trusts related to sales of cemetery and funeral home merchandise and services occurring prior to the time of death and required to be maintained in the trust by state law as well as interest earned on pre-need installment contracts. Investment income is presented within Investment and other for Cemetery revenue and Services for Funeral home revenue

Cemetery and Funeral Home Operations

Revenue is measured based on the consideration specified in a contract with a customer, and is net of any sales incentives and amounts collected on behalf of third parties. Pre-need contracts are price guaranteed, providing for future merchandise and services at prices prevailing when the agreements are signed. The Partnership recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

Sales taxes assessed by a governmental authority are excluded from revenue.

Any shipping and handling costs that are incurred after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold.

Investment income is earned on certain payments received from the customer on pre-need contracts, which are required by law to be deposited into the merchandise and service trusts. Amounts are withdrawn from the merchandise trusts when the Partnership fulfills the performance obligations. Earnings on these trust funds, which are specifically identifiable for each performance obligation, are also included in total transaction price. Pre-need contracts are generally subject to financing arrangements on an installment basis, with a contractual term not to exceed 60 months.

Interest income is recognized utilizing the effective interest method. For those contracts that do not bear a market rate of interest, the Partnership imputes such interest based upon the prime rate at the time of origination plus 375 basis points in order to segregate the principal and interest component of the total contract value. The Partnership has elected to not adjust the transaction price for the effects of a significant financing component for contracts that have payment terms under one year.

At the time of a non-cancellable pre-need sale, the Partnership records an account receivable in an amount equal to the total contract value less unearned finance income and any cash deposit paid. The revenue from both the sales and interest income from trusted funds are deferred until the merchandise is delivered or the services are performed. For a sale in a cancellable state, an account receivable is only recorded to the extent control has transferred to the customer for interment rights, merchandise or services for which the Partnership has not collected cash. The amounts collected from customers in states in which pre-need contracts are cancellable may be subject to refund provisions. The Partnership estimates the fair value of its refund obligation under such contracts on a quarterly basis and records such obligations within the other long-term liabilities line item on its Condensed Consolidated Balance Sheet.

B. Nature of Goods and Services

The following is a description of the principal activities, separated by reportable segments, from which the Partnership generates its revenue. As discussed more fully in Note 15 Segment Information, the Partnership operates two reportable segments: Cemetery Operations and Funeral Home Operations.

Cemetery Operations

The Cemetery Operations segment principally generates revenue from (1) providing rights to inter remains in a specific cemetery property inventory space such as burial lots and constructed mausoleum crypts (Interments), (2) sales of cemetery merchandise which includes markers (i.e., method of identifying a deceased person in a burial space, crypt, or niche), base (i.e.; concrete lining for the bottom of the burial plot), vault (i.e. a container installed in the burial lot in which the casket is placed), caskets, cremation niches, and other cemetery related items (Merchandise) and (3) service revenues, including opening and closing (O&C), a service of digging and refilling burial spaces to install the burial vault and place the casket into the vault, cremation services, and fees for installation of cemetery merchandise (Services). Products and services may be sold separately or in packages. For packages, the Partnership accounts for individual products and services separately as they are distinct (i.e., the product or service is separately identifiable from other items in the package and the customer can benefit from it on its own or with other resources that are readily available to the customer). The consideration (including any discounts) is allocated among separate products and services in a package based on their relative stand-alone selling prices. The stand-alone selling price is determined by management based upon local market conditions and reasonable ranges for both merchandise and services which is the best estimate of the stand-alone price. For items that are not sold separately (e.g., second interment rights), the Partnership estimates stand-alone selling prices using the best estimate of market value. The Partnership estimated the stand-alone selling price using inputs such as average selling price and list price broken down by each geographic location. Additionally the Partnership considered typical sales promotions that could have impacted the stand-alone selling price estimates.

Interments revenue is recognized when control transfers, which is when the property is available for use by the customer. For pre-construction mausoleum contracts, the Partnership will only recognize revenue once the property is constructed and the customer has obtained substantially all of the remaining benefits of the property. Sales taxes collected are recognized on a net basis in our condensed consolidated financial statements.

