STONEMOR PARTNERS LP
Form 10-Q
November 09, 2009
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 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** | **80-0103159** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **311 Veterans Highway, Suite B** | |
| **Levittown, Pennsylvania** | **19056** |
| **(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 x 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 | x |
| Non-accelerated filer | ¨ (Do not check if 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 9, 2009 was 9,771,443

**Table of Contents**

Index Form 10-Q

**Table of Contents**

**Part I Financial Information**

**Item 1. Financial Statements**

**StoneMor Partners L.P.**

**Condensed Consolidated Balance Sheets**

(in thousands)

| | December 31, 2008 | September 30, 2009 (unaudited) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 7,068 | $ 9,369 |
| Accounts receivable, net of allowance | 33,090 | 36,449 |
| Prepaid expenses | 3,422 | 4,158 |
| Other current assets | 14,477 | 13,633 |
| Total current assets | 58,057 | 63,609 |
| Long-term accounts receivable net of allowance | 42,309 | 45,693 |
| Cemetery property | 228,499 | 234,919 |
| Property and equipment, net of accumulated depreciation | 49,615 | 48,031 |
| Merchandise trusts, restricted, at fair value | 161,605 | 194,580 |
| Perpetual care trusts, restricted, at fair value | 152,797 | 186,104 |
| Deferred financing costs net of accumulated amortization | 2,425 | 6,393 |
| Deferred selling and obtaining costs | 41,795 | 48,109 |
| Deferred tax assets | 138 | 1,705 |
| Other assets | 1,000 | 1,378 |
| Total assets | $ 738,240 | $ 830,521 |
| **Liabilities and partners capital** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 25,702 | $ 25,658 |
| Accrued interest | 659 | 1,070 |
| Current portion, long-term debt | 80,478 | 4,809 |
| Total current liabilities | 106,839 | 31,537 |
| Other long-term liabilities | 1,837 | 3,656 |
| Long-term debt | 80,456 | 179,907 |
| Deferred cemetery revenues, net | 193,017 | 243,535 |
| Deferred tax liabilities | 7,928 | 8,084 |
| Merchandise liability | 75,977 | 76,575 |
| Perpetual care trust corpus | 152,797 | 186,104 |
| Total liabilities | 618,851 | 729,398 |
| **Partners capital** | | |

| | | |
|---|---|---|
| General partner | 2,271 | 1,674 |
| Limited partners: | | |
| Common | 111,052 | 96,533 |
| Subordinated | 6,066 | 2,916 |
| Total partners capital | 119,389 | 101,123 |
| Total liabilities and partners capital | $ 738,240 | $ 830,521 |

See Accompanying Notes to the 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, 2008 | Three months ended September 30, 2009 | Nine months ended September 30, 2008 | Nine months ended September 30, 2009 |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Cemetery | | | | |
| Merchandise | $ 24,101 | $ 22,728 | $ 69,206 | $ 65,460 |
| Services | 9,077 | 10,187 | 28,066 | 28,959 |
| Investment and other | 6,801 | 8,291 | 22,249 | 25,156 |
| Funeral home | | | | |
| Merchandise | 2,179 | 2,260 | 6,766 | 7,189 |
| Services | 3,625 | 3,121 | 10,846 | 10,223 |
| Total revenues | 45,783 | 46,587 | 137,133 | 136,987 |
| **Costs and Expenses:** | | | | |
| Cost of goods sold (exclusive of depreciation shown separately below): | | | | |
| Perpetual care | 1,089 | 1,230 | 3,241 | 3,658 |
| Merchandise | 4,626 | 4,486 | 13,763 | 13,017 |
| Cemetery expense | 10,914 | 10,599 | 31,367 | 30,450 |
| Selling expense | 8,674 | 8,733 | 25,800 | 25,177 |
| General and administrative expense | 5,484 | 5,797 | 16,013 | 16,687 |
| Corporate overhead (including $631 and $381 in unit-based compensation for the three months ended September 30, 2008 and 2009 and $1,889 and $1,138 for the nine months ended September 30, 2008 and 2009) | 5,426 | 5,440 | 16,443 | 16,303 |
| Depreciation and amortization | 1,387 | 1,700 | 3,394 | 4,718 |
| Funeral home expense | | | | |
| Merchandise | 842 | 839 | 2,705 | 2,750 |
| Services | 2,281 | 2,193 | 6,796 | 6,895 |
| Other | 1,470 | 1,385 | 4,497 | 4,284 |
| Acquisition related costs | | (29) | | 2,099 |
| Total cost and expenses | 42,193 | 42,373 | 124,019 | 126,038 |
| Operating profit | 3,590 | 4,214 | 13,114 | 10,949 |
| **Other income and expense** | | | | |
| Gain on sale of funeral homes | | | | 475 |
| Interest expense | 3,202 | 3,898 | 9,521 | 10,269 |
| Income before income taxes | 388 | 316 | 3,593 | 1,155 |
| Income taxes: | | | | |
| State | 67 | 195 | 479 | 396 |
| Federal | (14) | (1,279) | 89 | (1,415) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total income taxes | | 53 | | (1,084) | | 568 | | (1,019) |
| **Net income** | $ | 335 | $ | 1,400 | $ | 3,025 | $ | 2,174 |
| General partner s interest in net income for the period | $ | 8 | $ | 28 | $ | 61 | $ | 43 |
| Limited partners interest in net income for the period | | | | | | | | |
| Common | $ | 239 | $ | 1,127 | $ | 2,164 | $ | 1,751 |
| Subordinated | $ | 88 | $ | 245 | $ | 800 | $ | 380 |
| Net income per limited partner unit (basic and diluted) | $ | .03 | $ | .12 | $ | .25 | $ | .18 |
| Weighted average number of limited partners units outstanding (basic and diluted) | | 11,801 | | 11,891 | | 11,795 | | 11,891 |

See Accompanying Notes to the Condensed Consolidated Financial Statements.

2

Table of Contents

**Stonemor Partners L.P.**

**Partners Capital**

(in thousands)

(unaudited)

| | Partners Capital | | | | |
|---|---|---|---|---|---|
| | Limited Partners | | | | |
| | Common | Subordinated | Total | General Partner | Total |
| Balance, December 31, 2008 | $ 111,052 | $ 6,066 | $ 117,118 | $ 2,271 | $ 119,389 |
| Net loss | (697) | (151) | (848) | (17) | (865) |
| Cash distribution | (5,423) | (1,176) | (6,599) | (214) | (6,813) |
| Balance, March 31, 2009 | $ 104,932 | $ 4,739 | $ 109,671 | $ 2,040 | $ 111,711 |
| Net income | 1,320 | 286 | 1,606 | 33 | 1,639 |
| Cash distribution | (5,423) | (1,176) | (6,599) | (214) | (6,813) |
| Balance, June 30, 2009 | $ 100,829 | $ 3,849 | $ 104,678 | $ 1,859 | $ 106,537 |
| Net income | 1,127 | 245 | 1,372 | 28 | 1,400 |
| Cash distribution | (5,423) | (1,178) | (6,601) | (213) | (6,814) |
| Balance, September 30, 2009 | $ 96,533 | $ 2,916 | $ 99,449 | $ 1,674 | $ 101,123 |

See Accompanying Notes to the 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, 2008 | 2009 |
|---|---|---|
| **Operating activities:** | | |
| Net income | $ 3,025 | $ 2,174 |
| Adjustments to reconcile net income to net cash provided by operating activity: | | |
| Cost of lots sold | 4,980 | 4,026 |
| Depreciation and amortization | 3,394 | 4,577 |
| Unit-based compensation | 1,889 | 1,138 |
| Previously capitalized acquisition costs | | 1,365 |
| Previously capitalized financing fees | | 141 |
| Gain on sale of funeral home | | (475) |
| Changes in assets and liabilities that provided (used) cash: | | |
| Accounts receivable | (5,000) | (6,163) |
| Allowance for doubtful accounts | 1,705 | 316 |
| Merchandise trust fund | 66 | (4,554) |
| Prepaid expenses | 542 | (736) |
| Other current assets | (324) | (179) |
| Other assets | (723) | (387) |
| Accounts payable and accrued and other liabilities | (2,699) | (1,402) |
| Deferred selling and obtaining costs | (4,661) | (6,314) |
| Deferred cemetery revenue | 18,700 | 24,612 |
| Deferred taxes (net) | | (1,412) |
| Merchandise liability | (1,799) | (2,004) |
| Net cash provided by operating activities | 19,095 | 14,723 |
| **Investing activities:** | | |
| Cost associated with potential acquisitions | (2,077) | |
| Additions to cemetery property | (3,268) | (3,669) |
| Purchase of subsidiaries, net of common units issued | (2,226) | (4,189) |
| Divestiture of funeral home | | 475 |
| Additions of property and equipment | (3,713) | (1,535) |
| Net cash used in investing activities | (11,284) | (8,918) |
| **Financing activities:** | | |
| Cash distribution | (18,896) | (20,440) |
| Additional borrowings on long-term debt | 20,309 | 109,082 |
| Repayments of long-term debt | (9,737) | (86,716) |
| Cost of financing activities | | (5,430) |
| Sale of partner units | 68 | |
| Net cash provided by (used in) financing activities | (8,256) | (3,504) |
| **Net increase (decrease) in cash and cash equivalents** | (445) | 2,301 |

| | | | | |
|---|---|---|---|---|
| **Cash and cash equivalents** Beginning of period | | 13,800 | | 7,068 |
| **Cash and cash equivalents** End of period | $ | 13,355 | $ | 9,369 |
| **Supplemental disclosure of cash flow information** | | | | |
| Cash paid during the period for interest | $ | 9,360 | $ | 9,835 |
| Cash paid during the period for income taxes | $ | 3,310 | $ | 1,737 |
| **Non-cash investing and financing activities** | | | | |
| Acquisition of asset by assumption of directly related liability | $ | | $ | 2,150 |
| Issuance of limited partner units for cemetery acquisition | $ | 500 | $ | |

See Accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

**Nature of Operations**

StoneMor Partners L.P. is a provider of funeral and cemetery products and services in the death care industry in the United States. The words we, us, our, StoneMor, the Partnership, and the Company refer to StoneMor Partners L.P. Through its subsidiaries, StoneMor offers a co 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, 2009, StoneMor operates 235 cemeteries in 24 states and in Puerto Rico. The Company owns 218 of these cemeteries and operates the remaining 17 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 17 managed cemeteries in our consolidated financial statements.

As of September 30, 2009, StoneMor owned and operated 58 funeral homes in 16 states and in Puerto Rico. Twenty six of these funeral homes are located on the grounds of the cemeteries we own.

**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, 2009 and for the three and nine months ended September 30, 2008 and 2009, respectively, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim period. The results of operations for interim periods are not necessarily indicative of the results of operations to be expected for a full year.

In the first quarter of 2009, the Company reviewed Accounting Standards Codification ( ASC ) 810-10-65-1, which relates to consolidations and determined that balances historically designated as non-controlling interest in perpetual care trusts in its condensed consolidated balance sheet do not meet the criteria for non-controlling interests. Accordingly, the Company reclassified the amount previously recorded as an equity item Non-controlling interests in perpetual care trusts as a liability recorded as Perpetual care trust corpus .

**Reclassifications**

The amount shown as non-controlling interests in perpetual care trusts in the consolidated financial statements as of December 31, 2008 has been reclassified as perpetual care trust corpus to conform to the presentation in the financial statements as of September 30, 2009.

**Principles of Consolidation**

The 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 operations of the 17 managed cemeteries that the Company operates under long-term management contracts are also consolidated in accordance with the provisions of ASC 810-10-25-38, which relates to consolidations. Total revenues derived from the cemeteries under long-term management contracts totaled approximately $7.6 million and $21.6 million for the three and nine months ended September 30, 2009, respectively, as compared to $8.5 million and $21.3 million during the same periods last year.

**Summary of Significant Accounting Policies**

The significant accounting policies followed by the Company are summarized below:

***Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with a maturity of three months or less from the time they are acquired to be cash equivalents.

***Cemetery Property***

Cemetery property consists of developed and undeveloped cemetery property and constructed mausoleum crypts and lawn crypts and is valued at cost, which is not in excess of market value.

**Table of Contents**

***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 |

Depreciation expense was $1.1 million and $3.2 million during the three and nine months ended September 30, 2009, respectively, as compared to $1.2 million and $2.7 million during the same periods last year.

***Inventories***

Inventories, classified as other current assets on the Company s condensed consolidated balance sheets, include cemetery and funeral home merchandise and are valued at the lower of cost or net realizable value. Cost is determined primarily on a specific identification basis on a first-in, first-out basis. Inventories were approximately $3.3 million and $3.4 million at September 30, 2009 and December 31, 2008, respectively.

***Sales of Cemetery Merchandise and Services***

The Company sells its merchandise and services on both a pre-need and at-need basis. Sales of at-need cemetery services and merchandise are recognized as revenue when the service is performed or merchandise is delivered.

Pre-need sales are usually made on an installment contract basis. Contracts are usually for a period not to exceed 60 months with payments of principal and interest required. For those contracts that do not bear a market rate of interest, the Company imputes such interest based upon the prime rate plus 75 basis points (this resulted in a rate of 4.75% for contracts entered into during the three and nine months ended September 30, 2009 and 9.0% for contracts entered into during the three and nine months ended September 30, 2008) in order to segregate the principal and interest component of the total contract value.

At the time of a pre-need sale, the Company records an account receivable in an amount equal to the total contract value less any cash deposit paid net of an estimated allowance for customer cancellations. The revenue from both the sales and interest component of the account receivable is deferred. Interest revenue is recognized utilizing the effective interest method. Sales revenue is recognized in accordance with the rules discussed below.

The allowance for customer cancellations is established based on management s estimates of expected cancellations and historical experiences and is currently approximately 10% of total contract values. Future cancellation rates may differ from this current estimate. Management 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 September 30, 2009 and December 31, 2008, respectively.

Revenue recognition related to sales of cemetery merchandise and services is governed by Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* ( SAB No. 104 ), and the retail land sales provisions of ASC 976-605-25-6. Per this guidance, revenue from the sale of burial lots and constructed mausoleum crypts are deferred until such time that 10% of the sales price has been collected, at which time it is fully earned; revenues from the sale of unconstructed mausoleums are recognized using the percentage-of-completion method of accounting while revenues from merchandise and services are recognized once such merchandise is delivered (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 us) or services are performed.

In order to appropriately match revenue and expenses, the Company defers 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. Such costs are accounted for under the provisions of ASC 944-720-25-1, and are expensed as revenues are recognized.

The Company records a merchandise liability equal to the estimated cost to provide services and purchase merchandise for all outstanding and unfulfilled pre-need contracts. The merchandise liability is established and recorded at the time of the sale but is not recognized as an expense until such time that the associated revenue for the underlying contract is also recognized. The merchandise liability is established based on actual costs incurred or an estimate of future costs, which may include a provision for inflation. The merchandise liability is reduced when services are performed or when payment for merchandise is made by the Company and title is transferred to the customer.

Table of Contents

***Merchandise Trusts***

Pursuant to state law, a portion of the proceeds from pre-need sales of merchandise and services is put into trust (the merchandise trust ) until such time that the Company meets the requirements for releasing trust principal, which is generally delivery of merchandise or performance of services. All investment earnings generated by the assets in the merchandise trusts (including realized gains and losses) are deferred until the associated merchandise is delivered or the services are performed. The fair value of the funds held in merchandise trusts at September 30, 2009 and December 31, 2008 was approximately $194.6 million and $161.6 million, respectively (see Note 5).

***Perpetual Care Trusts***

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. Earnings from the perpetual care trusts are recognized in current cemetery revenues. The fair value of funds held in perpetual care trusts at September 30, 2009 and December 31, 2008 was $186.1 million and $152.8 million, respectively (see Note 6).

***Sales of Funeral Home Services***

Revenue from funeral home services is recognized as services are performed and merchandise is delivered.

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

***Deferred Cemetery Revenues, Net***

In addition to amounts deferred on new contracts, and investment income and unrealized gains on our merchandise trust, deferred cemetery revenues, net, includes deferred revenues from pre-need sales that were entered into by entities prior to the acquisition of those entities by the Company, including entities that were acquired by Cornerstone Family Services, Inc. upon its formation in 1999. The Company provides for a reasonable profit margin for these deferred revenues (deferred margin) to account for the future costs of delivering products and providing services on pre-need contracts that the Company acquired through acquisition. Deferred margin amounts are deferred until the merchandise is delivered or services are performed.

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

The Company monitors 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. The Company s 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. No impairment charges were recorded during the three and nine months ended September 30, 2009 and 2008.

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

The Company determines whether or not the impairment of a fixed maturity debt security is an other-than-temporary impairment by evaluating each of the following:

- Whether it is the Company s intent to sell the security. If there is intent to sell, the impairment is considered to be other-than-temporary.

- If there is no intent to sell, the Company evaluates if it is not more likely than not that the Company will be required to sell the debt security before its anticipated recovery. If the Company determines that it is more likely than not that it will be required to sell an impaired investment before its anticipated recovery, the impairment is considered to be other-than-temporary.

The Company has further evaluated whether or not all assets in the merchandise trust have other-than-temporary impairments 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 an impairment is considered to be other-than-temporary, the cost basis of the security is adjusted downward to its fair value.

For assets held in the perpetual care trusts, any reduction in the cost basis due to an other-than-temporary impairment is offset with an equal and opposite reduction in the perpetual care trust corpus and has no impact in earnings.

For assets held in the merchandise trusts, any reduction in the cost basis due to an other-than-temporary impairment is recorded in deferred revenue.

The trust footnotes (notes 5 and 6) disclose the adjusted cost basis of the assets in the trust. This adjusted cost basis includes any adjustments to the original cost basis due to other-than-temporary impairments.

***Net Income per Unit***

Basic net income per unit is determined by dividing net income, after deducting the amount of net income allocated to the general partner interest by the weighted average number of units outstanding during the period. Diluted net income per unit is calculated in the same manner as basic net income per unit, except that the weighted average number of outstanding units is increased to include the dilutive effect of outstanding unit options or phantom unit options.

***Subsequent Events***

The Company has evaluated potential subsequent events through November 9, 2009. There were no material subsequent events through this date.

***New Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( SFAS ) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. This statement modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB ASC, also known collectively as the Codification, is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission ( SEC ). The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. The Codification is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. This statement applies to financial statements beginning in the third quarter 2009. Accordingly, all accounting references contained herein have been updated to reflect the Codification and all SFAS references have been replaced with ASC references. In those cases when previous GAAP references related to specific paragraphs, we have referred specifically to that paragraph in the ASC reference. Broader references have been referenced to the most detailed level (topic, subtopic or section) applicable.

In April of 2009, the FASB issued ASC 320-10-65-1, which relates to investments in both debt and equity securities. ASC 320-10-65-1 amended previous guidance related to the determination of whether impairments in debt securities were other-than-temporary, and provides guidance as to which other-than-temporary impairments should be reflected in the income statement and which other-than-temporary impairments should be reflected in other comprehensive income. ASC 320-10-65-1 also modifies the presentation and disclosures related to both debt and equity securities. ASC 320-10-65-1 is effective for interim periods ending after June 15, 2009, and the Company has adopted it for second quarter of 2009. ASC 320-10-65-1 did not have a significant impact on the Company s financial position or results of operations.

In April of 2009, the FASB issued ASC 825-10-65-1, which relates to financial instruments. ASC 825-10-65-1amends ASC 825-10-50-10 to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. ASC 825-10-65-1 is effective for interim periods ending after June 15, 2009 and the Company adopted it for second quarter of 2009. ASC 825-10-65-1 did not have a significant impact on the Company s financial statements.

In April of 2009, the FASB issued ASC 820-10-65-4, which relates to fair value measurements and disclosures. ASC 820-10-65-4 provides additional guidance in estimating fair value under ASC 820-10-5-1 when the volume and level of transaction activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. ASC 820-10-65-4 also provides additional guidance on circumstances that may indicate a transaction is not orderly. ASC 820-10-65-4 is effective for interim periods ending after June 15, 2009, and the Company adopted it for the second quarter of 2009. ASC 820-10-65-4 did not have a significant impact on the Company s financial position or results of operations.

8

Table of Contents

In May 2009, the FASB issued ASC 855-10-5-1, which relates to the accounting and reporting of subsequent events. ASC 855-10-5-1 modifies the definition of what qualifies as a subsequent event those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. ASC 855-10-5-1 is effective for interim periods ending after June 15, 2009, and the Company adopted it for the second quarter of 2009. ASC 855-10-5-1 did not have a significant impact on the Company s financial statements.

In December 2007, the FASB issued ASC 805, which relates to the accounting for business combinations. ASC 805 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. ASC 805 also requires that costs incurred in a business transaction be recorded as an expense as opposed to part of the cost of the acquisition. ASC 805 provides the Company 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 ASC 805:

- Immediately expense such costs;
- Continue to carry such costs as an asset and immediately expense such costs upon the adoption of ASC 805; or
- 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.

The Company adopted ASC 805 on 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 the Company s balance sheet. These costs were expensed in the first quarter of 2009 and are included on the Company s income statement as part of Acquisition related costs .

In December 2007, the FASB issued ASC 810-10-65-1 which provides guidance for the accounting and reporting of non-controlling interests. ASC 810-10-65-1 states that accounting and reporting for minority interests will be recharacterized as non-controlling interests and classified as a component of equity. ASC 810-10-65-1applies 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. The Company adopted this guidance effective January 1, 2009. This adoption caused the Company 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 the Company s partners capital, results of operations or liquidity.

In February 2008, the FASB issued ASC 260-10-5, which relates to earnings per share. Amongst other guidance, ASC 260-10-5 addresses earnings per share for master limited partnerships and states that a master limited partnership that contains incentive distribution rights ( IDR s ) should classify said IDR s as a separate class of units for which a separate earnings per unit calculation should be made. The Company adopted ASC 260-10-5 in the first quarter of 2009. The adoption of ASC 260-10-5 had no impact on the calculation of earnings per share as allocated to common unit holders.

In December 2008, the FASB issued ASC 810-10-50, which relates to disclosure requirements for consolidations. Amongst other things, ASC 810-10-50 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. The Company adopted this guidance effective December 31, 2008. This adoption had no effect on the Company s financial position, results of operations or liquidity.

In December 2008, the FASB issued ASC 820-10-35, which relates to the subsequent measurement of financial instruments. Amongst other things ASC 820-10-35 provides clarification for measuring fair value in a market that is not active. ASC 820-10-35 was effective upon issuance, including prior periods for which financial statements had not been issued. The Company s adoption of ASC 820-10-35 for the year ended December 31, 2008 had no effect on its financial position, results of operations or liquidity.

Table of Contents

**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 sheets.

Table of Contents

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

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

| | December 31, 2008 | September 30, 2009 |
|---|---|---|
| | (in thousands) | |
| Customer receivables | $ 102,145 | $ 111,104 |
| Unearned finance income | (12,983) | (14,884) |
| Allowance for contract cancellations | (13,763) | (14,078) |
| | 75,399 | 82,142 |
| Less: current portion net of allowance | 33,090 | 36,449 |
| Long-term portion net of allowance | $ 42,309 | $ 45,693 |

Activity in the allowance for contract cancellations is as follows:

| | For the nine months ended September 30, 2008 | 2009 |
|---|---|---|
| | (in thousands) | |
| Balance Beginning of period | $ 11,540 | $ 13,763 |
| Reserve on acquired contracts | 1,710 | |
| Provision for cancellations | 9,320 | 9,479 |
| Charge-offs net | (7,614) | (9,164) |
| Balance End of period | $ 14,956 | $ 14,078 |

## 3. CEMETERY PROPERTY

Cemetery property consists of the following:

| | December 31, 2008 | September 30, 2009 |
|---|---|---|
| | (in thousands) | |
| Developed land | $ 26,558 | $ 26,844 |
| Undeveloped land | 156,467 | 161,815 |
| Mausoleum crypts and lawn crypts | 45,474 | 46,260 |
| Total | $ 228,499 | $ 234,919 |

Table of Contents

**4. PROPERTY AND EQUIPMENT**

Major classes of property and equipment follow:

| | December 31, 2008 | September 30, 2009 |
|---|---|---|
| | (in thousands) | |
| Building and improvements | $ 44,801 | $ 45,614 |
| Furniture and equipment | 29,210 | 30,009 |
| | 74,011 | 75,623 |
| Less: accumulated depreciation | (24,396) | (27,592) |
| Property and equipment net | $ 49,615 | $ 48,031 |

**5. MERCHANDISE TRUST**

At September 30, 2009, the Company s merchandise trust 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 ( REIT s ); 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 ASC 320-10-25-1. 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 ASC 820-10-35-(39 through 51H). At September 30, 2009, approximately 86.2% of these assets were Level 1 investments while approximately 13.8% were Level 2 assets.

12

Table of Contents

The cost and market value associated with the assets held in the merchandise trust at December 31, 2008 and September 30, 2009 is as follows:

| As of December 31, 2008 | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market |
|---|---|---|---|---|
| | | (in thousands) | | |
| Short-term investments | $ 26,911 | $ | $ | $ 26,911 |
| Fixed maturities: | | | | |
| U.S. Government and federal agency | 5,554 | 90 | (15) | 5,629 |
| U.S. State and local government agency | 4,477 | 40 | (44) | 4,473 |
| Corporate debt securities | 3,593 | 50 | (490) | 3,153 |
| Other debt securities | 10,655 | | | 10,655 |
| Total fixed maturities | 24,279 | 180 | (549) | 23,910 |
| Mutual funds debt securities | 38,260 | | (9,913) | 28,347 |
| Mutual funds equity securities | 96,176 | | (42,959) | 53,217 |
| Equity securities | 43,881 | | (14,661) | 29,220 |
| Total | $ 229,507 | $ 180 | $ (68,082) | $ 161,605 |

| As of September 30, 2009 | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market |
|---|---|---|---|---|
| | | (in thousands) | | |
| Short-term investments | $ 10,647 | $ | $ | $ 10,647 |
| Fixed maturities: | | | | |
| U.S. Government and federal agency | 8,531 | 64 | (84) | 8,511 |
| U.S. State and local government agency | 2,819 | 77 | (24) | 2,872 |
| Corporate debt securities | 3,979 | 150 | (47) | 4,082 |
| Other debt securities | 12,431 | | | 12,431 |
| Total fixed maturities | 27,760 | 291 | (155) | 27,896 |
| Mutual funds debt securities | 55,364 | 17 | (7,971) | 47,410 |
| Mutual funds equity securities | 96,810 | | (29,317) | 67,493 |
| Equity securities | 44,363 | 2,969 | (6,198) | 41,134 |
| Total | $ 234,944 | $ 3,277 | $ (43,641) | $ 194,580 |

The contractual maturities of debt securities as of December 31, 2008 and September 30, 2009 is as follows:

| As of December 31, 2008 | Less than 1 year | 1 year through 5 years | 5 years through 10 years | More than 10 years |
|---|---|---|---|---|
| | | (in thousands) | | |

| | | | | |
|---|---|---|---|---|
| U.S. Government and federal agency | $ 242 | $ 4,969 | $ 418 | $ |
| U.S. State and local government agency | 1,105 | 1,496 | 1,270 | 602 |
| Corporate debt securities | 73 | 1,554 | 1,408 | 118 |
| Other debt securities | 10,655 | | | |
| Total fixed maturities | $ 12,075 | $ 8,019 | $ 3,096 | $ 720 |

| As of September 30, 2009 | Less than 1 year | 1 year through 5 years | 5 years through 10 years | More than 10 years |
|---|---|---|---|---|
| | (in thousands) | | | |
| U.S. Government and federal agency | $ 747 | $ 5,844 | $ 1,797 | $ 123 |
| U.S. State and local government agency | 594 | 1,219 | 916 | 143 |
| Corporate debt securities | 53 | 1,578 | 2,376 | 75 |
| Other debt securities | 12,431 | | | |
| Total fixed maturities | $ 13,825 | $ 8,641 | $ 5,089 | $ 341 |

Table of Contents

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at December 31, 2008 and September 30, 2009 is presented below:

At December 31, 2008

| | 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 | $ 922 | $ 15 | $ 77 | $ | $ 999 | $ 15 |
| U.S. State and local government agency | 1,679 | 22 | 809 | 22 | 2,488 | 44 |
| Corporate debt securities | 1,162 | 241 | 1,069 | 249 | 2,231 | 490 |
| Other debt securities | | | | | | |
| Total fixed maturities | 3,763 | 278 | 1,955 | 271 | 5,718 | 549 |
| Mutual funds debt securites | 7,196 | 583 | 21,151 | 9,330 | 28,347 | 9,913 |
| Mutual funds equity securites | 14,136 | 15,397 | 39,081 | 27,562 | 53,217 | 42,959 |
| Equity securities | 9,974 | 5,606 | 18,552 | 9,055 | 28,526 | 14,661 |
| Total | $ 35,069 | $ 21,864 | $ 80,739 | $ 46,218 | $ 115,808 | $ 68,082 |

At September 30, 2009

| | 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 | $ 2,339 | $ 69 | $ 499 | $ 15 | $ 2,838 | $ 84 |
| U.S. State and local government agency | 329 | 11 | 343 | 13 | 672 | 24 |
| Corporate debt securities | 730 | 6 | 641 | 41 | 1,371 | 47 |
| Other debt securities | | | | | | |
| Total fixed maturities | 3,398 | 86 | 1,483 | 69 | 4,881 | 155 |
| Mutual funds debt securites | | | 44,509 | 7,971 | 44,509 | 7,971 |
| Mutual funds equity securites | | | 67,493 | 29,317 | 67,493 | 29,317 |
| Equity securities | 134 | 7 | 32,514 | 6,191 | 32,648 | 6,198 |
| Total | $ 3,532 | $ 93 | $ 145,999 | $ 43,548 | $ 149,531 | $ 43,641 |

Table of Contents

A reconciliation of the Company s merchandise trust activities for the three and nine months ended September 30, 2009 is presented below:

Three months ended September 30, 2009

| Market Value @ 6/30/2009 | Net Contributions (Distributions) | Interest/ Dividends | Capital Gain Distributions | Realized Gain/ Loss | Taxes | Fees | Unrealized Change in Market Value | Change in Accrued Income | Market Value @ 9/30/2009 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | | | |
| $ 175,502 | $ 3,060 | $ 2,812 | $ | $ 556 | $ 80 | $ (463) | $ 12,650 | $ 383 | $ 194,580 |

Nine months ended September 30, 2009

| Market Value @ 12/31/2008 | Net Contributions (Distributions) | Interest/ Dividends | Capital Gain Distributions | Realized Gain/ Loss | Taxes | Fees | Unrealized Change in Market Value | Change in Accrued Income | Market Value @ 9/30/2009 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | | | |
| $ 161,605 | $ (1,409) | $ 7,488 | $ 130 | $ 553 | $ (629) | $ (933) | $ 27,512 | $ 263 | $ 194,580 |

The Company made net deposits (withdrawals) into (out of) the trusts of approximately $3.1 million and ($1.4 million) during the three and nine months ended September 30, 2009. The Company made net deposits (withdrawals) into (out of) the trusts of approximately $2.3 million and ($11.8 million) during the three and nine months ended September 30, 2008. During the three months ended September 30, 2008, purchases and sales of securities available for sale included in trust investments were approximately $31.3 million and $23.7 million, respectively. During the three months ended September 30, 2009, purchases and sales of securities available for sale included in trust investments were approximately $57.5 million and $55.7 million, respectively. During the nine months ended September 30, 2008, purchases and sales of securities available for sale included in trust investments were approximately $258.5 million and $185.0 million, respectively. During the nine months ended September 30, 2009, purchases and sales of securities available for sale included in trust investments were approximately $125.0 million and $121.5 million, respectively.

**Other-than-temporary Impairments**

The Company determines whether or not the impairment of a debt security is an other-than-temporary impairment by evaluating each of the following:

Whether it is the Company s intent to sell the security. If there is intent to sell, the impairment is considered to be other-than-temporary.

If there is no intent to sell, the Company evaluates if it is not more likely than not that the Company will be required to sell the debt security before its anticipated recovery.

With regards to the first consideration, the Company s investment guidelines dictate that no securities that are in a loss position should be sold without the express consent of its senior financial management team. At September 30, 2009, the Company did not have the intent of selling any debt securities that were in a loss position.

Table of Contents

With regards to the second consideration, the asset base of the trust is configured so that there is a sufficient corpus of highly liquid money market funds that can be liquidated at cost so as to fund any overall periodic net cash outflows from the trust without having to liquidate any impaired investments. On a quarterly basis, management evaluates the sufficiency of these liquid assets as a multiple of net cash outflows from the trust as shown for the trailing 12 months in the table below:

| | For the three months ended (in thousands) | | | |
|---|---|---|---|---|
| | 31-Dec-08 | 31-Mar-09 | 30-Jun-09 | 30-Sep-09 |
| Beginning cost basis | $ 230,866 | $ 229,507 | $ 230,908 | $ 232,185 |
| Ending cost basis | 229,507 | 230,908 | 232,185 | 239,944 |
| Increase (decrease) in cost basis | (1,353) | 1,401 | 1,277 | 2,759 |
| Ending short-term investments | $ 26,911 | $ 14,619 | $ 16,130 | $ 10,647 |
| Ratio of ending short-term investments to decrease in cost basis | 19.89 | n/a | n/a | n/a |

n/a reflects the fact that there is a net cash inflow into the trust.

The Company believes it is not more likely than not that the Company will be required to sell debt securities in an impaired position before its anticipated recovery and accordingly the Company has not recorded any other-than-temporary impairments based upon intent to sell or need to sell.

The Company has further evaluated whether or not assets in the merchandise trust have an other-than-temporary impairment based upon a number of criteria including the following:

Fixed Maturity Debt Securities

- The Company assesses the overall credit quality of each issue by evaluating its credit rating as reported by any credit rating agency. The Company also determines if there has been any downgrade in its creditworthiness as reported by such credit rating agency.
- The Company determines if there has been any suspension of interest payments or any announcements of any intention to do so.
- The Company evaluates the length of time until the principal becomes due and whether the ability to satisfy this payment has been impaired.

Equity Securities

- The Company evaluates whether or not it has the intent and ability to hold a security until such time that it recovers its value. As the Company invests primarily for income, the Company would not normally divest of an impaired security unless there was a degradation in the income stream.

The Company compares the proportional decline in value to the overall sector decline as measured via certain specific indices.

The Company determines whether there has been further periodic decline from prior periods or whether there has been a recovery in value.
For all securities

The Company evaluates the length of time that a security has been in a loss position.

The Company determines if there is any publicly available information that would cause us to believe that impairment is other than temporary in nature.

For the three months ended September 30, 2009, the Company determined that there were no additional other than temporarily impaired securities other than those previously recognized. This assessment was made based upon the following:

The Company has no intent of selling any impaired debt securities nor is it more likely than not to have to sell these securities before they recover in value.

The Company has the intent and ability to hold impaired equity securities until such time that they recover in value.

Table of Contents

The impairments are due to macroeconomic conditions as opposed to any issuer specific issues.

There has been no suspension in the income stream of the impaired securities.
In the second quarter of 2009, the Company determined that other than temporary impairments in the amount of $50 thousand was due to an excess of the amortized cost of a single security exceeding the present value of future cash flows. Accordingly, the Company recognized this other than temporary impairment as a credit loss. There were no changes to the Company s prior assessment of this security s present value of future cash flows in the third quarter of this year and accordingly, no changes were recorded to the credit loss.