Merchandise revenue and deferred investment earnings on merchandise trusts are recognized when a customer obtains control of the product. This usually occurs when the customer takes possession of the product (title has transferred to the customer and the merchandise is either installed or stored, at the direction of the customer, at the vendor s warehouse or a third-party warehouse at no additional cost to the Partnership). The amount of revenue recognized is adjusted for expected refunds, which are estimated based on applicable law, general business practices and historical experience observed specific to the respective performance obligation. The estimate of the refund obligation is reevaluated on a quarterly basis. In addition, we are entitled to retain, in certain jurisdictions, a portion of collected

customer payments when a customer cancels a pre-need contract; these amounts are also recognized in revenue at the time the contract is cancelled.

Service revenue is recognized when the services are performed and the performance obligation is thereby satisfied.

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

Funeral Home Operations

Our Funeral Home Operations segment principally generates revenue from (1) sales of funeral home merchandise which includes caskets and other funeral related items (Merchandise), and (2) service revenues, including services such as family consultation, the removal of and preparation of remains and the use of funeral home facilities for visitation and prayer services (Services). Our funeral home operations also include revenues related to the sale of term and whole life insurance on an agency basis, in which we earn a commission from the sales of these policies. Insurance commission revenue is reported within service revenues. Products and services may be sold separately or in packages. For packages, the Partnership accounts for individual products and services separately as they are distinct (i.e.; the product or service is separately identifiable from other items in the package and the customer can benefit from it on its own or with other resources that are readily available to the customer). The consideration (including any discounts) is allocated among separate products and services based on their relative stand-alone selling prices. The relative stand-alone selling price is determined by management s best estimate of the stand-alone price based upon the list price at each location. Funeral Home Operations primarily generates revenues from at-need sales.

Merchandise revenue is recognized when a customer obtains control of the product. This usually occurs when the customer takes possession of the product (title has transferred to the customer and the merchandise is either installed or stored, at the direction of the customer, at the vendor s warehouse or a third-party warehouse). The amount of revenue recognized is adjusted for expected refunds, which are estimated based on applicable law, general business practices and historical experience observed specific to the respective performance obligations. The estimate of the refund obligation is reevaluated on a quarterly basis.

Service revenue is recognized when the services are performed and the performance obligation is thereby satisfied.

Costs related to the delivery or performance of merchandise and services are charged to expense when merchandise is delivered or services are performed.

Deferred Selling and Obtaining Costs

The Partnership defers certain costs that are incremental to obtaining pre-need cemetery and funeral contracts. The Partnership calculates the deferred selling costs asset by dividing total incremental expenses by total deferrable revenues and multiplying such percentage by the periodic change in gross deferred revenues. Such costs are recognized when the associated performance obligation is fulfilled based upon the net change in deferred revenues. All other selling costs are expensed as incurred. Additionally, the Partnership has elected the practical expedient of not recognizing incremental costs to obtain as incurred when the amortization period otherwise would have been one year or less

As of June 30, 2018, we had $112.0 million in deferred incremental direct selling costs included in *Deferred charges and other assets*. These deferred costs are classified as long-term on our Condensed Consolidated Balance Sheet because the Partnership does not control the timing of the delivery of the merchandise or performance of the services as they are generally provided at the time of need. During the three and six months ended June 30, 2018, the Partnership recognized $2.3 million and $4.2 million, respectively from deferred incremental direct selling costs.

Income Taxes

The Partnership is not subject to U.S. federal and most state income taxes. The partners of the Partnership are liable for income tax in regard to their distributive share of the Partnership s taxable income. Such taxable income may vary substantially from net income reported in the accompanying consolidated financial statements. Certain corporate

subsidiaries are subject to federal and state income tax. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and tax carry forwards.

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Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Partnership records a valuation allowance against its deferred tax assets if it deems 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.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law. The Tax Act made broad and complex changes to the U.S. tax code by, among other things, reducing the federal corporate income tax rate, creating a new limitation on deductible interest expense, creating bonus depreciation that will allow for full expensing on qualified property, changing the lives of post-2017 net operating loss carryovers and imposing limitations on deductibility of certain executive compensation. The primary driver of the change in the income tax provision for the three and six months ended June 30, 2018 related to the reduction of tax rates and the benefit related to 2018 net operating loss carryovers which have an unlimited carry forward life and can be used to offset long life deferred tax liabilities.