The table below rolls forward the total credit loss as of July 1, 2009 through September 30, 2009:

| | As of 30-Sep-09 (in thousands) |
|---|---|
| Beginning credit losses on debt securities | $ 50 |
| Additional credit losses recognized during the period | |
| Reduction in credit losses due to sales of securities | |
| Reductions in credit losses due to the intent to sell impaired securities | |
| Additional increases to credit losses previously recognized | |
| Reductions in credit losses due to expected collected cash flows | |
| Ending credit losses on debt securities | $ 50 |

**6. PERPETUAL CARE TRUSTS**

At September 30, 2009, the Company s perpetual care trust 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 REIT s and Master Limited Partnerships;

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 ASC 320-10-25-1. 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 ASC 820-10-35-(39 through 51H). At September 30, 2009, approximately 79.5% of these assets were Level 1 investments while approximately 20.5% were Level 2 assets.

Table of Contents

The cost and market value associated with the assets held in perpetual care trusts at December 31, 2008 and September 30, 2009 were as follows:

| As of December 31, 2008 | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market |
|---|---|---|---|---|
| | | (in thousands) | | |
| Short-term investments | $ 21,236 | $ | $ | $ 21,236 |
| Fixed maturities: | | | | |
| U.S. Government and federal agency | 9,993 | 236 | (10) | 10,219 |
| U.S. State and local government agency | 8,462 | 87 | (72) | 8,477 |
| Corporate debt securities | 13,104 | 141 | (2,024) | 11,221 |
| Other debt securities | 572 | | | 572 |
| Total fixed maturities | 32,131 | 464 | (2,106) | 30,489 |
| Mutual funds debt securities | 56,836 | 175 | (19,113) | 37,898 |
| Mutual funds equity securities | 74,084 | | (34,042) | 40,042 |
| Equity Securities | 31,926 | | (8,794) | 23,132 |
| Total | $ 216,213 | $ 639 | $ (64,055) | $ 152,797 |

| As of September 30, 2009 | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market |
|---|---|---|---|---|
| | | (in thousands) | | |
| Short-term investments | $ 8,322 | $ | $ | $ 8,322 |
| Fixed maturities: | | | | |
| U.S. Government and federal agency | 20,233 | 340 | (139) | 20,434 |
| U.S. State and local government agency | 5,224 | 106 | (87) | 5,243 |
| Corporate debt securities | 15,080 | 655 | (197) | 15,538 |
| Other debt securities | 1,114 | | | 1,114 |
| Total fixed maturities | 41,651 | 1,101 | (423) | 42,329 |
| Mutual funds debt securities | 67,036 | 1,480 | (16,016) | 52,500 |
| Mutual funds equity securities | 74,684 | | (25,236) | 49,448 |
| Equity Securities | 33,760 | 2,191 | (2,446) | 33,505 |
| Total | $ 225,453 | $ 4,772 | $ (44,121) | $ 186,104 |

The contractual maturities of debt securities as of December 31, 2008 and September 30, 2009 is as follows:

| | Less than 1 year | 1 year through 5 years | 5 years through 10 years | More than 10 years |
|---|---|---|---|---|

| As of December 31, 2008 | | (in thousands) | | |
|---|---|---|---|---|
| U.S. Government and federal agency | $ 449 | $ 9,743 | $ 27 | $ |
| U.S. State and local government agency | 1,860 | 3,424 | 1,987 | 1,206 |
| Corporate debt securities | 268 | 4,773 | 5,527 | 653 |
| Other debt securities | 572 | | | |
| Total fixed maturities | $ 3,149 | $ 17,940 | $ 7,541 | $ 1,859 |

| As of September 30, 2009 | Less than 1 year | 1 year through 5 years | 5 years through 10 years | More than 10 years |
|---|---|---|---|---|
| | | (in thousands) | | |
| U.S. Government and federal agency | $ 1,391 | $ 15,984 | $ 2,392 | $ 667 |
| U.S. State and local government agency | 1,407 | 2,570 | 938 | 328 |
| Corporate debt securities | 189 | 6,457 | 8,572 | 320 |
| Other debt securities | 1,114 | | | |
| Total fixed maturities | $ 4,101 | $ 25,011 | $ 11,902 | $ 1,315 |

**Table of Contents**

An aging of unrealized losses on the Company s investments in fixed maturities and equity securities at December 31, 2008 and September 30, 2009 held in perpetual care trusts is presented below:

At December 31, 2008

| | 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 | $ 346 | $ 9 | $ 165 | $ 1 | $ 511 | $ 10 |
| U.S. State and local government agency | 3,529 | 58 | 547 | 14 | 4,076 | 72 |
| Corporate debt securities | 4,568 | 945 | 4,446 | 1,079 | 9,014 | 2,024 |
| Other debt securities | | | | | | |
| Total fixed maturities | 8,443 | 1,012 | 5,158 | 1,094 | 13,601 | 2,106 |
| Mutual funds debt securites | 1,040 | 50 | 34,169 | 19,063 | 35,209 | 19,113 |
| Mutual funds equity securites | 2,055 | 3,012 | 37,987 | 31,030 | 40,042 | 34,042 |
| Equity securities | 3,887 | 1,795 | 18,812 | 6,999 | 22,699 | 8,794 |
| Total | $ 15,425 | $ 5,869 | $ 96,126 | $ 58,186 | $ 111,551 | $ 64,055 |

At September 30, 2009

| | 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 | $ 4,076 | $ 109 | $ 920 | $ 30 | $ 4,996 | $ 139 |
| U.S. State and local government agency | 1,207 | 68 | 450 | 19 | 1,657 | 87 |
| Corporate debt securities | 1,682 | 21 | 2,172 | 176 | 3,854 | 197 |
| Other debt securities | | | | | | |
| Total fixed maturities | 6,965 | 198 | 3,542 | 225 | 10,507 | 423 |
| Mutual funds debt securites | | | 17,093 | 16,016 | 17,093 | 16,016 |
| Mutual funds equity securites | | | 49,448 | 25,236 | 49,448 | 25,236 |
| Equity securities | 686 | 157 | 21,693 | 2,289 | 22,379 | 2,446 |
| Total | $ 7,651 | $ 355 | $ 91,776 | $ 43,766 | $ 99,427 | $ 44,121 |

19

Table of Contents

A reconciliation of the Company s perpetual care trust activities for the three and nine months ended September 30, 2009 is presented below:

Three months ended September 30, 2009

| Market Value @ 6/30/2009 | Net Contributions (Distributions) | Interest/ Dividends | Capital Gain Distributions | Realized Gain/ Loss | Taxes | Fees | Unrealized Change in Market Value | Change in Accrued Income | Market Value @ 9/30/2009 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | | | |
| $ 168,500 | $ (2,158) | $ 3,425 | $ | $ 259 | $ (25) | $ (484) | $ 16,698 | $ (111) | $ 186,104 |

Nine months ended September 30, 2009

| Market Value @ 12/31/2008 | Net Contributions (Distributions) | Interest/ Dividends | Capital Gain Distributions | Realized Gain/ Loss | Taxes | Fees | Unrealized Change in Market Value | Change in Accrued Income | Market Value @ 9/30/2009 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | | | |
| $ 152,797 | $ 146 | $ 10,177 | $ (5) | $ (203) | $ (52) | $ (901) | $ 24,067 | $ 78 | $ 186,104 |

The Company made net deposits (withdrawals) into (out of) the trusts of approximately ($2.1 million) and $0.1 million during the three and nine months ended September 30, 2009. The Company made net (withdrawals) (out of) the trusts of approximately ($3.4 million) and ($8.6 million) during the three and nine months ended September 30, 2008. During the three months ended September 30, 2008, purchases and sales of securities available for sale included in trust investments were approximately $17.9 million and $17.8 million, respectively. During the three months ended September 30, 2009, purchases and sales of securities available for sale included in trust investments were approximately $34.9 million and $30.2 million, respectively. During the nine months ended September 30, 2008, purchases and sales of securities available for sale included in trust investments were approximately $155.5 million and $104.1 million, respectively. During the nine months ended September 30, 2009, purchases and sales of securities available for sale included in trust investments were approximately $102.7 million and $94.0 million, respectively.

The Company recorded income from perpetual care trusts of $2.7 million and $9.4 million for the three and nine months ended September 30, 2009 as compared to $2.9 million and $9.7 million during the same periods last year. This income is classified as cemetery revenues in the consolidated statements of operations.

**Other-than-temporary Impairments**

The Company determines whether or not the impairment of a debt security is an other-than-temporary impairment by evaluating each of the following:

Whether it is the Company s intent to sell the security. If there is intent to sell, the impairment is considered to be other-than-temporary.

If there is no intent to sell, the Company evaluates if it is not more likely than not that the Company will be required to sell the debt security before its anticipated recovery.

With regards to each of these considerations, the perpetual care trust principal does not belong to the Company and must remain in the trust into perpetuity. The Company cannot access and does not rely on the trust principal to fund any cash flow requirements. Accordingly, it is not the Company s intent nor is it more likely than not that the Company will be forced to sell any impaired securities.

Table of Contents

The Company has further evaluated whether or not assets in the merchandise trust have an other-than-temporary impairment based upon a number of criteria including the following:

Fixed Maturity Debt Securities

- The Company assesses the overall credit quality of each issue by evaluating its credit rating as reported by any credit rating agency. The Company also determines if there has been any downgrade in its creditworthiness as reported by such credit rating agency.

- The Company determines if there has been any suspension of interest payments or any announcements of any intention to do so.

- The Company evaluates the length of time until the principal becomes due and whether the ability to satisfy this payment has been impaired.

Equity Securities

- The Company compares the proportional decline in value to the overall sector decline as measured via certain specific indices.

- The Company determines whether there has been further periodic decline from prior periods or whether there has been a recovery in value.

For all securities

- The Company evaluates the length of time that a security has been in a loss position.

- The Company determines if there is any publicly available information that would cause us to believe that impairment is other than temporary in nature.

For the three months ended September 30, 2009, the Company determined that there were no additional other than temporarily impaired securities other than those previously recognized. This assessment was made based upon the following:

- The Company has no intent of selling any impaired debt securities nor is it more likely than not to have to sell these securities before they recover in value.

- The Company has the intent and ability to hold impaired equity securities until such time that they recover in value.

- The impairments are due to macroeconomic conditions as opposed to any issuer specific issues.

- There has been no suspension in the income stream of the impaired securities.

In the second quarter of 2009, the Company determined that other than temporary impairments in the amount of $67 thousand was due to an excess of the amortized cost of a single security exceeding the present value of future cash flows. Accordingly, the Company recognized this other than temporary impairment as a credit loss. There were no changes to the Company s prior assessment of this security s present value of future cash flows in the third quarter of this year and accordingly, no changes were recorded to the credit loss.

Table of Contents

The table below rolls forward the total credit loss as of July 1, 2009 through September 30, 2009:

| | As of 30-Sep-09 (in thousands) |
|---|---|
| Beginning credit losses on debt securities | $ 67 |
| Additional credit losses recognized during the period | |
| Reduction in credit losses due to sales of securities | |
| Reductions in credit losses due to the intent to sell impaired securities | |
| Additional increases to credit losses previously recognized | |
| Reductions in credit losses due to expected collected cash flows | |
| Ending credit losses on debt securities | $ 67 |

**7. LONG-TERM DEBT**

The Company had the following outstanding debt at:

| | December 31, 2008 | September 30, 2009 |
|---|---|---|
| | (in thousands) | |
| Insurance premium financing | $ 432 | $ 357 |
| Vehicle Financing | 80 | 58 |
| Note payable Greenlawn acquisition | | 1,400 |
| Acquisition Credit Facility, due September 2012 (interest rate Libor + 4.25%) | 17,622 | 104,701 |
| Revolving Credit Facility, due September 2012 (interest rate Libor + 3.25%) | 10,300 | 25,700 |
| Series A senior secured notes, due 2009 (interest rate Libor + 4.25%) | 80,000 | |
| Series B senior secured notes, due 2012 (interest rate 11.00%) | 35,000 | 35,000 |
| Series C senior secured notes, due 2012 (interest rate 11.00%) | 17,500 | 17,500 |
| Total | 160,934 | 184,716 |
| Less current portion | 80,478 | 4,809 |
| Long-term portion | $ 80,456 | $ 179,907 |

On April 30, 2009, the Company entered into the Second Amendment to Amended and Restated Credit Agreement by and among the Company, StoneMor GP LLC ( StoneMor GP ), StoneMor Operating LLC (the Operating Company ), certain subsidiaries of the Operating Company, the lenders, and Bank of America, N.A., as Administrative Agent (the Second Amendment ). In connection with the Second Amendment, on April 30, 2009, the Company also entered into the Second Amendment to Amended and Restated Note Purchase Agreement by and among the Company, StoneMor GP, the Operating Company, certain subsidiaries of the Operating Company 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. 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 the Company s Consolidated Leverage Ratio. The Commitment Fee Rate was increased to a range of 0.500% to 0.750%, based on the Company s 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.

Included in the Company s debt covenants is a Consolidated Leverage Ratio (the Leverage Ratio ) that limits its ability to undertake additional debt financing. The Leverage Ratio compares the total of outstanding debt as of a given date to a calculation of EBITDA as defined in the Second Amendment during the prior 12 months. The Leverage Ratio must be less than or equal to 3.75 to 1.0 until March 31, 2010 and 3.50 to 1.0 thereafter. The Leverage Ratio at September 30, 2009 was 3.63.

The Company was in compliance with all debt covenants as of September 30, 2009.

In connection with the Second Amendment, the Company 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, the Company 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. The Company requested a $5 million increase in the size of the Acquisition Facility to a maximum aggregate principal amount of $107.85 million. Pursuant to a Lender Joinder to the Credit Agreement dated June 24, 2009, Beneficial Mutual Savings Bank provided the commitment for such requested increase.

**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.

Table of Contents

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, the Company was 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 was to be deemed increased up to $180 million and the Acquisition Facility Cap increased up to $145 million had the Company obtained commitments from additional lenders for up to $42.15 million within 120 days of April 30, 2009. The Aggregate Credit Facility Cap was to be increased up to $205 million, with the Acquisition Facility Cap increased up to $160 million and the Revolving Credit Facility Cap increased up to $45 million with the approval of the holders of at least a majority principal amount of the Shelf Notes, which was not be unreasonably withheld. Subsequently, in June of 2009, the Company obtained an additional commitment of $5.0 million on its Acquisition Facility and the necessary approvals to increase the Aggregate Credit Facility up to $205 million, with the Acquisition Facility Cap increased to $160 million and the revolving Facility Cap increased to $45 million.

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.

**8. INCOME TAXES**

As of December 31, 2008, the Company s taxable corporate subsidiaries had a federal net operating loss carryover of approximately $66.2 million, which will begin to expire in 2019 and $104.3 million in state net operating losses of which a portion expires annually through 2028.

Effective with the closing of the Partnership s initial public offering on September 20, 2004, the Company was no longer a taxable entity for federal and state income tax purposes; rather, the Partnership s tax attributes (except those of its corporate subsidiaries) are to be included in the individual tax returns of its partners. Neither the Partnership s financial reporting income, nor the cash distributions to unit-holders, can be used as a substitute for the detailed tax calculations that the Partnership must perform annually for its partners. Net income from the Partnership is not treated as passive income for federal income tax purposes. As a result, partners subject to the passive activity loss rules are not permitted to offset income from the Partnership with passive losses from other sources.

The tax returns of the Partnership are subject to examination by state and federal tax authorities. If such examinations result in changes to taxable income, the tax liability of the partners could be changed accordingly.

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

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

The provision for income taxes for the three months ended September 30, 2009 and 2008 respectively is based upon the estimated annual effective tax rates expected to be applicable to the Company for 2009 and 2008, respectively.

Certain of the Company s subsidiaries are subject to US federal income tax as well as multiple state jurisdictions. The effective tax rate fluctuates over time based on income tax rates in the various tax jurisdictions in which these subsidiaries operates and based on the level of earnings in those jurisdictions. Several entities of the Company were recently under examination by the Internal Revenue Service for its separate company US income tax returns for the year ended December 31, 2005. These audits were completed in the third quarter of 2009 with no impact to the financial statements. The Company is not currently under examination by any state jurisdictions. The federal statute of limitations and certain states are open from 2004

Table of Contents

forward. Management believes that the accrual for tax liabilities is adequate for all open years. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. On the basis of present information, it is the opinion of the Company s management that there are no pending assessments that will result in a material adverse effect on the Company s condensed consolidated financial statements over the next twelve months.

The Company recognizes any interest accrued related to unrecognized tax benefits in interest expense and any penalties in operating expenses. The Company has not recorded any material interest or penalties during the three and nine months ended September 30, 2008 or 2009.

In the third quarter of 2009, the Company made certain changes to its corporate structure in order to maximize the value of net operating loss carryforwards. This restructure resulted in a one-time tax benefit of approximately $0.5 million.

**9. DEFERRED CEMETERY REVENUES NET**

At December 31, 2008 and September 30, 2009, deferred cemetery revenues, net, consisted of the following:

| | December 31, 2008 (in thousands) | September 30, 2009 |
|---|---|---|
| Deferred cemetery revenue | $ 186,515 | $ 214,798 |
| Deferred merchandise trust revenue | 32,557 | 34,943 |
| Deferred merchandise trust revenue credit losses | | (50) |
| Deferred merchandise trust unrealized losses | (66,607) | (42,422) |
| Deferred pre-acquisition margin | 67,615 | 67,215 |
| Deferred cost of goods sold | (27,063) | (30,949) |
| Deferred cemetery revenues, net | $ 193,017 | $ 243,535 |
| Deferred selling and obtaining costs | $ 41,795 | $ 48,109 |

Deferred selling and obtaining costs are carried as an asset on the condensed consolidated balance sheet in accordance with ASC 944-30-55-1.

**10. COMMITMENTS AND CONTINGENCIES**

***Legal***

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

***Leases***

At September 30, 2009, the Company was committed to operating lease payments for premises, automobiles and office equipment under various operating leases with initial terms ranging from one to five years and options to renew at varying terms. Expenses under operating leases were $0.5 million and $1.5 million for the three and nine months ended September 30, 2009, respectively, as compared to $0.4 million and $1.3 million during the same periods last year.

At September 30, 2009, operating leases will result in future payments in the following approximate amounts:

| | (in thousands) |
|---|---|
| 2009 | $ 561 |
| 2010 | 1,665 |
| 2011 | 1,485 |
| 2012 | 1,298 |
| 2013 | 1,167 |
| Thereafter | 3,897 |
| Total | $ 10,073 |

***Tax Indemnification***

CFSI LLC (formerly Cornerstone Family Services, Inc., the Company s predecessor) has agreed to indemnify the Company for all federal, state and local income tax liabilities attributable to the operation of the assets contributed by CFSI LLC to the Company prior to September 20, 2004. CFSI LLC has also agreed to indemnify the Company against additional income tax liabilities, if any, that arise from the consummation of the transactions related to the Company s formation in excess of those believed to result at the time of the closing of the Company s initial public offering. CFSI LLC has also agreed to indemnify the Company against the increase in income tax liabilities of its corporate subsidiaries resulting from any reduction or elimination of its net operating losses to the extent those net operating losses are used to offset any income tax gain or income resulting from the prior operation of the assets of CFSI LLC contributed to the Company, or from the Company s formation transactions in excess of such gain or income believed to result at September 20, 2004.

**11. PARTNERS CAPITAL**

***Unit-Based Compensation***

The Company has issued to certain key employees and management unit-based compensation in the form of unit appreciation rights and phantom partnership units. Each of these awards qualifies as an equity award.

Compensation expense recognized related to unit appreciation rights and restricted phantom unit awards for the three and nine months ended September 30, 2008 and 2009 are summarized in the table below:

| | Three months ended September 30, | |
|---|---|---|
| | 2008 | 2009 |
| | (in thousands) | |
| Unit appreciation rights | $ 23 | $ 12 |
| Restricted phantom units | 596 | 369 |
| Total unit-based compensation expense | $ 619 | $ 381 |

| | Nine months ended September 30, | |
|---|---|---|
| | 2008 | 2009 |
| | (in thousands) | |
| Unit appreciation rights | $ 67 | $ 37 |
| Restricted phantom units | 1,822 | 1,101 |

| | | |
|---|---|---|
| Total unit-based compensation expense | $ 1,889 | $ 1,138 |

Table of Contents

As of September 30, 2009, there were no more non-vested unit appreciation rights or non-vested restricted phantom units outstanding.

**12. ACQUISITIONS AND DIVESTITURES**

During the nine months ended September 30, 2009, the Company, through certain of its subsidiaries, entered into three long-term operating agreements wherein the Company will become the exclusive operator of the underlying cemetery land. Two of these agreements were entered into during the second quarter of 2009, while the third was entered into during the third quarter of 2009.

These three cemeteries qualify as variable interest entities ( VIE ) as defined by ASC 810-10-15-(13 through 22). The Company is the primary beneficiary of these VIE s.

ASC 810-10-15-(13 through 22) requires that VIE s which are determined to be a business should be consolidated utilizing the provisions of ASC 805.

Based upon this, the Company has accounted for the initial consolidation of these properties as if it was a business combination and accordingly has done each of the following:

Identified and recorded at fair value all assets acquired and liabilities assumed ( fair value of net assets acquired ).

Determined the cost of the acquisition ( consideration paid ) of approximately $8.0 million.

Recorded as goodwill the excess of consideration paid over the fair value of net assets acquired or alternatively recorded as a gain (recognized as income) the excess of the net assets acquired over the fair value of consideration paid.

The Company has determined that there is no non-controlling interest related to this VIE.

The Company had not completed its evaluation of the fair value of the net assets acquired as of September 30, 2009. In accordance with ASC 805,, the Company has recorded the following provisional amounts related to the acquisition. These amounts will be prospectively adjusted as additional information related to the fair value of the net assets acquired is received.

| | **(in thousands)** |
|---|---|
| Assets: | |
| Cemetery property | $ 6,912 |
| Accounts receivable | 895 |
| Merchandise trusts, restricted, at fair value | 3,128 |
| Perpetual care trusts, restricted, at fair value | 4,850 |
| Inventory | 419 |
| Total assets | 16,204 |
| Liabilities | |
| Deferred margin | 1,828 |
| Merchandise liabilities | 1,576 |
| Perpetual care trust corpus | 4,850 |

| | | |
|---|---|---|
| Total liabilities | | 8,254 |
| Fair value of net assets acquired | $ | 7,950 |

The Company made four separate acquisitions during 2008 consisting of nine cemeteries and two funeral homes. The Company s balance sheet at December 31, 2008 reflect purchase price allocations related to these acquisitions that had not as of yet been finalized. These purchase price allocations were re-estimated during the first quarter of 2009. There were no reallocations in the second or third quarter of 2009. While there was no change in the estimate of the fair value of net assets acquired, there were changes in the purchase price allocations of certain individual assets acquired.

Table of Contents

The following table reconciles amounts originally recorded at December 31, 2008 to amounts recorded at September 30, 2009:

| | Original | Re-estimate (In thousands) | Change |
|---|---|---|---|
| Assets | | | |
| Accounts receivable, net | $ 650 | $ 650 | $ |
| Goodwill | 480 | 480 | |
| Cemetery property | 9,101 | 8,806 | (295) |
| Property and equipment | 1,515 | 1,463 | (52) |
| Merchandise trust assets | 1,426 | 1,773 | 347 |
| Total assets | 13,172 | 13,172 | |
| Liabilities | | | |
| Deferred margin | 4,530 | 4,530 | |
| Deferred interest | | | |
| Perpetual care liabilities | | | |
| Other liabilities | 28 | 28 | |
| Merchandise liability | 4,182 | 4,182 | |
| Total liabilities | 8,740 | 8,740 | |
| Net assets | $ 4,432 | $ 4,432 | $ |

The results of the operations of the properties acquired in 2008 and 2009 have been included in the condensed consolidated financial statements since the date of acquisition and are not material to the results of operations.

The Company sold a single funeral home during the nine months ended September 30, 2009. Proceeds received for the sale totaled approximately $0.5 million. The funeral home had a book value of less than $0.1 million at the time of the sale. The Company recognized a gain on this sale of approximately $0.4 million.

**13. SEGMENT INFORMATION**

In conjunction with its 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 its potential customers, in the third quarter of 2007 the Company reorganized and disaggregated its 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.

The Company has chosen 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 other segments; b) the Company has organized its management personnel at these operational levels; c) and it is the level at which its chief decision makers and other senior management evaluate performance.

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

The cemetery operations segments sell interment rights, caskets, burial vaults, cremation niches, markers and other cemetery related merchandise. The nature of the Company s customers differs in each of 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.

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

Table of Contents

Segment information as of and for the three and nine months ended September 30, 2008 and 2009 is as follows:

As of and for the three months ended September 30, 2008

| | Southeast | Cemeteries Northeast | West | Funeral Homes (in thousands) | Corporate | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Sales | $ 16,240 | $ 8,764 | $ 6,544 | $ | $ | $ (4,986) | $ 26,561 |
| Service and other | 5,738 | 4,981 | 3,486 | | | (786) | 13,419 |
| Funeral home | | | | 5,804 | | | 5,804 |
| Total revenues | 21,978 | 13,745 | 10,030 | 5,804 | | (5,772) | 45,783 |
| **Costs and expenses** | | | | | | | |
| Cost of sales | 3,561 | 1,800 | 1,178 | | | (823) | 5,716 |
| Selling | 5,058 | 2,747 | 1,877 | | 294 | (1,303) | 8,673 |
| Cemetery | 4,616 | 3,489 | 2,795 | | 13 | | 10,913 |
| General and administrative | 2,715 | 1,563 | 1,183 | | 24 | | 5,485 |
| Funeral home | | | | 4,593 | | | 4,593 |
| Depreciation and amortization | 392 | 237 | 125 | 277 | 356 | | 1,387 |
| Corporate | | | | | 5,426 | | 5,426 |
| Total costs and expenses | 16,342 | 9,836 | 7,158 | 4,870 | 6,113 | (2,126) | 42,193 |
| **Operating earnings** | 5,636 | 3,909 | 2,872 | 934 | (6,113) | (3,646) | 3,590 |
| Interest expense | 1,252 | 620 | 713 | 569 | 48 | | 3,202 |
| **Earnings (losses) before taxes** | $ 4,382 | $ 3,289 | $ 2,158 | $ 365 | $ (6,161) | $ (3,646) | $ 388 |
| **Supplemental information** | | | | | | | |
| Total assets | $ 329,607 | $ 246,441 | $ 144,715 | $ 35,272 | $ 15,278 | $ | $ 771,313 |
| Amortization of cemetery property | $ 748 | $ 361 | $ 119 | $ | $ | $ 368 | $ 1,596 |
| Long lived asset additions | $ 3,994 | $ 199 | $ (1,875) | $ 335 | $ 130 | $ | $ 2,783 |

**Table of Contents**

As of and for the nine months ended September 30, 2008

| | Southeast | Cemeteries Northeast | West | Funeral Homes (in thousands) | Corporate | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Sales | $ 48,862 | $ 25,490 | $ 20,602 | $ | $ | $ (17,586) | $ 77,368 |
| Service and other | 18,669 | 16,148 | 11,145 | | | (3,810) | 42,152 |
| Funeral home | | | | 17,612 | | | 17,612 |
| Total revenues | 67,531 | 41,638 | 31,747 | 17,612 | | (21,396) | 137,133 |
| **Costs and expenses** | | | | | | | |
| Cost of sales | 10,416 | 6,136 | 3,417 | | | (2,965) | 17,004 |
| Selling | 15,270 | 8,042 | 6,000 | | 905 | (4,417) | 25,800 |
| Cemetery | 13,271 | 10,334 | 7,722 | | 40 | | 31,367 |
| General and administrative | 7,789 | 4,602 | 3,546 | | 77 | | 16,014 |
| Funeral home | | | | 13,998 | | | 13,998 |
| Depreciation and amortization | 1,033 | 684 | 197 | 457 | 1,022 | | 3,393 |
| Corporate | | | | | 16,443 | | 16,443 |
| Total costs and expenses | 47,779 | 29,798 | 20,882 | 14,455 | 18,487 | (7,382) | 124,019 |
| **Operating earnings** | 19,752 | 11,840 | 10,865 | 3,157 | (18,487) | (14,014) | 13,114 |
| Interest expense | 3,863 | 2,020 | 1,979 | 1,613 | 46 | | 9,521 |
| **Earnings (losses) before taxes** | $ 15,889 | $ 9,820 | $ 8,886 | $ 2,588 | $ (19,577) | $ (14,014) | $ 3,593 |
| **Supplemental information** | | | | | | | |
| Total assets | $ 329,607 | $ 246,441 | $ 144,715 | $ 35,272 | $ 15,278 | $ | $ 771,313 |
| Amortization of cemetery property | $ 2,264 | $ 2,017 | $ 359 | $ | $ | $ 341 | $ 4,981 |
| Long lived asset additions | $ 16,272 | $ 728 | $ 971 | $ 1,097 | $ 1,530 | $ | $ 20,598 |

As of and for the three months ended September 30, 2009

| | Southeast | Cemeteries Northeast | West | Funeral Homes (in thousands) | Corporate | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Sales | $ 18,452 | $ 8,442 | $ 6,679 | $ | $ | $ (6,879) | $ 26,696 |
| Service and other | 7,205 | 4,890 | 3,296 | | | (882) | 14,509 |
| Funeral home | | | | 5,381 | | | 5,381 |
| Total revenues | 25,657 | 13,332 | 9,975 | 5,381 | | (7,761) | 46,587 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Costs and expenses** | | | | | | | |
| Cost of sales | 3,960 | 1,802 | 1,052 | | | (1,098) | 5,716 |
| Selling | 5,584 | 2,528 | 1,777 | | 282 | (1,440) | 8,731 |
| Cemetery | 4,886 | 3,238 | 2,472 | | 3 | | 10,599 |
| General and administrative | 3,138 | 1,452 | 1,159 | | 50 | | 5,799 |
| Funeral home | | | | 4,417 | | | 4,417 |
| Depreciation and amortization | 379 | 192 | 111 | 312 | 705 | | 1,699 |
| Acquisition related costs | | | | | (29) | | (29) |
| Corporate | | | | | 5,440 | | 5,440 |
| Total costs and expenses | 17,947 | 9,212 | 6,571 | 4,729 | 6,451 | (2,538) | 42,373 |
| **Operating earnings** | 7,710 | 4,120 | 3,404 | 652 | (6,451) | (5,223) | 4,214 |
| Gain on sale of funeral home | | | | | | | |
| Interest expense | 1,837 | 665 | 818 | 569 | 9 | | 3,898 |
| **Earnings (losses) before taxes** | $ 5,873 | $ 3,455 | $ 2,586 | $ 83 | $ (6,460) | $ (5,223) | $ 316 |
| **Supplemental information** | | | | | | | |
| Total assets | $ 362,497 | $ 257,216 | $ 156,855 | $ 34,736 | $ 19,217 | $ | $ 830,521 |
| Amortization of cemetery property | $ 813 | $ 616 | $ 99 | $ | $ | $ (114) | $ 1,414 |
| Long lived asset additions | $ 2,179 | $ 247 | $ 96 | $ 19 | $ 20 | $ | $ 2,561 |

30

**Table of Contents**

As of and for the nine months ended September 30, 2009

| | Southeast | Cemeteries Northeast | West | Funeral Homes | Corporate | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| **Revenues** | | | | | | | |
| Sales | $ 54,541 | $ 25,613 | $ 21,173 | $ | $ | $ (26,024) | $ 75,303 |
| Service and other | 20,298 | 16,255 | 9,731 | | | (2,012) | 44,272 |
| Funeral home | | | | 17,412 | | | 17,412 |
| Total revenues | 74,839 | 41,868 | 30,904 | 17,412 | | (28,036) | 136,987 |
| **Costs and expenses** | | | | | | | |
| Cost of sales | 11,876 | 5,419 | 3,478 | | 3 | (4,102) | 16,675 |
| Selling | 16,626 | 8,001 | 5,939 | | 652 | (6,042) | 25,177 |
| Cemetery | 13,584 | 9,590 | 7,263 | | 13 | | 30,450 |
| General and administrative | 8,601 | 4,555 | 3,500 | | 30 | | 16,687 |
| Funeral home | | | | 13,929 | | | 13,929 |
| Depreciation and amortization | 1,075 | 635 | 321 | 776 | 1,911 | | 4,718 |
| Acquisition related costs | | | | | 2,099 | | 2,099 |
| Corporate | | | | | 16,303 | | 16,303 |
| Total costs and expenses | 51,762 | 28,200 | 20,501 | 14,705 | 21,011 | (10,144) | 126,038 |
| **Operating earnings** | 23,077 | 13,668 | 10,403 | 2,707 | (21,011) | (17,892) | 10,949 |
| Gain on sale of funeral home | | | | | 475 | | 475 |
| Interest expense | 4,653 | 1,871 | 2,196 | 1,521 | 27 | | 10,268 |
| **Earnings (losses) before taxes** | $ 18,423 | $ 11,797 | $ 8,207 | $ 1,186 | $ (20,564) | $ (17,892) | $ 1,155 |
| **Supplemental information** | | | | | | | |
| Total assets | $ 362,497 | $ 257,216 | $ 156,855 | $ 34,736 | $ 19,217 | $ | $ 830,521 |
| Amortization of cemetery property | $ 2,471 | $ 1,699 | $ 502 | $ | $ | $ (43) | $ 4,629 |
| Long lived asset additions | $ 7,420 | $ 764 | $ 583 | $ 1,733 | $ 209 | $ | $ 10,709 |

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

**14. FAIR VALUE MEASUREMENTS**

Effective January 1, 2008, the Company simultaneously adopted ASC 820-10 and ASC 825-10. As per the provisions of ASC 825-10, the Company did not elect fair value measurement for any eligible assets or liabilities not previously recorded at fair value.

ASC 820-10 establishes a new framework for measuring fair value and expands related disclosures. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 establishes a fair value hierarchy that gives the highest priority to observable inputs and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy defined by ASC 820-10 are described below.

Table of Contents

Level 1: Quoted market prices available in active markets for identical assets or liabilities. The Company includes cash and cash equivalents, U.S. Government debt securities and publicly traded equity instruments and mutual funds in its level 1 investments.

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

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

The following table allocates the Company s investments measured at fair value as of September 30, 2009.

**Merchandise Trust**

| Description | Level 1 | Level 2 (in thousands) | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Short-term investments | $ 10,647 | $ | $ |
| Fixed maturities: | | | |
| U.S. government and federal agency | 8,511 | | |
| U.S. state and local government agency | | 2,872 | |
| Corporate debt securities | | 4,082 | |
| Other debt securities | | 12,431 | |
| Total fixed maturity investments | 8,511 | 19,385 | |
| Mutual funds debt securities | 39,982 | 7,428 | |
| Mutual funds equity securities | 67,493 | | |
| Equity securities | 41,134 | | |
| Total | $ 167,767 | $ 26,813 | $ |

**Perpetual Care Trust**

| Description | Level 1 | Level 2 (in thousands) | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Short-term investments | $ 8,322 | $ | $ |
| Fixed maturities: | | | |
| U.S. government and federal agency | 20,434 | | |
| U.S. state and local government agency | | 5,243 | |
| Corporate debt securities | | 15,538 | |
| Other debt securities | | 1,114 | |
| Total fixed maturity investments | 20,434 | 21,895 | |
| Mutual funds debt securities | 36,286 | 16,214 | |
| Mutual funds equity securities | 49,448 | | |

| | | | |
|---|---|---|---|
| Equity securities | 33,505 | | |
| Total | $ 147,995 | $ 38,109 | $ |

32

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

The words we, us, our, StoneMor, the Partnership, the Company and similar words, when used in a historical context prior to the closing 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 this Quarterly Report on Form 10-Q (including the notes thereto).

**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 statemen 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 trusting 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, this Quarterly Report on Form 10-Q and our other reports filed with the SEC. 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 Historical 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, has added a net total of 111 cemeteries and 54 funeral homes to the portfolio of properties we own and/ or manage.