Net Loss per Common Unit

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Net loss	$ (17,017)	$ (11,582)	$ (34,940)	$ (20,143)
Less: Incentive distribution right (IDR) payments to general partner				

Net loss to allocate to general and common limited partners	(17,017)	(11,582)	(34,940)	(20,143)
General partner s interest excluding IDRs	(177)	(121)	(364)	(210)
Net loss attributable to common limited partners	$ (16,840)	$ (11,461)	$ (34,576)	$ (19,933)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Weighted average number of common limited partner units basic and diluted[1]	37,959	37,957	37,959	37,938

(1) The diluted weighted average number of limited partners units outstanding presented on the condensed consolidated statement of operations does not include 560,839 units and 334,942 units for the three months ended June 30, 2018 and 2017, respectively, and 560,839 units and 328,914 units for the six months ended June 30, 2018 and 2017, respectively, as their effects would be anti-dilutive.

Recently Issued Accounting Standard Updates Adopted in the Current Period

Revenue

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In addition, these updates enhance the disclosure requirements relating to revenue recognition and related cash flows. Additionally, the new revenue standard (ASC 606) requires the deferral of incremental direct selling costs to the period in which the related revenue is recognized. ASC 606, the new revenue standard was effective for annual reporting periods (including interim reporting periods within those periods) beginning January 1, 2018.

The Partnership adopted the new revenue standard as of January 1, 2018 using the modified retrospective method and applying the new standard to all contracts with customers. Therefore, the comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Partnership elected to aggregate the effects of all contract modifications that occurred prior to the date of adoption when (i) identifying the satisfied and unsatisfied performance obligations, (ii) determining the transaction price and (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations, rather than retrospectively restating the contracts for those modifications.

The new revenue standard, as amended, requires that we recognize revenue in the amount to which we expect to be entitled for delivery of promised goods and services to our customers. The new revenue standard also resulted in enhanced revenue-related disclosures, including any significant judgments and changes in judgments. Additionally, the new revenue standard requires the deferral of incremental direct selling costs to the period in which the related revenue is recognized.

The standard primarily impacts the manner in which we recognize (a) certain nonrefundable up-front fees and (b) incremental costs to acquire pre-need and at-need contracts (i.e., selling costs). The nonrefundable fees will be deferred and recognized as revenue when the underlying goods and services are delivered to the customer. The incremental direct selling costs will be deferred and recognized by specific identification upon the delivery of the underlying goods and services. The Partnership recorded a total net impact of $28.1 million decrease to the opening balance sheet of partners capital which was comprised of the adjustment to deferred revenue, the adjustment to deferred selling expense, establishment of the refund liability and the corresponding tax impact. Further, under the new revenue standard, the amounts due from customers for unfulfilled performance

obligations on cancellable pre-need contracts may only be recognized to the extent that control has transferred to the customer for interments, merchandise or services for which the Partnership has not collected cash. Accordingly, we reclassified approximately $11.4 million of accounts receivable, net of allowance and $14.1 million of long-term receivables, net of allowance for a total of $25.5 million for unfulfilled performance obligations on cancelable preneed contracts to deferred revenue, net. As a result of adoption of the new revenue standard, we have also eliminated our previous cancellation reserve on these performance obligations in the amount of $12.9 million, which resulted in an increase in deferred revenue and accounts receivable.

As noted above, due to the adoption of ASC 606, the Partnership recorded a $6.4 million decrease to the opening balance of partners capital primarily related to the timing of the recognition of nonrefundable upfront fees partially offset by an increase to the opening balance of partners capital due to the timing of revenue recognition for interment rights which are now recognized when the property is available for use by the customer.

The Partnership recorded an $18.6 million decrease to the opening balance of partners capital due to the write-down of certain recoverable selling and obtaining costs that were determined not to be incremental costs to acquire under ASC 606.

In addition, the Partnership established a $2.1 million reserve representing the fair value of the refund obligation that may arise due to state law provisions that include a guarantee of customer funds collected on unfulfilled performance obligations and maintained in trust, which may be refundable due to the exercise of customer cancellation rights. As a result, the Partnership recorded a $3.5 million decrease to the opening balance of partners capital and an increase in Other Long-Term Liabilities.