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.

Table of Contents

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 September 30, 2009, we operated 235 cemeteries in 24 states and in Puerto Rico. We own 218 of these cemeteries and operate the remaining 17 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 17 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. Revenues from cemetery operations accounted for approximately 88.4% and 87.3% of our revenues during the three and nine months ended September 30, 2009, respectively, compared to 87.3% and 87.2% during the same periods last year.

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

- at-need sales of cemetery interment rights, merchandise and services;
- 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

- 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.

**Table of Contents**

*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 60 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 are usually made on an installment contract basis. Contracts are usually for a period not to exceed 60 months with payments of principal and interest required. For those contracts that do not bear a market rate of interest, the Company imputes such interest based upon the prime rate plus 75 basis points (this resulted in a rate of 4.75% for contracts entered into during the three and nine months ended September 30, 2009 and 9.0% for contracts entered into during the three and nine months ended September 30, 2008) 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.

*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 and selling expenses

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

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

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

2. Cemetery Expenses

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

3. General and administrative expenses

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

4. Depreciation and amortization

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

5. Acquisition related costs

On January 1, 2009, we adopted ASC 805. Amongst other things, ASC 805 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 September 30, 2009, we owned and operated 58 funeral homes. These properties are located within the contiguous United States. 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 11.6% and 12.7% of our revenues during the three and nine months ended September 30, 2009, respectively, compared to 12.7% and 12.8% during the same periods 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.

***Business Developments***

Significant business developments for the nine months ended September 30, 2009 include the following:

We entered into three long-term cemetery operating agreements during the nine months ended September 30, 2009. These operating agreements provide us with exclusive rights to operate the contracted cemeteries. Each operating agreement is for a term of 40 years and is cancellable by either party beginning after three years. See Note 12 of the Unaudited Condensed Consolidated Financial

Statements for additional information related to these operating agreements.

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 with 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 with StoneMor GP LLC and the noteholders (the "Second Amendment to NPA"). The terms and conditions of the Second Amendment and the Second Amendment to 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 Financial Condition and Results of Operations.

**Table of Contents**

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

Beginning in the fourth quarter of 2008, we began discussing the significant instability in various financial markets and in economic conditions. Amongst other things, we noted that there had been a decline in the fair value of equity and (to a lesser degree) fixed-maturity debt securities and that there was a contraction in the credit market as well as an overall downturn in economic activity.

We have seen some improvement in certain areas since that time. The ratio of the fair value to the amortized cost of our merchandise trust assets has improved to 82.8% at September 30, 2009 as compared to 70.4% at December 31, 2008. We were able to raise capital via the Second Amendment which was primarily used to pay off our Series A notes. The value of pre-need and at-need contracts written has not deteriorated and totals for the three and nine months ended September 30, 2009 generally outpace totals from the same period last year.

We will continue to monitor evolving economic conditions and plan accordingly.

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

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. A critical issue for us had been the decline in the fair value of equity and (to a lesser degree) fixed maturity debt securities held in our trusts. This decline took place primarily during the last six months of 2008. As of September 30, 2009, the fair value of our fixed maturity debt securities had recovered to the point where such value exceeds the cost of these assets in both our merchandise and perpetual care trusts. While the fair value of equity securities in these trusts continues to be less than their cost, the amount of this impairment has declined substantially during the first nine months of 2009.

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 frequent 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 ASC 810-10-15-(13 through 22) 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 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 material 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 $2.7 million and $9.3 million during the three and nine months ended September 30, 2009, respectively, as compared to $2.9 million and $9.7 million during the same periods 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.

Table of Contents

A 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.

At September 30, 2009, the merchandise trust had approximately $10.6 million in cash and cash equivalents. This amount functions to mitigate 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 inflows into the merchandise trust for the nine months ended September 30, 2009 were approximately $4.6 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.

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

Current market conditions have not negatively impacted our ability to meet our significant debt covenants. These covenants specifically relate to a certain measure of profitability (the Profitability Measure ) and certain coverage and leverage ratios as defined in the Second Amendment.

The Profitability Measure is primarily related to the current period value of contracts written and their associated expense. We have not seen any material decline in the value of contracts written due to current economic conditions. Additionally, we have seen a relative decline in associated expenses due primarily to an expense reduction initiative began in 2009.

The coverage ratio relates to the excess of the Profitability Measure less distributions made to partners over fixed charges. This ratio has not been negatively impacted in so much that the Profitability Measure has not eroded while distributions paid to partners and fixed charges have remained relatively stable.

The leverage ratio relates to the ratio of consolidated debt to the Profitability Measure. Once again, the Profitability Measure has not eroded which in turn has caused this ratio to stay within an acceptable range.

Table of Contents

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

The table below details net income, operating cash flows and partner distributions made during the three and nine months ended September 30, 2008 and 2009 respectively:

| | Three months ended September 30, 2008 | Three months ended September 30, 2009 |
|---|---|---|
| | (in thousands) | |
| Net income | $ 335 | $ 1,400 |
| Operating cash flows | 10,065 | 6,619 |
| Partner distributions | 6,481 | 6,814 |

| | Nine months ended September 30, 2008 | Nine months ended September 30, 2009 |
|---|---|---|
| | (in thousands) | |
| Net income | $ 3,025 | $ 2,174 |
| Operating cash flows | 19,095 | 14,723 |
| Partner distributions | 18,896 | 20,440 |

Cash flows from operations during the nine months ended September 30, 2009 ($14.7 million, respectively) significantly outpaced our net income ($2.2 million) during the same periods. 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**

We operate in 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 September 30, 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.

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 June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. This statement modifies the GAAP

Table of Contents

hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB ASC, also known collectively as the Codification, is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. The Codification is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. This statement applies to financial statements beginning in third quarter of 2009. Accordingly, all accounting references contained herein have been updated to reflect the Codification and all SFAS references have been replaced with ASC references. In those cases when previous GAAP references related to specific paragraphs, we have referred specifically to that paragraph in the ASC. Broader references have been referred to the most detailed level (topic, subtopic or section) applicable.

In April of 2009, the FASB issued ASC 320-10-65-1, which relates to investments in both debt and equity securities. ASC 320-10-65-1 amended previous guidance related to the determination of whether impairments in debt securities were other-than-temporary, and provides guidance as to which other-than-temporary impairments should be reflected in the income statement and which other-than-temporary impairments should be reflected in other comprehensive income. ASC 320-10-65-1 also modifies the presentation and disclosures related to both debt and equity securities. ASC 320-10-65-1 is effective for interim periods ending after June 15, 2009, and we adopted it for the second quarter of 2009. ASC 320-10-65-1 did not have a significant impact on our financial position or results of operations.

In April of 2009, the FASB issued ASC 825-10-65-1, which relates to financial instruments. ASC 825-10-65-1amends ASC 825-10-50-10 to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. ASC 825-10-65-1 is effective for interim periods ending after June 15, 2009 and we adopted it for second quarter of 2009. ASC 825-10-65-1 did not have a significant impact on our financial statements.

In April of 2009, the FASB issued ASC 820-10-65-4, which relates to fair value measurements and disclosures. ASC 820-10-65-4 provides additional guidance in estimating fair value under ASC 820-10-5-1 when the volume and level of transaction activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. ASC 820-10-65-4 also provides additional guidance on circumstances that may indicate a transaction is not orderly. ASC 820-10-65-4 is effective for interim periods ending after June 15, 2009, and we adopted it for the second quarter of 2009. ASC 820-10-65-4 did not have a significant impact on our financial position or results of operations.

In May 2009, the FASB issued ASC 855-10-5-1, which relates to the accounting and reporting of subsequent events. ASC 855-10-5-1 modifies the definition of what qualifies as a subsequent event those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. ASC 855-10-5-1 is effective for interim periods ending after June 15, 2009, and we adopted it for the second quarter of 2009. ASC 855-10-5-1 did not have a significant impact on our financial statements.

In December 2007, the FASB issued ASC 805, which relates to the accounting for business combinations. ASC 805 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. ASC 805 also requires that costs incurred in a business transaction be recorded as an expense as opposed to part of the cost of the acquisition. ASC 805 provides the Company with 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 ASC 805:

- Immediately expense such costs;
- Continue to carry such costs as an asset and immediately expense such costs upon the adoption of ASC 805; or
- 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 ASC 805 on 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 were expensed in the first quarter of 2009 and are included on our income statement as part of Acquisition related costs .

Table of Contents

In December 2007, the FASB issued ASC 810-10-65-1 which provides guidance for the accounting and reporting of non-controlling interests. ASC 810-10-65-1 states that accounting and reporting for minority interests will be recharacterized as non-controlling interests and classified as a component of equity. ASC 810-10-65-1applies 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 partners capital, results of operations or liquidity.

In February 2008, the FASB issued ASC 260-10-5, which relates to earnings per share. Amongst other guidance, ASC 260-10-5 addresses earnings per share for master limited partnerships and states that a master limited partnership that contains incentive distribution rights ( IDR s ) should classify said IDR s as a separate class of units for which a separate earnings per unit calculation should be made. We adopted ASC 260-10-5 in the first quarter of 2009. The adoption of ASC 260-10-5 had no impact on the calculation of earnings per share as allocated to common unit holders.

In December 2008, the FASB issued ASC 810-10-50, which relates to disclosure requirements for consolidations. Amongst other things, ASC 810-10-50 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 December 31, 2008. This adoption had no effect on our financial position, results of operations or liquidity.

In December 2008, the FASB issued ASC 820-10-35, which relates to the subsequent measurement of financial instruments. Amongst other things ASC 820-10-35 provides clarification for measuring fair value in a market that is not active. ASC 820-10-35 was effective upon issuance, including prior periods for which financial statements had not been issued. Our adoption of ASC 820-10-35 for the year ended December 31, 2008 had no effect on our financial position, results of operations or liquidity.

***Results of Operations Segments***

**Three Months Ended September 30, 2009 Compared to the Three Months ended September 30, 2008**

Cemetery Segments

Our cemetery operations are disaggregated into three different geographically based segments. We have chosen this level of disaggregation 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.

We account for and analyze the results of operations for each of these segments on a basis of accounting that is different from generally accepted accounting principals in so much that we record revenues and related expenses based upon the value of contracts written rather than upon the delivery of merchandise and services. We reconcile these non-GAAP accounting results of operations to GAAP based amounts at the consolidated level. This reconciliation is included in Note 13 to the financial statements included in this Quarterly Report on Form 10-Q.

The method of accounting we utilize to analyze our segment results of operations provides for a production based view of our business. Accordingly, the ensuing segment discussion is on a basis of accounting that differs from generally accepted accounting principles. We believe that this method allows for a critical understanding of any economic value added during a given period of time.

Table of Contents

**Cemetery Operations Southeast**

The table below compares the results of operations for our Cemetery Operations Southeast for the three months ended September 30, 2009 as compared to the same period last year:

| | Three months ended September 30, 2008 | 2009 | Change ($) | Change (%) |
|---|---|---|---|---|
| | (In thousands) (non-GAAP) | | | |
| Total revenues | $ 21,978 | $ 25,657 | $ 3,679 | 16.7% |
| Total costs and expenses | 16,342 | 17,947 | 1,605 | 9.8% |
| Operating earnings | 5,636 | 7,710 | 2,074 | 36.8% |
| Interest expense | 1,252 | 1,837 | 585 | 46.7% |
| **Earnings (losses) before taxes** | $ 4,384 | $ 5,873 | $ 1,489 | 34.0% |

*Revenues*

Revenues for Cemetery Operations Southeast were $25.7 million for the three months ended September 30, 2009, an increase of $3.7 million, or 16.7%, compared to $22.0 million during the same period last year.

The increase was broad based, with increases in the value of pre-need contracts written ($1.9 million), at-need contracts written ($0.9 million) and investment income from trusts ($0.8 million).

*Total costs and expenses*

Total costs and expenses for Cemetery Operations Southeast were $17.9 million for the three months ended September 30, 2009, an increase of $1.6 million, or 9.8%, compared to $16.3 million during the same period last year.

The increase was primarily related to:

A $0.4 million increase in cost of goods sold. This was directly attributable to the corresponding increase in the value of pre-need and at-need contracts written. The ratio of cost of goods sold to the total value of contracts written actually declined by 50 basis points to 15.4% during the three months ended September 30, 2009 as compared to 15.9% during the same period last year.

A $0.5 million increase in selling expenses. This was also directly attributable to the corresponding increase in the value of pre-need and at-need contracts written. The ratio of selling expenses to the total value of contracts written actually declined by 80 basis points to 21.8% during the three months ended September 30, 2009 as compared to 22.6% during the same period last year.

A $0.3 million increase in cemetery expenses. The increase was due to a corresponding increase in labor costs. Other cemetery expenses were essentially flat.

A $0.4 million increase in general and administrative expenses. This was primarily due to a $0.2 million increase in labor costs and a $0.2 million increase in insurance.

*Interest Expense*

Interest expense for Cemetery Operations   Southeast was $1.8 million for the three months ended September 30, 2009, an increase of $0.5 million, or 46.7%, compared to $1.3 million during the same period last year. This was primarily due to an overall increase in corporate wide interest expense which in turn was primarily due to an increase in total debt outstanding.

Table of Contents

**Cemetery Operations Northeast**

The table below compares the results of operations for our Cemetery Operations Northeast for the three months ended September 30, 2009 as compared to the same period last year:

| | Three months ended September 30, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | Change ($) | Change (%) |
| | (In thousands) (non-GAAP) | | | |
| Total revenues | $ 13,745 | $ 13,332 | $ (413) | -3.0% |
| Total costs and expenses | 9,836 | 9,212 | (624) | -6.3% |
| Operating earnings | 3,909 | 4,120 | 211 | 5.4% |
| Interest expense | 620 | 665 | 45 | 7.3% |
| **Earnings (losses) before taxes** | $ 3,289 | $ 3,455 | $ 166 | 5.0% |

*Revenues*

Revenues for Cemetery Operations Northeast were $13.3 million for the three months ended September 30, 2009, a decrease of $0.4 million, or 3.0%, compared to $13.7 million during the same period last year.

The decrease was primarily due to a $0.3 million decrease in both the value of at-need contracts written and investment income from trusts offset by a $0.2 million increase in other income.

*Total costs and expenses*

Total costs and expenses for Cemetery Operations Northeast were $9.2 million for the three months ended September 30, 2009, a decrease of $0.6 million, or 6.3%, compared to $9.8 million during the same period last year.

The decrease was primarily related to:

- A $0.2 million decrease in selling expense. While this was somewhat attributable to the corresponding decrease in the value of at-need contracts written, there was also a gain in efficiency as evidenced by a 100 basis point decline in the ratio of selling expenses to revenues to 19.0% during the three months ended September 30, 2009 as compared to 20.0% during the same period last year.

- A $0.3 million decrease in cemetery expenses. The decrease was primarily due to a $0.2 million decrease in labor costs. Other changes were not material.

*Interest Expense*

Interest expense for Cemetery Operations Northeast was $0.7 million for the three months ended September 30, 2009, a slight increase of $0.1 million, or 7.3%, compared to $0.6 million during the same period last year. This was primarily due to an overall increase in corporate wide interest expense which in turn was primarily due to an increase in total debt outstanding offset by a decline in the percentage of total consolidated interest allocated to the Northeast region. This allocation is based upon projected revenues.

45

Table of Contents

**Cemetery Operations West**

The table below compares the results of operations for our Cemetery Operations West for the three months ended September 30, 2009 as compared to the same period last year:

| | Three months ended September 30, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | Change ($) | Change (%) |
| | (In thousands) (non-GAAP) | | | |
| Total revenues | $ 10,030 | $ 9,975 | $ (55) | -0.5% |
| Total costs and expenses | 7,158 | 6,571 | (587) | -8.2% |
| Operating earnings | 2,872 | 3,404 | 532 | 18.5% |
| Interest expense | 713 | 818 | 105 | 14.7% |
| **Earnings (losses) before taxes** | $ 2,158 | $ 2,586 | $ 428 | 19.8% |

*Revenues*

Revenues for Cemetery Operations West were $10.0 million for both the three months ended September 30, 2009 and during the same period last year. There was a $0.5 million increase in the value of pre-need contracts written offset by a $0.5 decrease in the value of at-need contracts written.

*Total costs and expenses*

Total costs and expenses for Cemetery Operations West were $6.6 million for the three months ended September 30, 2009, a decrease of $0.6 million, or 8.2%, compared to $7.2 million during the same period last year.

The decrease was primarily related to:

A $0.1 million decrease in the cost of goods sold. A change in product mix on the value of contracts written led to decrease in the ratio of cost of goods sold to revenue to 10.5% during the three months ended September 30, 2009 as compared to 11.7% during the same period last year.

A $0.1 million decrease in selling expense. There was a slight gain in efficiency as evidenced by a 90 basis point decline in the ratio of selling expenses to revenues to 17.8% during the three months ended September 30, 2009 as compared to 18.7% during the same period last year.

A $0.3 million decrease in cemetery expenses. The decrease was primarily due to a $0.2 million decrease in utilities and a $0.1 million decrease in cemetery maintenance.

*Interest Expense*

Interest expense for Cemetery Operations West was $0.8 million for the three months ended September 30, 2009, an increase of $0.1 million, or 14.7%, compared to $0.7 million during the same period last year. This was primarily due to an overall increase in corporate wide interest expense which in turn was primarily due to an increase in total debt outstanding.

**Funeral Home Segment**

Unlike our cemetery operations segment, there is no substantial lag between the sale and delivery of funeral home product and services. Accordingly, the production based view and resulting numbers that management utilizes to analyze our funeral home business does not differ from GAAP accounting for this segment.

**Table of Contents**

The table below compares the results of operations for our Funeral Home segment for the three months ended September 30, 2009 as compared to the same period last year:

| | Three months ended September 30, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | Change ($) | Change (%) |
| | (In thousands) | | | |
| Total revenues | $ 5,804 | $ 5,381 | $ (423) | -7.3% |
| Total costs and expenses | 4,870 | 4,729 | (141) | -2.9% |
| Operating earnings | 934 | 652 | (282) | -30.2% |
| Interest expense | 569 | 569 | | 0.0% |
| **Earnings (losses) before taxes** | $ 365 | $ 83 | $ (282) | -77.3% |

*Revenues*

Revenues for the Funeral Home segment were $5.4 million for the three months ended September 30, 2009, a decrease of $0.4 million, or 7.3%, compared to $5.8 million during the same period last year.

The decrease was primarily attributable to a $0.2 million decrease in pre-need revenues, a $0.1 million decrease in at-need revenues and a $0.1 million decrease in other revenues.

*Total costs and expenses*

Total costs and expenses as shown herein are consist of both funeral home expenses as shown on the face of the income statement and depreciation and amortization allocated to the Funeral Home segment. Total costs and expenses for the Funeral Home segment were $4.7 million for the three months ended September 30, 2009, a decrease of $0.2 million, or 2.9%, compared to $4.9 million during the same period last year.

The decrease was primarily related to a $0.1 decrease in personnel expenses and a $0.1 million decrease in general and administrative costs.

*Operating earnings*

Operating earnings for the Funeral Home segment were $0.7 million for the three months ended September 30, 2009, a decrease of $0.2 million, or 30.2%, as compared to $0.9 million during the same period last year. The $0.4 million revenue decrease was offset by the $0.2 million cost and expense decrease.

*Interest Expense*

Interest expense for the Funeral Home segment was $0.6 million for both the three months ended September 30, 2009 and for the same period last year.

**Corporate Segment**

Amounts allocated to the Corporate segment include each of the following:

Miscellaneous selling, cemetery and general administrative expenses that are not allocable to other operating segments.

Various home office and other expenses. These expenses equal the total corporate expenses as shown on the face of the income statement.

Certain depreciation and amortization expenses.

Gains and losses and purchases and sales of cemetery and funeral home properties.

Acquisition related costs.

**Table of Contents**

The table below details expenses incurred by the Corporate segment for the three months ended September 30, 2009 and for the same period last year:

| | Three months ended September 30, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | Change ($) | Change (%) |
| | (In thousand s) | | | |
| Selling, cemetery and general and administrative expenses | $ 331 | $ 335 | $ 4 | 1.2% |
| Depreciation and amortization | 356 | 705 | 349 | 98.0% |
| Acquisition related costs | 0 | (29) | (29) | n/a |
| Corporate expenses | | | | |
| Corporate personnel expenses | 2,520 | 2,562 | 42 | 1.7% |
| Other corporate expenses | 2,906 | 2,878 | (28) | -1.0% |
| Total corporate expenses | 5,426 | 5,440 | 14 | 0.3% |
| Operating loss | $ 6,113 | $ 6,451 | 338 | 5.5% |
| Interest expense | 48 | 9 | (39) | -81.3% |
| Losses before taxes | $ 6,161 | $ 6,460 | $ 299 | 4.9% |
| Personnel expenses as a % of segment revenues (1) | 4.9% | 4.7% | | |
| Other expenses as a % of segment revenues (1) | 5.6% | 5.2% | | |
| Total expenses as a % of segment revenue (1) | 10.5% | 10.0% | | |

(1) As noted in the cemetery segment sections, segment revenue is measured utilizing non-GAAP amounts. This ratio is based upon such non-GAAP amounts.

Changes to selling, cemetery and general administrative expenses that were were allocated to the Corporate segment were immaterial during the three months ended September 30, 2009 as compared to the same period last year.

Total corporate expenses were $5.4 million during both the three months ended September 30, 2009 and the same period last year. The level of corporate expenses as a percentage of revenues as measured at the segment level declined to 10.0% for the three months ended September 30, 2009 as compared to 10.5% during the same period last year.

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

As discussed in the segment sections of this Management s Discussion and Analysis of Financial Condition and Results of Operations, cemetery revenues and their associated costs as reported at the segment level are deferred until such time that we meet the delivery component for revenue recognition.

Periodic consolidated revenues reflect the amount of total merchandise and services which were delivered during the period. Accordingly, period over period changes to revenues can be impacted by:

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

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

The table below analyzes results of operations and the changes therein for the three months ended September 30, 2009 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/ or changes in the timing of when merchandise and services were delivered:

Table of Contents

| | Three months ended September 30, 2008 (in thousand s) | | | Three months ended September 30, 2009 (in thousand s) | | | | |
|---|---|---|---|---|---|---|---|---|
| | Segment Results (non-GAAP) | Changes in Deferred Revenues and Expenses | GAAP Results | Segment Results (non-GAAP) | Changes in Deferred Revenues and Expenses | GAAP Results | Change in GAAP results ($) | Change in GAAP results (%) |
| Revenues | | | | | | | | |
| Pre-need cemetery revenues | $ 23,782 | $ (4,982) | $ 18,800 | $ 25,964 | $ (5,033) | $ 20,931 | $ 2,131 | 11.3% |
| At-need cemetery revenues | 15,419 | (11) | 15,408 | 15,286 | (1,850) | 13,436 | (1,972) | -12.8% |
| Investment income from trusts | 5,034 | (953) | 4,081 | 5,793 | (979) | 4,814 | 733 | 18.0% |
| Interest income | 1,442 | | 1,442 | 1,606 | | 1,606 | 164 | 11.4% |
| Funeral home revenues | 5,804 | | 5,804 | 5,381 | | 5,381 | (423) | -7.3% |
| Other cemetery revenues | 75 | 173 | 248 | 317 | 102 | 419 | 171 | 69.0% |
| Total revenues | 51,556 | (5,773) | 45,783 | 54,347 | (7,760) | 46,587 | 804 | 1.8% |
| Costs and expenses | | | | | | | | |
| Cost of goods sold | 6,539 | (824) | 5,715 | 6,814 | (1,098) | 5,716 | 1 | 0.0% |
| Cemetery expense | 10,914 | | 10,914 | 10,599 | | 10,599 | (315) | -2.9% |
| Selling expense | 9,977 | (1,303) | 8,674 | 10,172 | (1,439) | 8,733 | 59 | 0.7% |
| General and administrative expense | 5,484 | | 5,484 | 5,797 | | 5,797 | 313 | 5.7% |
| Corporate overhead | 5,426 | | 5,426 | 5,440 | | 5,440 | 14 | 0.3% |
| Depreciation and amortization | 1,387 | | 1,387 | 1,700 | | 1,700 | 313 | 22.6% |
| Funeral home expense | 4,593 | | 4,593 | 4,417 | | 4,417 | (176) | -3.8% |
| Acquisition related costs | | | | (26) | | (26) | (26) | n/a |
| Total costs and expenses | 44,320 | (2,127) | 42,193 | 44,913 | (2,537) | 42,373 | 180 | 0.4% |
| Operating profit | 7,236 | (3,646) | 3,590 | 9,434 | (5,223) | 4,214 | 624 | 17.4% |
| Gain on sale of funeral home | | | | | | | | n/a |
| Interest expense | 3,202 | | 3,202 | 3,898 | | 3,898 | 696 | 21.7% |
| Income before taxes | 4,034 | (3,646) | 388 | 5,536 | (5,223) | 316 | (72) | -18.6% |
| State income taxes | 67 | | 67 | 195 | | 195 | 128 | 191.0% |
| Federal income taxes | (14) | | (14) | (1,279) | | (1,279) | (1,265) | 9035.7% |
| Total income taxes | 53 | | 53 | (1,084) | | (1,084) | (1,137) | -2145.3% |
| Net income | $ 3,981 | $ (3,646) | $ 335 | $ 6,620 | $ (5,223) | $ 1,400 | $ 1,065 | 317.9% |

*Revenues*

Pre-need cemetery revenues were $20.9 million for the three months ended September 30, 2009, an increase of $2.1 million, or 11.3%, as compared to $18.8 million during the same period last year. The change in deferred revenue during the three months ended September 30, 2009 ($5.0 million) was essentially identical to the change in deferred revenue during the same period last year. The overall increase in revenue was primarily caused by an increase in the delivery of pre-need markers ($0.8 million), lots ($0.8 million), vaults ($0.8 million), grave openings ($0.7 million) and grave installations ($0.7 million) offset by a decrease in the delivery of mausoleums ($1.7 million).

At-need cemetery revenues were $13.4 million for the three months ended September 30, 2009, a decrease of $2.0 million, or 12.8%, as compared to $15.4 million during the same period last year. The change was not related to a downturn in sales as evidenced by the slight increase in segment level revenues ($0.1 million) but rather a change in the delivery of sold items as evidenced by the $1.8 million change in deferred revenue. This decrease was primarily caused by a decrease in the delivery of at-need markers ($1.5 million) and bases ($0.3 million).

Investment income from trusts was $4.8 million for the three months ended September 30, 2009, an increase of $0.7 million, or 18.0%, as compared to $4.1 million during the same period last year. The increase was primarily related to realized gains on the sale of invested assets in the three months ended September 30, 2009.

Interest income on accounts receivable was $1.6 million for the three months ended September 30, 2009, an increase of $0.2 million, or 11.4%, as compared to $1.4 million during the same period last year. The change was related to the continued increase in the value of contracts written, which is in turn reflected in the continuing increase in revenues as recorded at the segment level.

Table of Contents

Revenues for the Funeral Home segment were $5.4 million for the three months ended September 30, 2009, a decrease of $0.4 million, or 7.3%, compared to $5.8 million during the same period last year. The decrease was primarily attributable to a $0.2 million decrease in pre-need revenues, a $0.1 million decrease in at-need revenues and a $0.1 million decrease in other revenues.

Other cemetery revenues were $0.4 million for the three months ended September 30, 2009, an increase of $0.2 million, or 69.0%, as compared to $0.2 million during the same period last year. Other cemetery revenues include miscellaneous items that are not grouped with our other cemetery merchandise and services.

*Costs and Expenses*

Cost of goods sold were $5.7 million during both the three months ended September 30, 2009 and during the same period last year. There was a slight improvement in the ratio of cost of goods sold to pre-need and at-need cemetery revenues at both the segment level (16.5% during the three months ended September 30, 2009 as compared to 16.7% during the same period last year) and at the consolidated level (16.6% during the three months ended September 30, 2009 as compared to 16.7% during the same period last year).

Cemetery expenses were $10.6 million during the three months ended September 30, 2009, a decrease of $0.3 million, or 2.9%, compared to $1.0 million during the same period last year. The decrease was primarily attributable to the Expense Reduction Initiative introduced during the first quarter of 2009. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 25.7% during the three months ended September 30, 2009 as compared to 27.8% during the same period last year.

Selling expenses were $8.7 million during both the three months ended September 30, 2009 and during the same period last year. There was a slight improvement in the ratio of selling expenses to pre-need and at-need cemetery revenues at the segment level (24.7% during the three months ended September 30, 2009 as compared to 25.4% during the same period last year) while the ratio at the consolidated level remained stable (25.4% during both periods).

General and administrative expenses were $5.8 million during the three months ended September 30, 2009, an increase of $0.3 million, or 5.7%, compared to $5.5 million during the same period last year. The increase was primarily attributable to an increase in corporate insurance expense ($0.3 million). General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues was 14.0% during both the three months ended September 30, 2009 and during the same period last year.

Total corporate overhead was $5.4 million during both the three months ended September 30, 2009 and the same period last year. The level of corporate overhead as a percentage of revenues as measured at the segment level declined to 10.0% for the three months ended September 30, 2009 as compared to 10.5% during the same period last year.

Depreciation and amortization was $1.7 million during the three months ended September 30, 2009, an increase of $0.3 million, or 22.6%, as compared to $1.4 million during the period last year. The increase was primarily due to an increase in the basis of depreciable assets.

Funeral home expenses were $4.4 million for the three months ended September 30, 2009, a decrease of $0.2 million, or 3.8%, compared to $4.6 million during the same period last year. The decreases were primarily related to a $0.1 decrease in personnel expenses and a $0.1 million decrease in general and administrative costs.

Interest expense was $3.9 million during the three months ended September 30, 2009, an increase of $0.7 million, or 21.7%, as compared to $3.2 million during the same period last year. The increase was primarily due to an overall increase in the average amount of debt outstanding.

**Nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008**

**Cemetery Operations    Southeast**

**Table of Contents**

The table below compares the results of operations for our Cemetery Operations Southeast for the nine months ended September 30, 2009 as compared to the same period last year:

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| | **2008** | **2009** | **Change ($)** | **Change (%)** |
| | (In thousand s) (non-GAAP) | | | |
| Total revenues | $ 67,531 | $ 74,839 | $ 7,308 | 10.8% |
| Total costs and expenses | 47,779 | 51,762 | 3,983 | 8.3% |
| Operating earnings | 19,752 | 23,077 | 3,325 | 16.8% |
| Interest expense | 3,863 | 4,653 | 790 | 20.5% |
| **Earnings (losses) before taxes** | $ 15,889 | $ 18,423 | $ 2,534 | 15.9% |

*Revenues*

Revenues for Cemetery Operations Southeast were $74.8 million for the nine months ended September 30, 2009, an increase of $7.3 million, or 10.8%, compared to $67.5 million during the same period last year.

The increase was broad based, with increases in the value of pre-need contracts written ($5.1 million), at-need contracts written ($1.2 million), investment income from trusts ($0.5 million) and other cemetery revenues.

*Total costs and expenses*

Total costs and expenses for Cemetery Operations Southeast were $51.8 million for the nine months ended September 30, 2009, an increase of $4.0 million, or 8.3%, compared to $47.8 million during the same period last year.

The increase was primarily related to:

A $1.5 million increase in cost of goods sold. This was directly attributable to the corresponding increase in the value of pre-need and at-need contracts written and a slight increase in the ratio of cost of goods sold to the total value of contracts written. The ratio of cost of goods sold to the total value of contracts written increased by 50 basis points to 15.9% during the nine months ended September 30, 2009 as compared to 15.4% during the same period last year.

A $1.4 million increase in selling expenses. This was also directly attributable to the corresponding increase in the value of pre-need and at-need contracts written. The ratio of selling expenses to the total value of contracts written actually declined by 40 basis points to 22.2% during the nine months ended September 30, 2009 as compared to 22.6% during the same period last year.

A $0.3 million increase in cemetery expenses. The increase was due to a $0.5 million increase in labor costs offset by a $0.2 million decrease in other cemetery costs.

A $0.8 million increase in general and administrative expenses. This was primarily due to a $0.4 million increase in labor costs and a $0.4 million increase in insurance.

*Interest Expense*

Interest expense for Cemetery Operations Southeast was $4.7 million for the nine months ended September 30, 2009, an increase of $0.8 million, or 20.5%, compared to $3.9 million during the same period last year. This was primarily due to an overall increase in corporate wide interest expense which in turn was primarily due to an increase in total debt outstanding.

**Cemetery Operations Northeast**

51

Table of Contents

The table below compares the results of operations for our Cemetery Operations Northeast for the nine months ended September 30, 2009 as compared to the same period last year:

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | Change ($) | Change (%) |
| | (In thousands) (non-GAAP) | | | |
| Total revenues | $ 41,638 | $ 41,868 | $ 230 | 0.6% |
| Total costs and expenses | 29,798 | 28,200 | (1,598) | -5.4% |
| Operating earnings | 11,840 | 13,668 | 1,828 | 15.4% |
| Interest expense | 2,020 | 1,871 | (149) | -7.4% |
| **Earnings (losses) before taxes** | $ 9,820 | $ 11,796 | $ 1,976 | 20.1% |

*Revenues*

Revenues for Cemetery Operations Northeast were $41.9 million for the nine months ended September 30, 2009, an increase of $0.2 million, or 0.6%, compared to $41.6 million during the same period last year.

The increase was primarily due to a $0.1 million increase in both investment income from trusts and other cemetery income.

*Total costs and expenses*

Total costs and expenses for Cemetery Operations Northeast were $28.2 million for the nine months ended September 30, 2009, a decrease of $1.6 million, or 5.4%, compared to $29.8 million during the same period last year.

The decreases were primarily related to:

- A $0.7 million decrease in cost of goods sold. This was directly attributable to a decrease in the ratio of cost of goods sold to the total value of contracts written. The ratio of cost of goods sold to the total value of contracts written decreased by 180 basis points to 12.9% during the nine months ended September 30, 2009 as compared to 14.7% during the same period last year.

- A $0.7 million decrease in cemetery expenses. The decrease was primarily due to a $0.4 million decrease in labor costs and a $0.3 million decrease in other cemetery expenses.

*Interest Expense*

Interest expense for Cemetery Operations Northeast was $1.9 million for the nine months ended September 30, 2009, a decrease of $0.1 million, or 7.4%, compared to $2.0 million during the same period last year. This was primarily due to a decline in the proportion of overall consolidated interest expense allocated to the Northeast region as opposed to an overall decline in consolidated interest. This allocation was based upon projected revenues.

**Cemetery Operations West**

Table of Contents

The table below compares the results of operations for our Cemetery Operations West for the nine months ended September 30, 2009 as compared to the same period last year:

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | Change ($) | Change (%) |
| | (In thousands) (non-GAAP) | | | |
| Total revenues | $ 31,747 | $ 30,904 | $ (843) | -2.7% |
| Total costs and expenses | 20,882 | 20,501 | (381) | -1.8% |
| Operating earnings | 10,865 | 10,403 | (462) | -4.3% |
| Interest expense | 1,979 | 2,196 | 217 | 11.0% |
| **Earnings (losses) before taxes** | $ 8,886 | $ 8,207 | $ (679) | -7.6% |

*Revenues*

Revenues for Cemetery Operations West were $30.9 million during the nine months ended September 30, 2009, a decrease of $0.8 million, or 2.7%, as compared to $31.7 million during the same period last year. The decline was primarily attributable to a decrease in the value of at-need contracts written ($1.1 million) and investment income from trusts ($1.0 million) offset by an increase in the value of pre-need contracts written ($1.3 million).

*Total costs and expenses*

Total costs and expenses for Cemetery Operations West were $20.5 million for the nine months ended September 30, 2009, a decrease of $0.4 million, or 1.8%, as compared to $20.9 million during the same period last year.