Additionally, the Partnership recognized a tax benefit of $0.4 million as a result of adoption, which was an increase to the opening balance of partners capital.

The information presented for the period prior to January 1, 2018 has not been restated and is reported under FASB ASC 605.

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The cumulative effect of adopting the new revenue standard impacted the Partnership s consolidated January 1, 2018 balance sheet as follows (in thousands):

Balance Sheet	Balance as of December 31, 2017	Impact of Adoption of FASB ASC 606	Balance as of January 1, 2018
Assets			
Current Assets:			
Cash and cash equivalents	$ 6,821	$	$ 6,821
Accounts receivable, net of allowance	79,116	(6,122)	72,994
Prepaid expenses	4,580		4,580
Assets held for sale	1,016		1,016
Other current assets	21,453		21,453
Total current assets	112,986	(6,122)	106,864
Long-term accounts receivable net of allowance	105,935	(6,527)	99,408
Cemetery property	333,404	(2,020)	331,384
Property and equipment, net of accumulated depreciation	114,090		114,090
Merchandise trusts, restricted, at fair value	515,456		515,456
Perpetual care trusts, restricted, at fair value	339,928		339,928
Deferred selling and obtaining costs	126,398	(18,557)	107,841
Deferred tax assets	84	7	91
Goodwill	24,862		24,862
Intangible assets	63,244		63,244
Other assets	19,695		19,695
Total assets	$ 1,756,082	$ (33,219)	$ 1,722,863
Liabilities and partners capital			
Current liabilities			
Accounts payable and accrued liabilities	$ 43,023	$ 1,329	$ 44,352
Accrued interest	1,781		1,781
Current portion, long-term debt	1,002		1,002
Total current liabilities	45,806	1,329	47,135
Long-term debt, net of deferred financing costs	317,693		317,693
Deferred revenues, net	912,626	(9,558)	903,068
Deferred tax liabilities	9,638	(367)	9,271

Perpetual care trust corpus	339,928		339,928
Other long term liabilities	38,695	3,474	42,169
Total liabilities	1,664,386	(5,122)	1,659,264
Partners capital			
General partner	(2,959)	(292)	(3,251)
Common partner	94,655	(27,805)	66,850
Total partners equity	91,696	(28,097)	63,599
Total liabilities and partners equity	$ 1,756,082	$ (33,219)	$ 1,722,863

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In accordance with FASB ASC 606 under the modified retrospective approach, the Partnership is required to disclose the impact of the new revenue standard by comparing the results of the current reporting period under FASB ASC 605. The impact of adopting ASC 606 on the Partnership s condensed consolidated statement of operations for the three and six months ended June 30, 2018 is as follows:

Statement of Operations	Three Months Ended June 30, 2018 As Reported Under FASB ASC 606	Three Months Ended June 30, 2018 Balances if Reported Under FASB ASC 605	Three Months Ended June 30, 2018 Impact of Adoption	Six Months Ended June 30, 2018 As Reported Under FASB ASC 606	Six Months Ended June 30, 2018 Balances if Reported Under FASB ASC 605	Six Months Ended June 30, 2018 Impact of Adoption
Revenues:						
Cemetery:						
Interments	$ 20,789	$ 18,568	$ 2,221	$ 40,414	$ 35,679	$ 4,735
Merchandise	17,116	16,568	548	33,743	32,236	1,507
Services	17,737	17,212	525	34,228	32,806	1,422
Investment and other	12,038	15,162	(3,124)	21,538	27,635	(6,097)
Funeral home:						
Merchandise	6,522	6,424	98	13,951	13,843	108
Services	7,369	7,396	(27)	15,642	15,866	(224)
Total revenues	81,571	81,330	241	159,516	158,065	1,451
Costs and Expenses:						
Cost of goods sold	$ 13,086	$ 13,200	$ (114)	$ 26,521	$ 26,959	$ (438)
Cemetery expenses	21,007	21,007		38,421	38,421	
Selling expense	17,166	16,092	1,074	33,422	31,103	2,319
General and administrative expense	10,163	10,163				