The decrease was primarily related to a $0.5 decrease in cemetery expenses which in turn were driven by an $0.2 million decrease in both real estate taxes and utility expenses.

*Interest Expense*

Interest expense for Cemetery Operations West was $2.2 million for the nine months ended September 30, 2009, an increase of $0.2 million, or 11.0%, compared to $2.0 million during the same period last year. This was primarily due to an overall increase in corporate wide interest expense which in turn was primarily due to an increase in total debt outstanding.

**Funeral Home Segment**

Unlike our cemetery operations segment, there is no substantial lag between the sale and delivery of funeral home product and services. Accordingly, the production based view and resulting numbers that management utilizes to analyze our funeral home business does not differ from GAAP accounting for this segment.

**Table of Contents**

The table below compares the results of operations for our Funeral Home segment for the nine months ended September 30, 2009 as compared to the same period last year:

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | Change ($) | Change (%) |
| | (In thousand s) | | | |
| Total revenues | $ 17,612 | $ 17,412 | $ (200) | -1.1% |
| Total costs and expenses | 14,455 | 14,705 | 250 | 1.7% |
| Operating earnings | 3,157 | 2,707 | (450) | -14.3% |
| Interest expense | 569 | 569 | | 0.0% |
| **Earnings (losses) before taxes** | $ 2,588 | $ 2,138 | $ (450) | -17.4% |

*Revenues*

Revenues for the Funeral Home segment were $17.4 million for the nine months ended September 30, 2009, a decrease of $0.2 million, or 1.1%, compared to $17.6 million during the same period last year.

The decrease was primarily attributable to a $0.7 million decrease in at-need revenues offset by a $0.4 million increase in pre-need revenues and a $0.2 million increase in other revenues.

*Total costs and expenses*

Total costs and expenses as shown herein are consist of both funeral home expenses as shown on the face of the income statement and depreciation and amortization allocated to the Funeral Home segment. Total costs and expenses for the Funeral Home segment were $14.7 million for the nine months ended September 30, 2009, an increase of $0.2 million, or 1.7%, compared to $14.5 million during the same period last year.

The increase was primarily related to a $0.3 increase in depreciation and amortization.

*Interest Expense*

Interest expense for the Funeral Home segment was $0.6 million for both the nine months ended September 30, 2009 and for the same period last year.

**Corporate Segment**

Amounts allocated to the Corporate segment include each of the following:

Miscellaneous selling, cemetery and general administrative expenses that are not allocable to other operating segments.

Various home office and other expenses. These expenses equal the total corporate expenses as shown on the face of the income statement.

Certain depreciation and amortization expenses.

Gains and losses and purchases and sales of cemetery and funeral home properties.

Acquisition related costs.

54

Table of Contents

The table below details expenses incurred by the Corporate segment for the nine months ended September 30, 2009 and for the same period last year:

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | Change ($) | Change (%) |
| | (In thousands) | | | |
| Selling, cemetery and general and administrative expenses | $ 1,022 | $ 698 | $ (324) | -31.7% |
| Depreciation and amortization | 1,022 | 1,911 | 889 | 87.0% |
| Acquisition related costs | 0 | 2,099 | 2,099 | n/a |
| Corporate expenses | | | | |
| Corporate personnel expenses | 7,462 | 7,724 | 262 | 3.5% |
| Other corporate expenses | 8,981 | 8,579 | (402) | -4.5% |
| Total corporate expenses | 16,443 | 16,303 | (140) | -0.9% |
| Operating loss | $ 18,487 | $ 21,011 | 2,524 | 13.7% |
| Gain on sale of funeral home | | 475 | 475 | n/a |
| Interest expense | 1,090 | 980 | (110) | -10.1% |
| Losses before taxes | $ 19,577 | $ 21,517 | $ 1,940 | 9.9% |
| Personnel expenses as a % of segment revenues (1) | 4.7% | 4.7% | | |
| Other expenses as a % of segment revenues (1) | 5.7% | 5.2% | | |
| Total corporate expenses as a % of segment revenue (1) | 10.4% | 10.0% | | |

(1) As noted in the cemetery segment sections, segment revenue is measured utilizing non-GAAP amounts. This ratio is based upon such non-GAAP amounts.

*Acquisition related costs*

On January 1, 2009, we adopted ASC 805. Amongst other things, ASC 805 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. ASC 805 required us to expense these costs upon our adoption of the standard. ASC 805 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 $2.1 million included in our corporate segment for the nine months ended September 30, 2009 includes $1.4 million of costs incurred and paid in prior years and $0.7 million of costs incurred in the nine months ended September 30, 2009.

*Total Corporate Expenses*

Total corporate expenses were $16.3 million during the nine months ended September 30, 2009, a decrease of $0.1 million, or 0.9%, as compared to $16.4 million during the same period last year. All of this decrease was related to non-personnel costs. The level of corporate expenses as a percentage of revenues as measured at the segment level declined to 10.0% for the nine months ended September 30, 2009 as compared to 10.4% during the same period last year.

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

As discussed in the segment sections of this Management s Discussion and Analysis of Financial Condition and Results of Operations, cemetery revenues and their associated costs as reported at the segment level are deferred until such time that we meet the delivery component for revenue recognition.

**Table of Contents**

Periodic consolidated revenues reflect the amount of total merchandise and services which were delivered during the period. Accordingly, period over period changes to revenues can be impacted by:

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

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

**Table of Contents**

The table below analyzes results of operations and the changes therein for the nine months ended September 30, 2009 as compared to the same period last year. The table is structured so that our readers can determine whether changes were based upon changes in the level of merchandise and services and other revenues generated during each period and/ or changes in the timing of when merchandise and services were delivered:

| | Nine months ended September 30, 2008 (in thousand s) | | | Nine months ended September 30, 2009 (in thousand s) | | | | |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | **Segment Results (non-GAAP)** | **Changes in Deferred Revenues and Expenses** | **GAAP Results** | **Segment Results (non-GAAP)** | **Changes in Deferred Revenues and Expenses** | **GAAP Results** | **Change in GAAP results ($)** | **Change in GAAP results (%)** |
| Pre-need cemetery revenues | $ 69,239 | $ (17,579) | $ 51,660 | $ 76,364 | $ (20,321) | $ 56,043 | $ 4,383 | 8.5% |
| At-need cemetery revenues | 48,733 | (30) | 48,703 | 48,208 | (5,719) | 42,489 | (6,214) | -12.8% |
| Investment income from trusts | 17,530 | (4,173) | 13,357 | 16,913 | (2,398) | 14,515 | 1,158 | 8.7% |
| Interest income | 4,345 | | 4,345 | 4,639 | | 4,639 | 294 | 6.8% |
| Funeral home revenues | 17,612 | | 17,612 | 17,412 | | 17,412 | (200) | -1.1% |
| Other cemetery revenues | 1,069 | 387 | 1,456 | 1,488 | 401 | 1,889 | 433 | 29.7% |
| Total revenues | 158,528 | (21,395) | 137,133 | 165,024 | (28,037) | 136,987 | (146) | -0.1% |
| Costs and expenses | | | | | | | | |
| Cost of goods sold | 19,969 | (2,965) | 17,004 | 20,776 | (4,102) | 16,674 | (330) | -1.9% |
| Cemetery expense | 31,367 | | 31,367 | 30,450 | | 30,450 | (917) | -2.9% |
| Selling expense | 30,216 | (4,416) | 25,800 | 31,218 | (6,037) | 25,181 | (619) | -2.4% |
| General and administrative expense | 16,014 | | 16,014 | 16,687 | | 16,687 | 673 | 4.2% |
| Corporate overhead | 16,443 | | 16,443 | 16,303 | | 16,303 | (140) | -0.9% |
| Depreciation and amortization | 3,393 | | 3,393 | 4,718 | | 4,718 | 1,325 | 39.1% |
| Funeral home expense | 13,998 | | 13,998 | 13,929 | | 13,929 | (69) | -0.5% |
| Acquisition related costs | | | | 2,099 | | 2,099 | 2,099 | n/a |
| Total costs and expenses | 131,400 | (7,381) | 124,019 | 136,180 | (10,139) | 126,038 | 2,019 | 1.6% |
| Operating profit | 27,128 | (14,014) | 13,114 | 28,844 | (17,898) | 10,949 | (2,165) | -16.5% |
| Gain on sale of funeral home | | | | 475 | | 475 | 475 | n/a |
| Interest expense | 9,521 | | 9,521 | 10,269 | | 10,269 | 748 | 7.9% |
| Income before taxes | 17,607 | (14,014) | 3,593 | 19,050 | (17,898) | 1,155 | (2,438) | -67.9% |
| State income taxes | 479 | | 479 | 396 | | 396 | (83) | -17.3% |
| Federal income taxes | 89 | | 89 | (1,415) | | (1,415) | (1,504) | -1689.9% |
| Total income taxes | 568 | | 568 | (1,019) | | (1,019) | (1,587) | -279.4% |
| Net income | $ 17,039 | $ (14,014) | $ 3,025 | $ 20,069 | $ (17,898) | $ 2,174 | $ (851) | -28.1% |

*Revenues*

Pre-need cemetery revenues were $56.0 million for the nine months ended September 30, 2009, an increase of $4.3 million, or 8.5%, as compared to $51.7 million during the same period last year. The increase in deferred revenue during the nine months ended September 30, 2009 ($20.3 million) was $2.5million higher than during the same period last year ($17.8 million). The overall increase in revenue was primarily caused by an increase in the delivery of pre-need grave openings ($1.8 million), lots ($1.6 million), vaults ($1.5 million) and markers ($1.0 million) offset by a decrease in the delivery of mausoleums ($2.5 million).

At-need cemetery revenues were $42.5 million for the nine months ended September 30, 2009, a decrease of $6.2 million, or 12.8%, as compared to $48.7 million during the same period last year. The change was not related to a downturn in sales as evidenced by only a slight decrease in segment level revenues ($0.5 million) but rather a change in the delivery of sold items as evidenced by the $5.7 million change in the increase in deferred revenue.

Investment income from trusts was $14.5 million for the nine months ended September 30, 2009, an increase of $1.2 million, or 8.7%, as compared to $13.3 million during the same period last year. The increase was primarily related to realized gains on the sale of invested assets in the nine months ended September 30, 2009.

Interest income on accounts receivable was $4.6 million for the nine months ended September 30, 2009, an increase of $0.3 million, or 6.8%, as compared to $4.3 million during the same period last year. The change was related to the continued increase in the value of contracts written, which is in turn reflected in the continuing increase in revenues as recorded at the segment level.

Funeral Home revenues were $17.4 million for the nine months ended September 30, 2009, a decrease of $0.2 million, or 1.1%, compared to $17.6 million during the same period last year. The decrease was primarily attributable to a $0.7 million decrease in at-need revenues offset by a $0.4 million increase in pre-need revenues and a $0.2 million increase in other revenues.

**Table of Contents**

Other cemetery revenues were $1.9 million for the nine months ended September 30, 2009, an increase of $0.4 million, or 29.7%, as compared to $1.5 million during the same period last year. Other cemetery revenues include miscellaneous items that are not grouped with our other cemetery merchandise and services.

*Costs and Expenses*

Cost of goods sold was $16.7 million during the nine months ended September 30, 2009, a decrease of $0.3 million, or 1.9%, as compared to $17.0 million during the same period last year. There was a slight improvement in the ratio of cost of goods sold to pre-need and at-need cemetery revenues at the segment level (16.7% during the nine months ended September 30, 2009 as compared to 16.9% during the same period last year) while the ratio of cost of goods sold to pre-need and at-need cemetery revenues was 16.9% during both the nine months ended September 30, 2009 and during the same period last year.

Cemetery expenses were $30.5 million during the nine months ended September 30, 2009, a decrease of $0.9 million, or 2.9%, compared to $31.4 million during the same period last year. The decrease was primarily attributable to the Expense Reduction Initiative introduced during the first quarter of 2009. Cemetery expenses relate to the current costs of managing and maintaining our cemetery properties. These costs are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring cemetery expenses is as a ratio of segment level pre-need and at-need cemetery revenues. The ratio of cemetery expenses to segment level pre-need and at-need cemetery revenues was 24.4% during the nine months ended September 30, 2009 as compared to 26.6% during the same period last year.

Selling expenses were $25.2 million during the nine months ended September 30, 2009, a decrease of $0.6 million, or 2.4%, as compared to $25.8 million during the same period last year. There was a slight improvement in the ratio of selling expenses to pre-need and at-need cemetery revenues at the segment level (25.1% during the nine months ended September 30, 2009 as compared to 25.6% during the same period last year) while the ratio at the consolidated level remained stable (25.6% during both periods).

General and administrative expenses were $16.7 million during the nine months ended September 30, 2009, an increase of $0.7 million, or 4.2%, compared to $16.2 million during the same period last year. The biggest driver of this increase was an increase in corporate insurance expense ($0.5 million). General and administrative expenses are expensed as incurred and are not deferred. Accordingly, from a margin standpoint, the most effective gauge of measuring general and administrative expenses is as a ratio of segment level pre-need and at-need cemetery revenues. The ratio of general and administrative expenses to segment level pre-need and at-need cemetery revenues was 13.4% during the nine months ended September 30, 2009 as compared to 13.6% during the same period last year.

Total corporate overhead was $16.3 million during the nine months ended September 30, 2009, a decrease of $0.1 million, or 0.9%, as compared to $16.4 million during the same period last year. All of this decrease was related to non-personnel costs. The level of corporate overhead as a percentage of revenues as measured at the segment level declined to 10.0% for the nine months ended September 30, 2009 as compared to 10.4% during the same period last year.

Depreciation and amortization was $4.7 million during the nine months ended September 30, 2009, an increase of $1.3 million, or 39.1%, as compared to $3.4 million during the period last year. The increase was primarily due to an increase in the basis of depreciable assets.

Funeral Home expenses were $13.9 million for the nine months ended September 30, 2009, essentially unchanged from the $14.0 million total during the same period last year.

Acquisition related costs were $2.1 million during the nine months ended September 30, 2009. On January 1, 2009, we adopted ASC 805. ASC 805 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. ASC 805 required us to expense these costs upon our adoption of the standard. ASC 805 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 $2.1 million included in our corporate segment for the nine months ended September 30, 2009 includes $1.4 million of costs incurred and paid in prior years and $0.7 million of costs incurred in the nine months ended September 30, 2009.

Table of Contents

We sold a single funeral home during the nine months ended September 30, 2009. Proceeds received for the sale totaled approximately $0.5 million. The funeral home had a book value of less than $0.1 million at the time of the sale. We recognized a gain on this sale of approximately $0.4 million.

Interest expense was $10.3 million during the nine months ended September 30, 2009, an increase of $0.7 million, or 7.9%, as compared to $9.6 million during the same period last year. The increase was primarily due to an overall increase in the average amount of debt outstanding.

**Supplemental data**

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

| | Three Months Ended 30-Sep-08 | Three Months Ended 30-Sep-09 | Nine Months Ended 30-Sep-08 | Nine Months Ended 30-Sep-09 |
|---|---|---|---|---|
| **Operating Data:** | | | | |
| Interments performed | 8,869 | 9,163 | 29,023 | 28,226 |
| Cemetery revenues per interment performed | 4,508 | 4,497 | 4,118 | 4,236 |
| Interment rights sold (1): | | | | |
| Lots | 5,629 | 5,320 | 17,361 | 17,587 |
| Mausoleum crypts (including pre-construction) | 325 | 594 | 1,488 | 1,756 |
| Niches | 146 | 226 | 647 | 683 |
| Total interment rights sold | 6,100 | 6,140 | 19,496 | 20,026 |
| Number of contracts written | 19,953 | 20,832 | 60,886 | 62,963 |
| Aggregate contract amount, in thousands (excluding interest) | $ 47,058 | $ 49,366 | $ 141,327 | $ 150,073 |
| Average amount per contract (excluding interest) | $ 2,358 | $ 2,370 | $ 2,321 | $ 2,384 |
| Number of pre-need contracts written | 9,288 | 9,971 | 26,955 | 29,679 |
| Aggregate pre-need contract amount, in thousands (excluding interest) | $ 29,425 | $ 31,957 | $ 86,856 | $ 95,100 |
| Average amount per pre-need contract (excluding interest) | $ 3,168 | $ 3,205 | $ 3,222 | $ 3,204 |
| Number of at-need contracts written | 10,665 | 10,861 | 33,931 | 33,284 |
| Aggregate at-need contract amount, in thousands | $ 17,633 | $ 17,409 | $ 54,472 | $ 54,974 |
| Average amount per at-need contract | $ 1,653 | $ 1,603 | $ 1,605 | $ 1,652 |

**Liquidity and Capital Resources**

***Overview***

Our primary short-term liquidity needs are to fund general working capital requirements, make acquisitions, make distributions to our partners, 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 or through bank financing. The current constraints in the capital markets may affect our ability to obtain funding through new borrowings or the issuance of debt or 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 attached to the Quarterly Report on Form 10-Q for the Quarter ended June 30, 2009 as Exhibits 10.1 and 10.2, respectively. Capitalized terms which are not defined herein 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.

Included in our debt covenants is a Consolidated Leverage Ratio (the Leverage Ratio ) that will limit our ability to undertake additional debt financing. The Leverage Ratio compares the total of outstanding debt as of a given date to a calculation of EBITDA as defined in the Second Amendment during the prior 12 months. The Leverage Ratio must be lesser than or equal to 3.75 to 1.0 until March 31, 2010 and 3.50 to 1.0 thereafter. The Leverage Ratio at September 30, 2009 was 3.63.

We were in compliance with all of our debt covenants at September 30, 2009.

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. We requested a $5 million increase in the size of the Acquisition Facility to a maximum aggregate principal amount of $107.85 million. Pursuant to a Lender Joinder to the Credit Agreement dated June 24, 2009, Beneficial Mutual Savings Bank provided the commitment for such requested increase.

**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

Table of Contents

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 were 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 was to be deemed increased up to $180 million and the Acquisition Facility Cap increased up to $145 million if we obtained commitments from additional lenders for up to $42.15 million within 120 days of April 30, 2009. The Aggregate Credit Facility Cap was to be increased up to $205 million, with the Acquisition Facility Cap increased up to $160 million and the Revolving Credit Facility Cap increased up to $45 million with the approval of the holders of at least a majority principal amount of the Shelf Notes, which was not be unreasonably withheld. Subsequently, in June of 2009, we obtained an additional commitment of $5.0 million on our Acquisition Facility and the necessary approvals to increase the Aggregate Credit Facility Cap up to $205 million, with the Acquisition Facility Cap increased to $160 million and the Revolving Credit Facility Cap increased to $45 million.

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.

We were in compliance with all of our debt covenants at September 30, 2009.

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.

**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 Notes.

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

Cash flows provided by operating activities were $14.7 million for the nine months ended September 30, 2009, as compared to $19.1 million during the same period last year.

Cash flows from operations during the nine months ended September 30, 2009 ($14.7 million) significantly outpaced our net income ($2.2 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 $11.0 million during the nine months ended September 30, 2009 as compared to $11.3 million during the same period last year. Cash flows used for investing activities during the nine months ended September 30, 2009 were primarily utilized for the acquisition of three cemetery properties ($6.2 million) and routine additions to cemetery property and equipment ($5.2 million).

***Cash Flow from Financing Activities***

Cash flows used in financing activities were $1.4 million during the nine months ended September 30, 2009 as compared to $8.3 million during the same period last year. Cash flows used in financing activities for the nine months ended September 30, 2009 was primarily the payment of partner distributions ($20.4 million) and cash utilized to pay expenses related to the Second Amendment ($5.3 million) offset by additional net borrowings of $24.5 million.

62

Table of Contents

***Capital Expenditures***

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

| | Three months ended September 30, 2008 | Three months ended September 30, 2009 |
|---|---|---|
| | (In thousands) | |
| Maintenance capital expenditures | $ 723 | $ 474 |
| Expansion capital expenditures | 3,576 | 1,429 |
| Total capital expenditures | $ 4,299 | $ 1,903 |

| | Nine months ended September 30, 2008 | Nine months ended September 30, 2009 |
|---|---|---|
| | (In thousands) | |
| Maintenance capital expenditures | $ 3,713 | $ 1,535 |
| Expansion capital expenditures | 7,571 | 3,669 |
| Total capital expenditures | $ 11,284 | $ 5,204 |

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 3. Quantitative and Qualitative Disclosure About Market Risk**

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

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

63

Table of Contents

**Interest-Bearing Investments**

Our fixed-income securities subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of September 30, 2009, the fair value of fixed-income securities in our merchandise trusts represented 14.3% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 22.7% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $27.9 million and $42.3 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2009. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $279,000 and $423,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively, based on discounted expected future cash flows. If these securities are held to maturity, no change in fair market value will be realized.

Our money market and other short-term investments subject to market risk consist primarily of investments in our merchandise trusts and perpetual care trusts. As of September 30, 2009, the fair value of money market and short-term investments in our merchandise trusts represented 5.5% of the fair value of total trust assets while the fair value of fixed-income securities in our perpetual care trusts represented 4.5% of the fair value of total trust assets. The aggregate quoted fair value of these fixed-income securities was $10.6 million and $8.3 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2009. Each 1% change in interest rates on these fixed-income securities would result in changes of approximately $106,000 and $83,000 in the fair market value of the assets in our merchandise trusts and perpetual care trusts, respectively.

**Marketable Equity Securities**

Our marketable equity securities subject to market risk consist primarily of investments held in our merchandise trusts and perpetual care trusts. These assets consist of both individual equity securities as well as closed and open ended mutual funds. As of September 30, 2009, the fair value of marketable equity securities in our merchandise trusts represented 80.2% of the fair value of total trust assets while the fair value of marketable equity securities in our perpetual care trusts represented 72.8% of total trust assets. The aggregate quoted fair market value of these marketable equity securities was $156.0 million and $135.5 million in merchandise trusts and perpetual care trusts, respectively, as of September 30, 2009, based on final quoted sales prices. Each 10% change in the average market prices of the equity securities would result in a change of approximately $15.6 million and $13.6 million in the fair market value of securities held in merchandise trusts and perpetual care trusts, respectively.

**Investment Strategies and Objectives**

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

- State in a written document our expectations, objectives, tolerances for risk and guidelines in the investment of our assets;
- Set forth a disciplined and consistent structure for managing all trust assets. This structure is based on a long-term asset allocation strategy, which is diversified across asset classes, investment styles and strategies. We believe this structure is likely to meet our stated objectives within our tolerances for risk and variability. This structure also includes ranges around the target allocations allowing for adjustments when appropriate to reduce risk or enhance returns. It further includes guidelines for the selection of investment managers and vehicles through which to implement the investment strategy;
- Provide specific guidelines for each investment manager. These guidelines control the level of overall risk and liquidity assumed in each portfolio;
- Appoint third-party investment advisors to oversee the specific investment managers and advise our Trust and Compliance Committee; and

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

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

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

Table of Contents

In order to consistently achieve the stated return objectives within our tolerance for risk, we use a strategy of allocating appropriate portions of our portfolio to a variety of asset classes with attractive risk and return characteristics, and low to moderate correlations of returns. See the notes to our unaudited condensed consolidated financial statements for a breakdown of the assets held in our merchandise trusts and perpetual care trusts by asset class.

**Debt Instruments**

Our Acquisition Credit Facility and Revolving Credit Facility bear interest at a floating rate, based on LIBOR, which is adjusted quarterly. These credit facilities will subject us to increases in interest expense resulting from movements in interest rates. As of September 30, 2009, we had outstanding borrowings of $101.2 million under our Acquisition Credit Facility and $29.2 million under our Revolving Credit Facility. The interest rate on these facilities was 6.25% at September 30, 2009.

## Item 4. Controls and Procedures

**Disclosure Controls and Procedures**

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Disclosure Committee and management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon, and as of the date of this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in our reports under the Securities Exchange Act of 1934 as amended is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# Part II Other Information

## Item 1. Legal Proceedings

We and certain of our subsidiaries may from time to time be parties to legal proceedings that have arisen in the ordinary course of business. While the outcome of these proceedings cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

We carry insurance that we believe to be adequate. Although there can be no assurance that such insurance is sufficient to protect us against all contingencies, management believes that our insurance protection is reasonable in view of the nature and scope of our operations.

## Item 1A. Risk Factors Related to Our Business

Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the risks set forth below. The risks described below should not be considered comprehensive and all-inclusive. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations, financial condition and results of operations. If any events occur that give rise to the following risks, our business, financial condition or results of operations could be materially and adversely impacted. These risk factors should be read in conjunction with other information set forth in this Quarterly Report on Form 10-Q and our Annual Report on Form

10-K for the fiscal year ended December 31, 2008, including our consolidated financial statements and the related notes. Many such factors are beyond our ability to control or predict. Investors are cautioned not to put undue reliance on forward-looking statements.

Table of Contents

***We may not have sufficient cash from operations to pay the minimum quarterly distribution after we have paid our expenses, including the expenses of our general partner, funded merchandise and perpetual care trusts and established necessary cash reserves.***

The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from operations, which fluctuates from quarter to quarter based on, among other things:

- the volume of our sales;
- the prices at which we sell our products and services; and
- the level of our operating and general and administrative costs.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, such as working capital borrowings, capital expenditures and funding requirements for trusts and our ability to withdraw amounts from trusts.

If we do not generate sufficient cash to pay the minimum quarterly distribution on the common units or the subordinated units, the market price of the common units may decline materially.

***Our substantial level of indebtedness could materially adversely affect our ability to generate sufficient cash for distribution to our partners.***

We have a substantial amount of debt, which requires significant interest and principal payments. As of September 30, 2009, we had $184.7 million of total debt outstanding. Leverage makes us more vulnerable to economic downturns. Because we are obligated to dedicate a portion of our cash flow to service our debt obligations, our cash flow available for operations and for distribution to our partners will be reduced. The amount of indebtedness we have could limit our flexibility in planning for, or reacting to, changes in the markets in which we compete, limit our ability to obtain additional financing, if necessary, for working capital expenditures, acquisitions or other purposes, and require us to dedicate more cash flow to service our debt than we desire. Our ability to satisfy our indebtedness as required by the terms of our debt will be dependent on, among other things, the successful execution of our long-term strategic plan. Subject to limitations in our debt obligations, we may incur additional debt in the future, for acquisitions or otherwise, and servicing this debt could further limit our cash flow.

***Restrictions in our existing and future debt agreements could limit our ability to make distributions to you or capitalize on acquisition and other business opportunities.***

The operating and financial restrictions and covenants in our debt obligations and any future financing agreements could restrict our ability to finance future operations or capital needs or to expand or pursue our business activities. For example, our debt obligations contain covenants that restrict or limit our ability to:

- enter into a new line of business;
- enter into any agreement of merger or acquisition;
- sell, transfer, assign or convey assets;
- grant certain liens;

- incur or guarantee additional indebtedness;
- make certain loans, advances and investments;
- declare and pay dividends and distributions;
- enter into transactions with affiliates; and
- make voluntary payments or modifications of indebtedness.

In addition, these debt obligations contain covenants requiring us to maintain certain financial ratios and tests. These restrictions may also limit our ability to obtain future financings. Our ability to comply with the covenants and restrictions contained in our debt obligations may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market

Table of Contents

or other economic conditions continue to deteriorate, our ability to comply with these covenants may be impaired. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Long-Term Debt included in our Form 10-K for the fiscal year ended December 31, 2008 and this Quarterly Report on Form 10-Q. If we violate any of the restrictions, covenants, ratios or tests in our debt obligations, the lenders will be able to accelerate the maturity of all borrowings thereunder and demand repayment of amounts outstanding, and our lenders commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of our obligations or any new indebtedness could have similar or greater restrictions.

***Current economic conditions may result in a decrease in cemetery merchandise and services revenues.***

During the months of November and December of 2008, we experienced a reduction in the value of contracts written for pre-need cemetery merchandise and services, which we believed resulted from the current economic downturn. Any further economic downturn could have a negative effect on future revenues from pre-need cemetery merchandise and services. It is also possible that any further economic downturn might lead to a decline in sales of at-need and funeral home merchandise and services.

***Adverse conditions in the financial markets have reduced the principal and may reduce the earnings of the investments held in merchandise and perpetual care trusts and adversely affect our revenues and cash flow.***

A substantial portion of our revenue is generated from investment returns that we realize from merchandise and perpetual care trusts. The 2008 and early 2009 decline in the prices of most corporate debt and equity securities significantly reduced the fair value of the assets held in these trusts. Future cash flows could be negatively impacted if we are forced to liquidate assets that are in impaired positions.

We invest primarily for current income. We rely on the interest and dividends paid by the assets in our trusts to provide both revenue and cash flow. Interest income from fixed-income securities is particularly susceptible to changes in interest rates and declines in credit worthiness while dividends from equity securities are susceptible to the issuer s ability to make such payments.

Any decline in the interest rate environment or the credit worthiness of our debt issuers or any suspension or reduction of dividends could have a material adverse effect on our financial condition and results of operations.

In addition, any significant or sustained unrealized investment losses could result in merchandise trusts having insufficient funds to cover our cost of delivering products and services. In this scenario, we would be required to use our operating cash to deliver those products and perform those services, which could decrease our cash available for distribution.

***Pre-need sales typically generate low or negative cash flow in the periods immediately following sales which could adversely affect our ability to make distributions to our partners.***

When we sell cemetery merchandise and services on a pre-need basis, we pay commissions on the sale to our salespeople and are required by state law to deposit a portion of the sales proceeds into a merchandise trust. In addition, most of our customers finance their pre-need purchases under installment contracts payable over a number of years. Depending on the trusting requirements of the states in which we operate, the applicable sales commission rates and the amount of the down payment, our cash flow from sales to customers through installment contracts is typically negative until we have paid the sale commission due on the sale or until we purchase the products or perform the services and are permitted to withdraw funds we have deposited in the merchandise trust. To the extent we increase pre-need sales, state trusting requirements are increased or we delay the purchase of the products or performance of the services we sell on a pre-need basis, our cash flow immediately following pre-need sales may be further reduced, and our ability to make distributions to our partners could be adversely affected.

***Because fixed costs are inherent in our business, a decrease in our revenues can have a disproportionate effect on our cash flow and profits.***

Our business requires us to incur many of the costs of operating and maintaining facilities, land and equipment regardless of the level of sales in any given period. For example, we must pay salaries, utilities, property taxes and maintenance costs on our cemetery properties and funeral homes regardless of the number of interments or funeral services we perform. If we cannot decrease these costs significantly or rapidly when we experience declines in sales, declines in sales can cause our margins, profits and cash flow to decline at a greater rate than the decline in our revenues.

Table of Contents

***Our failure to attract and retain qualified sales personnel and management could have an adverse effect on our business and financial condition.***

Our ability to attract and retain a qualified sales force and other personnel is an important factor in achieving future success. Buying cemetery and funeral home products and services, especially at-need products and services, is very emotional for most customers, so our sales force must be particularly sensitive to our customers needs. We cannot assure you that we will be successful in our efforts to attract and retain a skilled sales force. If we are unable to maintain a qualified and productive sales force, our revenues may decline, and our cash available for distribution may decrease.

We are also dependent upon the continued services of our key officers. The loss of any of our key officers could have a material adverse effect on our business, financial condition and results of operations. We may not be able to locate or employ on acceptable terms qualified replacements for senior management or key employees if their services were no longer available. We do not maintain key employee insurance on any of our executive officers.

***We may not be able to identify, complete, fund or successfully integrate additional cemetery acquisitions which could have an adverse affect on our results of operations.***

A primary component of our business strategy is to grow through acquisitions of cemeteries and, to a lesser extent, funeral homes. We cannot assure you that we will be able to identify and acquire cemeteries on terms favorable to us or at all. We may face competition from other death care companies in making acquisitions. Our ability to make acquisitions in the future may be limited by our inability to secure adequate financing, restrictions under our existing or future debt agreements, competition from third parties or a lack of suitable properties. As of September 30, 2009, we had approximately $3.1 million of available borrowing capacity under our acquisition credit facility. Historically, we have funded a significant portion of our acquisitions through borrowings. We are in the process of attempting to refinance our credit facility. However, there can be no assurance that we will be able to refinance the facility on acceptable terms, if at all. If we are unable to refinance our credit facility on acceptable terms, it could result in a substantial decrease in future acquisitions or curtailment of our acquisition strategy which, in turn, could have a material adverse effect on our results of operations.

In addition, there can be no assurance that we will be able to make acquisitions on terms favorable to us. If we complete acquisitions, we will encounter various associated risks, including the possible inability to integrate an acquired business into our operations, increased goodwill amortization, diversion of management s attention and unanticipated problems or liabilities, some or all of which could have a material adverse effect on our operations and financial performance. Also, when we acquire cemeteries that do not have an existing pre-need sales program or a significant amount of pre-need products and services that have been sold but not yet purchased or performed, the operation of the cemetery and implementation of a pre-need sales program after acquisition may require significant amounts of working capital. This may make it more difficult for us to make acquisitions.

***If the trend toward cremation in the United States continues, our revenues may decline which could have an adverse effect on our business and financial condition.***

We and other death care companies that focus on traditional methods of interment face competition from the increasing number of cremations in the United States. Industry studies indicate that the percentage of cremations has steadily increased and that cremations will represent approximately 39% of the United States death care market by the year 2010. Because the products and services associated with a cremation, such as niches and urns, produce lower revenues than the products and services associated with a traditional interment, a continuing trend toward cremations may reduce our revenues.

***Declines in the number of deaths in our markets can cause a decrease in revenues.***

Declines in the number of deaths could cause at-need sales of cemetery and funeral home merchandise and services to decline and could cause a decline in the number of pre-need sales, both of which could decrease revenues. Although the United States Bureau of the Census estimates that the number of deaths in the United States will increase by approximately 1 percent per year from 2000 to 2010, longer lifespans could reduce the rate of deaths. Changes in the number of deaths can vary among local markets and from quarter to quarter, and variations in the number of deaths in our markets or from quarter to quarter are not predictable. However, generally, the number of deaths fluctuates with the seasons with more deaths occurring during the winter months primarily resulting from pneumonia and influenza. These variations can cause revenues to fluctuate.

Table of Contents

***The financial condition of third-party insurance companies that fund our pre-need funeral contracts may impact our financial condition, results of operations, or cash flows.***

Where permitted, customers may arrange their pre-need funeral contract by purchasing a life insurance or annuity policy from third-party insurance companies. The customer/policy holder assigns the policy benefits to our funeral home to pay for the pre-need funeral contract at the time of need. If the financial condition of the third-party insurance companies were to deteriorate materially because of market conditions or otherwise, there could be an adverse effect on our ability to collect all or part of the proceeds of the life insurance policy, including the annual increase in the death benefit. Failure to collect such proceeds could have a material adverse effect on our financial condition, results of operations, or cash flows.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

Table of Contents

**Item 6. Exhibits**

| Exhibit Number | Description |
|---|---|
| 10.1 | Lender Joinder to Amended and Restated Credit Agreement, dated June 24, 2009, by and among StoneMor GP LLC, StoneMor Partners L.P., StoneMor Operating LLC, Beneficial Mutual Savings Bank and Bank of America, N.A. as Administrative Agent for the benefit of the Lenders. |
| 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 (furnished herewith) |
| 32.2 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and Exchange Act Rule 13a-14(b) of William R. Shane, Executive Vice President and Chief Financial Officer (furnished herewith) |

Table of Contents

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**STONEMOR PARTNERS L.P.**

By: StoneMor GP LLC
its general partner

| | |
|---|---|
| November 9, 2009 | /s/ Lawrence Miller<br>Lawrence Miller<br>Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer) |
| November 9, 2009 | /s/ William R. Shane<br>William R. Shane<br>Executive Vice President and Chief Financial Officer (Principal Financial Officer) |

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